FNB Botswana
Integrated Report
2022

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1 FNB Botswana overview

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.

Delivering through our strategic objectives

Creating and preserving value, and mitigating value erosion through material matters:

- Challenges in the economic and political landscape
- Ensuring ethical conduct and compliance
- Digitalisation that drives a secure customer experience and financial inclusion
- Competing for customers
- Employee wellbeing and engagement
- Business continuity and efficiency
- Climate change and extreme events
- Crime targeted at banking assets

Mission

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

Creating shared value for our key stakeholders:

- Customers
- Employees
- Shareholders
- Regulators
- Suppliers
- Media
- Communities
- Organised labour
- Government

And keeping our promises to our stakeholders:

- Make a promise
- Be deeply invested
- Value our differences
- Build trust, not territory
- Have courage
- Always do the right thing
- Stay curious

2 2022 performance at a glance

Financial value created

FNBB achieved strong growth in profit before tax as credit losses normalised and the bank experienced a healthy increase in non-interest revenue. This was driven mainly by a recovery in the foreign exchange business and lively customer activity, resulting in increased transaction volumes.

▲ **P16.1 billion**
gross loans and advances (2021: 14.9 billion)

▼ **P21.3 billion**
customer deposits (2021: P21.4 billion)

▲ **P1 199 million**
profit before tax (2021: P901 million)

▼ **26t**
ordinary dividend per share (2021: 55t inclusive of special dividend)

▲ **25.7%**
return on equity (2021: 18.4%)

▼ **51.1%**
cost-to-income ratio (2021: 51.9%)

Strategic and shared value created

Solutionist people

73.1%
Culture Risk Assessment dipstick survey

▲ **3.8**
average organisational performance rating
(2021: 3.53)

Value protection

Strong risk focus
towards effective risk management

Operational efficiencies

▼ **P14 million**
cost reduction from efficiencies
(2021: P27.5 million)

Read more about efficiencies realised on page 36.

▲ **98%**
process mapping, documentation and governance
(2021: 95%)

▲ **47.7%**
business process optimisation
(2021: 35%)

► **1.5%**
process automation, digitalisation
and robotics (2021: 1.5%)

Shared value

▲ **P1.9 billion**
transactional value through CashPlus
(2021: P814 million)

▲ **P336 million**
procurement spend
(2021: P309 million)

▲ **P272 million**
taxes paid to Government
(2021: P232 million)

▼ **P628 million**
employee salaries and benefits
(2021: P652 million)

► **P6.8 million**
total corporate social investment (CSI)
(2021: P6.8 million)

▲ **P4.7 million**
invested in employee training
(2021: P3.7 million)

3 About this report

Welcome to our 2022 integrated report

In this report, we reflect on the outcomes we achieved for the financial year from 1 July 2021 to 30 June 2022 and set out our priorities for the next three years. We provide context for our performance and highlight what is material for FNBB to be commercially successful, a sound investment, a secure placement for deposits and an exemplary corporate citizen.

First National Bank of Botswana Limited (FNBB, FNB Botswana or the bank) is committed to creating and preserving value for our stakeholders. We are dedicated to innovation, service excellence and the highest standards of corporate governance and capital management.

Our Integrated Report, financial results, accounting policies and press releases are available online at www.fnbbotswana.co.bw. Please share your feedback and opinions on our report by emailing investor@fnbbotswana.co.bw.

Content scope and boundaries

The content for this report is based on the reporting requirements listed below, the information needs of our providers of financial capital and the matters that are regarded as material in terms of value creation. Read more about our materiality process on page 24.

Key reporting frameworks applied	**Integrated Report**	**Annual Financial Statements**
International Integrated Reporting <IR> Framework	✓	
King Report on Corporate Governance™ for South Africa, 2016 (King IV)[1]	✓	✓
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 3.4, NBFIRA-approved with effect from 1 January 2019 (Botswana Stock Exchange Listing Requirements)	✓	✓
Board Governance Framework	✓	✓

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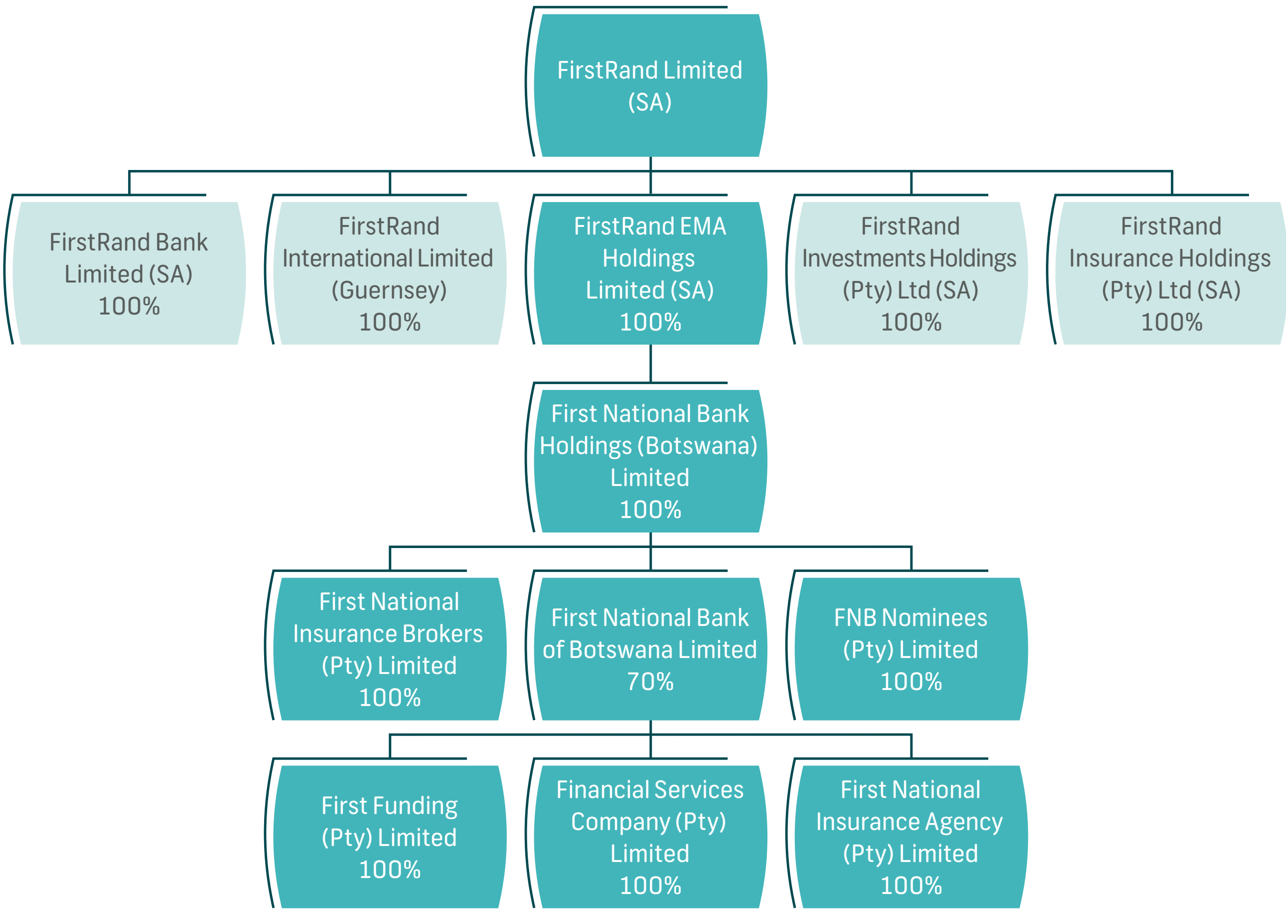
The consolidated and separate Annual Financial Statements have been audited by the independent auditors, Deloitte & Touche. See their report on page 106.

Where we reference the Group, it includes FirstRand Limited and its subsidiaries.



We provide a full glossary for the terms and abbreviations used in this report on page 242.

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

A range of internal stakeholders participated in the process of developing, reviewing, and approving the content of this report.

The Audit Committee submitted the Annual Financial Statements and Integrated Report to the Board for approval.

The Board assessed the report and confirmed that it provides a fair and balanced representation of the bank's performance and prospects. The Board approved the report on 13 October 2022.

Balisi Mohumi Bonyongo
Chairperson

John Kienzley Macaskill
Non-Executive Director

Michael William Ward
Independent Non-Executive Director

Doreen Ncube
Independent Non-Executive Director

Ephraim Dichopase Letebele
Independent Non-Executive Director

Jabulani Richard Khethe
Independent Non-Executive Director

Naseem Banu Lahri
Independent Non-Executive Director

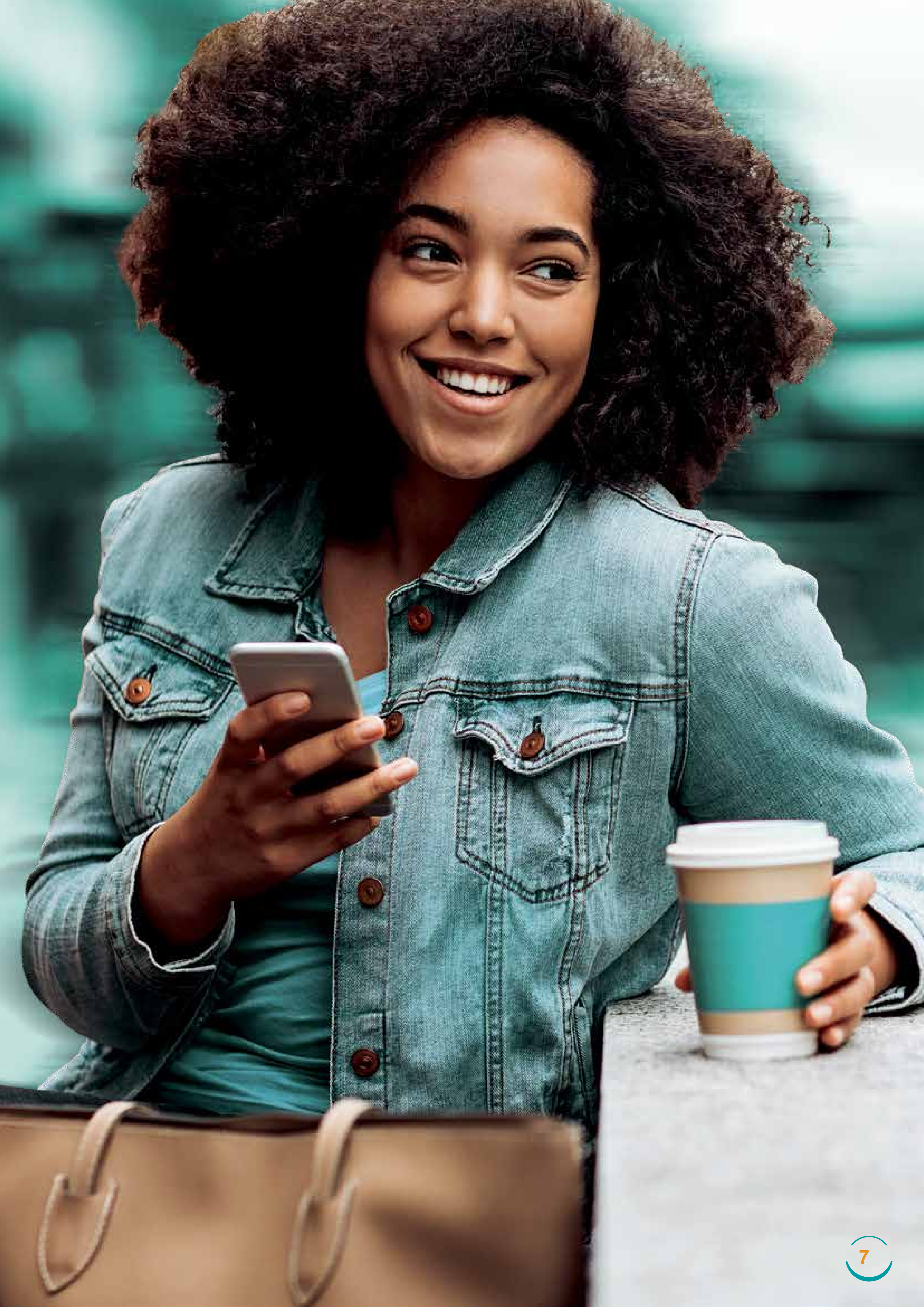
Massimo Marinelli
Independent Non-Executive Director

Asad Petkar
Independent Non-Executive Director

Louis Frans Jordaan
Non-Executive Director

Steven Lefentse Bogatsu
Executive Director
(Chief Executive Officer)

Luke Duncan Woodford
Executive Director
(Chief Financial Officer)

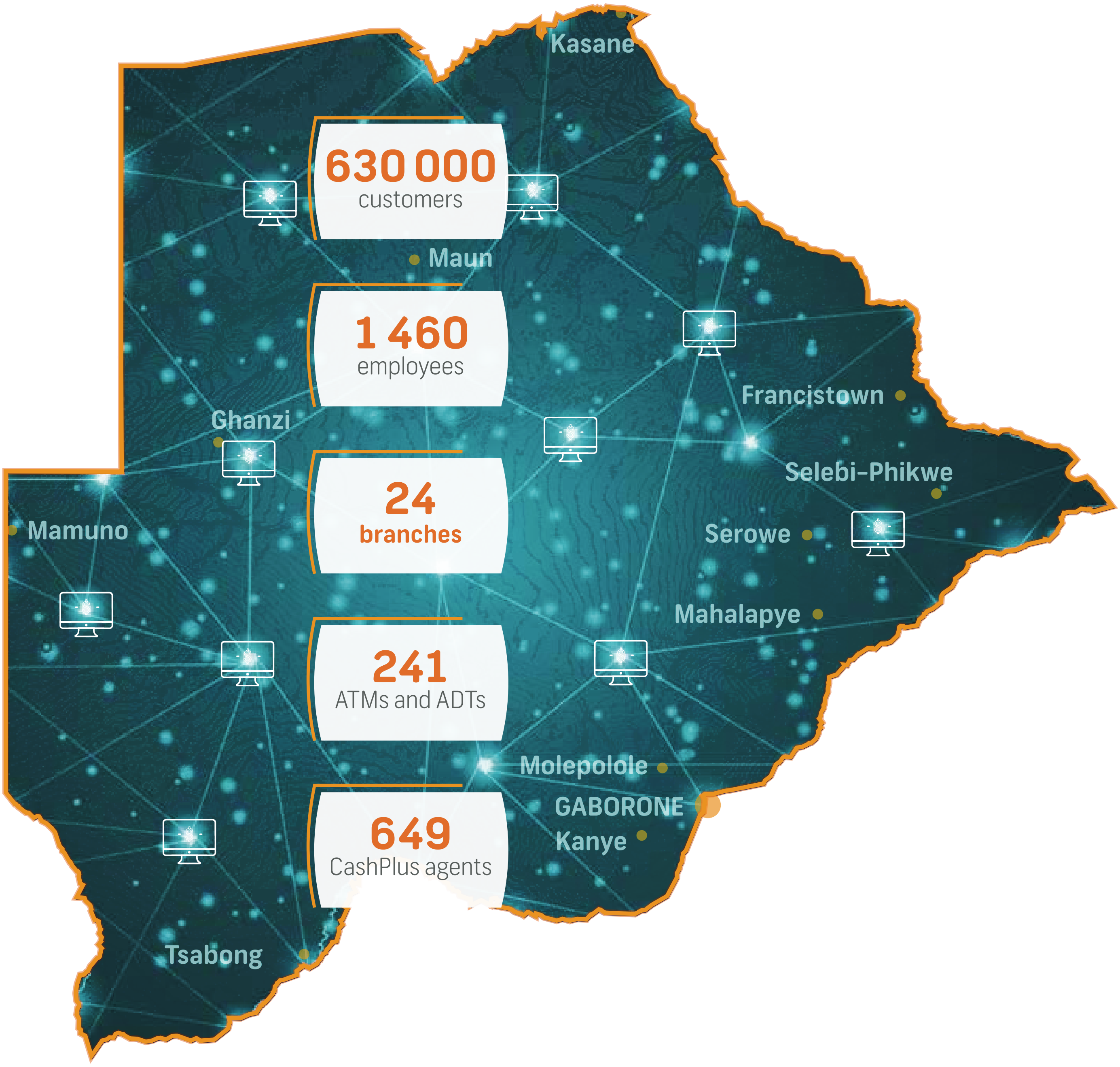


4 Introduction to FNB Botswana

FNB Botswana is the largest of eight licensed commercial banks in the country. We assist individuals and businesses to thrive by providing a full range of retail, commercial and corporate banking solutions.

The bank offers a wide range of banking and related services through our branches, automated teller machines (ATMs), automated deposit teller machines (ADTs), point-of-sale devices, CashPlus agents and digital banking, including online banking and the FNB App, providing extensive and comprehensive banking options. The bank has a toll-free 24-hour Contact Centre and offers personalised banking services.

We maintain an extensive presence across Botswana, ensuring customer service accessibility based on preference, proximity and convenience. Our CashPlus agency model extends our reach to previously underserved areas, as FNBB customers can deposit and withdraw cash conveniently at any FNBB CashPlus agent in their community instead of accessing a branch or ATM. Other CashPlus services include purchasing airtime and electricity.



Digital service channels: Online and Cellphone banking

FNB App available 24/7

Why we exist

The creation of shared value is the business principle embedded into all our activities.

FNBB intentionally uses core business activities and allocates capital to add value to society, to be profitable and to operate at scale. We exist to offer integrated financial services that meet a wide range of customer needs. We aim for inclusive economic growth through our innovative digital platforms, customer experience and tailormade services, while also making a meaningful contribution to communities and social development through the FNBB Foundation.

The value we shared in 2022

P628 million
in employee salary, wages, and other benefits

P1.5 billion
in dividends to shareholders

P272 million
in taxes to Government

P336 million
paid to suppliers

P6.8 million
in CSI for communities

P8.1 million
commission paid to CashPlus Agents

P4.7 million
spent on staff development

Who we serve

Our business segmentation structure places customers at the centre of all we do.

We serve individual, business, and corporate customers with a range of products and services customised to suit each customer segment's needs and profile.

Individuals

Matching innovative products, services, and platforms to individual customer needs throughout their financial lifecycle.

Retail Banking provides the full range of transactional banking, saving and investment, borrowing (personal loans, vehicle, and asset finance) and insurance solutions to individual customers.

Retail Banking serves the following segments:

- Consumer (Youth, Student, Smart and Gold)
- Premium (Premier and Private Customers)
- Offshore investment portfolios

Businesses

Adding value and convenience to business customers, from small and medium enterprises (SMEs) to large operations.

Commercial Banking 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.

Commercial Banking serves the following customer segments:

- Upper Commercial
- Lower Commercial
- SMEs
- Public Sector

The segment also provides Agriculture and Tourism, Commercial Property Finance, and Islamic Banking services.

Corporates

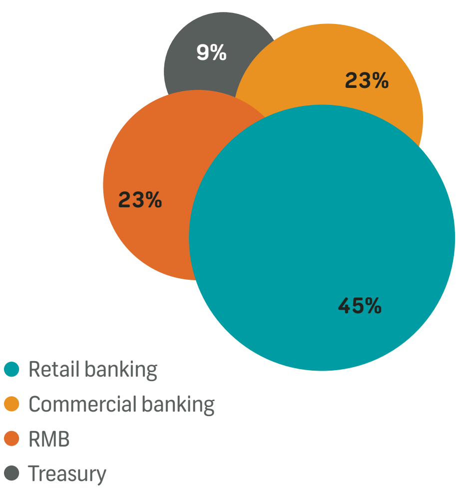
Preserving and growing corporates' value with bespoke financial solutions

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

Corporate Banking offers the following:

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

Revenue contribution by segment



In addition to the three banking segments, FNBB Treasury manages liquidity and funding.

How we serve our customers

We aim to build lifetime partnerships with our customers through an integrated banking ecosystem.

Customer focus is at the heart of our business activities. We provide a full range of banking services through an extensive branch and self-service network, digital channels, financial advisors, relationship bankers and merchant partners.

Customer engagement	Service channels
• 24/7 toll-free Contact Centre • Digital platforms • Branches and sales and service centres • CashPlus agents • Bank on Wheels (BoW) • Relationship bankers	• ATMs and ADTs • FNB Banking App (FNB App) • Online and Cellphone banking • Payment Gateways • POS@Till

Inclusive banking: extending our reach and fostering economic inclusivity

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

We extend our reach to customers with **FNBB CashPlus**, allowing them to deposit and withdraw cash, eWallet withdrawal and buy prepaid airtime and electricity via their mobile phone at an FNBB CashPlus agent.

Our **Bank on Wheels** (mobile branch) is a physical banking outlet from a high-quality and secured vehicle that can move easily to different locations, servicing customers in remote villages as well as large organised events around the country where we do not have a physical presence.

FNBB customers can also withdraw cash using our **Cash@Till** service at selected retailers.

With **eWallet** customers can instantly send money to anyone with an active cellphone number. Recipients can use the money in the eWallet to buy airtime, send money to other cellphones and make in-store purchases at any FNB point-of-sale device. With eWallet@Till customers can buy groceries and airtime in participating stores.

How we contribute to economic and social development

Our business activities support productive capital formation and balanced economic growth.

Our innovative digital platforms, including eCommerce, stimulate and enable economic activity by making banking and transactions easier and more accessible, while the **FNBB Foundation** is a vehicle through which we support social and community development throughout Botswana.

Our **shared value principles** are extended across all our business activities. We contribute to economic growth and inclusion, respond to social challenges, and enhance our attention to responsible environmental stewardship. This creates positive outcomes for our stakeholders. Examples of these benefits include:

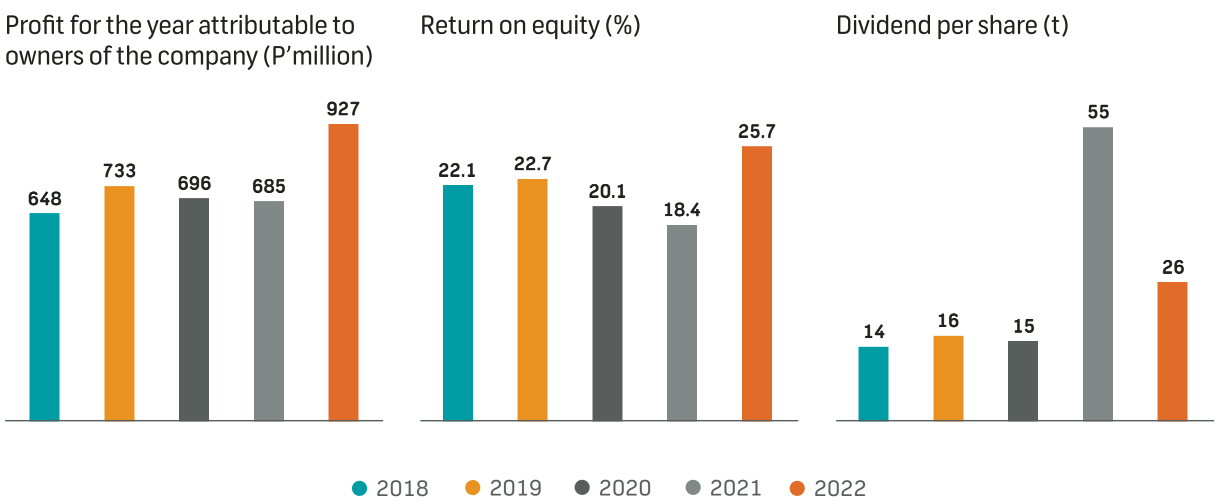
Customers	Making it easier for small businesses and economically disadvantaged groups to gain access to responsible transacting, lending, investing and insurance products, and helping all our customers to thrive in their businesses.
Employees	Offering a rewarding and fulfilling work environment based on accessible and supportive leadership, technical advancement, safety, and well-being.
Government and Regulators	Maintaining our reputation as Most Trusted Bank in Botswana and supporting key national development priorities.
Communities	Bringing banking services closer to communities, creating a sense of partnership and pride.
Suppliers	Building local small businesses by identifying supplier potential and guiding them through to larger projects and building their business knowledge.

Read more about shared value from page 61.

Why invest in FNBB?

FNBB is the largest company by market capitalisation on the Botswana Stock Exchange. It is an industry leader in a country that has been ranked fifth in the top 10 RMB Where to Invest in Africa 2021 report. FNBB has been listed for almost 30 years with a steady income growth rate and consistent dividend payments.

Five-year financial highlights



Throughout three decades, we delivered consistent innovation through better customer experiences and interactions, and created shared value for all our stakeholders.

Launches and digital firsts

2010 – 2015

- Introduced **eWallet**
- Launched **FNB App**
- Launched **174# Mobile Transact**
- First to launch **ATM** deposit-taking machines (ADTs)

2016 – 2021

- Launched **eWallet Bulk Send** for business
- Introduced **Mogwebi** Business Insurance
- Introduced **Bank on Wheels** (mobile branch)
- Launched **Cashback Rewards**
- Launched **CashPlus**
- Enhanced eWallet with **eWallet@Till**
- Introduced **FX Bulk uploads**
- Introduced **Signature Credit Card** and **Multi-Currency Card**

2022

- Launched **FX on App**
- Launched **Rewards on App**
- **Credit and debit card maintenance on App**
- **FNB Funeral Plan** for individual customers

Consistent recognition for our products, services and people, confirms our legitimacy as a market leader that cares about customers and quality.

Awards and recognition

2010 – 2015

- Named 'Best Bank' in Botswana by Euromoney Awards for Excellence
- Named 'Most Innovative Bank in Botswana' by Global Banking and Finance Review
- Received the 'Diamond Arrow Award' in the Business Banking Sector
- RMB rated 'Best Trade Finance Bank in Botswana' by Global Trade Review

2016 – 2021

- Awarded 'Best Foreign Exchange provider in Botswana' by Global Finance
- Named 'Best Commercial Bank in Botswana' by International Finance Magazine
- 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
- RMB Custody received the 'Best Custody Award' in the Alexander Forbes survey
- Received 'Global Service Quality Award' from Visa
- Named 'Most Innovative Commercial Bank in Botswana' by Global Banking & Finance Review
- Named 'Best Banking Brand in Botswana' by Global Banking & Finance
- Voted 'Best Custodian' by customers for three consecutive years
- Named 'Best Bank in Botswana' by Euromoney Awards for Excellence for four consecutive years
- Received Outstanding Crisis Leadership Award from Global Finance
- Named 'Best Treasury and Cash Management Bank in Botswana' by Global Finance
- Named 'Best Foreign Exchange Provider' by Global Finance for five consecutive years

2022

- Named best **SME Bank in Africa** at Global Finance's inaugural SME Bank Awards
- Recognised as **Bank of the Year Botswana 2021** in the Banker Awards
- **Best Foreign Exchange Provider** by Global Finance Magazine for the fifth consecutive year
- Named **Best Treasury and Cash Management Bank** in Botswana 2022 by Global Finance Magazine for the 2nd year in a row
- **Named Best Bank for Payments and Collections in Africa** by Global Finance Magazine 2022

Partnerships and social contributions

2010 – 2015

- Invested P3 million to refurbish a community park

2016 – 2021

- Disbursement of the **Youth Grant**
- Partnered with **Water Utilities Corporation** to create the portal for bill enquiries and payments
- Solar Bag drive to give children **solar-powered electricity** in schoolbags
- Raised **P25 million** for **25 charities**
- Launched COVID-19 relief programme for customers and communities

2022

- P6.8 million invested in community projects via the FNBB Foundation
- Partnerships included:
  - First Youth Empowerment programme with the Institute of Entrepreneurial Development (IED)
  - Shared Value Start-up Businesses funding with the Botswana Digital & Innovation Hub (BDIH)
  - First Park public park maintenance with the Gaborone City Council (GCC)
  - Shared Value oxygen machines with the Ministry of Health (MOH)
  - Shared Value support for athletes with the Botswana National Olympics Committee (BNOC)
  - Under 30 Forbes Summit with Forbes and the Botswana Ministry of Investment, Trade, and Industry

Our business model

Our business model demonstrates how we use the six capitals to create products and services that deliver and preserve shared value for our stakeholders.

Our capitals

Inputs

Financial

Our strong capital base, diversified sources of deposits and funding

- Net advances **P15.1 billion**
- Deposits **P22.2 billion**
- Shareholders' equity **P3.3 billion**
- Capital adequacy ratio **17.9%**

Manufactured

Our business and channel structure, fixed assets and IT systems, and the infrastructure we use

- **24** branches
- **3** Premium Suites
- **241** ATMs and ADTs
- **11 236** POS devices
- Bespoke IT infrastructure
- **649** CashPlus agents

Human

Our culture and our solutionist people, experienced leadership, and teams

- **1 460** employees
- **P628** million wage bill
- **P4.7 million** training and development
- **41 years** combined Board and management experience

Intellectual

Our brand, digital innovation, governance structures and financial risk management

- 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

Our stakeholder relationships and reputation, including communities in which we operate to enable people to thrive

- **630 000** customers
- Responsible banking practices
- Stakeholder engagement
- Community support
- Employee volunteer programme

Natural

The impact we have on natural resources through our operations and influence through our business activities

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

enable value-creating services that create

Business activities

- **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**
- **Trading**
- **Commercial banking**

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

Strategic trade-off decisions

The Board considered a range of trade-offs where the bank might experience a negative short-term financial capital impact with a longer-term positive outcome for some of the other capital inputs. One such example relates to the intensifying demand to demonstrate and adopt ESG principles and frameworks and to progress positively forward and adopt these protocols. The Board fully supports the intent to minimise the impact on the environment and to counter the effect of climate change. Thus, the bank is focusing on sustainable development and finance opportunities. However, the Board is mindful of the risks of transition and will make these changes in a considered and measured way to accommodate all stakeholders. The Board has elected to take a longer-term view to develop an appropriate framework based on a deep understanding of what the opportunities and risks for the bank are and to continually evolve this framework to prepare for a longer-term contribution and more impactful solution.

shared value for our stakeholders

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

Funding and deposits

Transactional banking

Investment and saving

Insurance

Outcomes

Financial
- Increased profit before tax – now exceeding P1 billion
- P560 million dividend paid to shareholders
- 25.7% return on assets
- Retained capital for sustainable long-term value creation

Customers, Shareholders, Government, Communities

Manufactured
- Increased uptake of relevant, cost-effective banking products and services
- Increased financial inclusion
- Repurposed branches with designated digital banking zones

Customers

Human
- Employment opportunities created
- Career progression enabled
- Reward and recognition

Employees, Organised labour, Communities

Intellectual
- Increased digital adoption and transformation
- Modernised in-branch experiences
- Regulatory compliance
- Financial sector stability
- Brand strength and loyalty

Regulators, Customers, Shareholders

Social and relationship
- Achieved 99.94% average service availability
- P272 million tax payment supported economic development
- P336 million paid to suppliers
- P6.8 million invested in CSI
- 5% of training budget allocated to Botswana Institute of Banking & Finance to support industry training interventions
- Volunteer programme is highly motivating for staff and enriching for the community

Customers, Government, Communities, Suppliers

Natural
- Environmental risk assessment of credit applications aligned with Equator Principles
- Leading industry discussions on ESG issues
- Embrace ESG to the benefit of customers through favourable pricing

Shareholders, Communities, Customers

Our stakeholders

Our stakeholders are diverse and engage with us at different levels of intensity through a range of channels. We value their interest in our business and acknowledge that our operations may impact them positively or negatively. By engaging constructively with our stakeholders, we can create lasting value together.

Customers

We have retail, commercial, corporate and investment banking customers who each use a distinct set of services. 86% of our customers are Batswana and 68% have been banking with us for more than five years.

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 that form a seamless experience no matter what touchpoint they choose to use. They expect reliable products or services that offer value for money. They want a bank that understands their needs and responds with appropriate solutions.

Engagement and important conversations in 2022

- FNBB's brand campaign **#TheChangeables** communicated the power of change to thrive in a rapidly changing world via public media, including social media
- Continued sharing insights on the role of banks in local newspapers and magazines
- Solved **SME** customer needs via the new **Scored Credit Model** that enables faster turnaround times, an easier process and objective criteria based on automation
- Responded to accelerated customer needs with the launch of digital **Forex on App**
- Launched **Rewards on App**, giving customers an immediate view of their rewards
- In a drive to encourage customers to move from cash to safe card options and save money, we launched Digital migration through **Swipe & Win**
- Product enhancement included introducing a new **Family Banking** product
- Partnered with Debswana through the Debswana Citizen Economic Empowerment Programme (CEEP) to support businesses within the mining industry by optimising mining value chain opportunities through FNBB's value proposition
- Ongoing commitment to **responsible lending**
- **CEO meet and greet** with all customer segments (commercial, premium, consumer, and workplace banking)
- RMB hosted a **hybrid ESG and Sustainable Finance conference** to accelerate the adoption of ESG while positioning RMB as a market leader in ESG
- Launched the **Where to Invest in Africa** report with Botswana Stock Exchange
- Hosted a **women's forum** around issues of mental wellness to break the bias
- FNB Botswana shared **economic insights** following the national budget speech based on contributions from a range of experts in different industries

Employees

We have 1 460 employees of whom 65% are female and 35% male. 99.8% are Batswana and 68% are younger than 40.

Metrics tracked

- Group Engagement Survey
- Culture Risk Assessment
- Organisational performance

Needs and expectations

Employees expect a healthy and safe work environment, job security, flexibility, appropriate reward and recognition, and the opportunity to realise their potential. Employees need trust-based engagement, based on an inclusive culture that is aligned with FNBB's values.

Engagement and important conversations in 2022

- To further entrench our brand values, we launched an **Internal Brand Ambassador** campaign, in which selected FNBB employees became the voice and face of our brand
- Enhanced employee work and life balance due to remote working by creating vibrant spaces for interaction in the office
- Ensured fair and equitable remuneration within specific salary brackets via our **pay scales project**
- Developed two-way leadership communication through **servant leadership** training and coaching
- Created an enabling and safe environment for all employees, including a **Wellness Centre** that encompasses a kids lounge and access to wellness services
- Executive management visited employees including all branches to provide an update on activities covered in the Organisational CRA Action Plan
- The results of the six-month internal dipstick survey showed an overall improvement to 73%

Read more in the section on people and communities from page 54.

Shareholders

Non-public shareholders:

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

Public shareholders:

30% of shares are publicly held on the BSE with no individual holding more than 10% of the issued shares

Needs and expectations

Shareholders expect consistent financial performance, acceptable returns on investment and ethical conduct. They are interested in FNBB's sustainability, long-term strategy, and business continuity processes, including succession planning.

Engagement and important conversations in 2022

- At the **annual general meeting** in November 2021, 94.74% of shareholders attended and all resolutions were passed
- Published our second Integrated Report themed **#PositiveChange**
- **Investor roadshows** following both interim and final results

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 Report on Corporate Governance™ for South Africa, 2016
- Other regulations governing conduct, treatment of customers and protection of privacy
- Financial Intelligence Act and Regulations
- Counter Terrorism Act

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. This includes the expectation that FNBB complies with the regulations of Botswana and those applicable to its ultimate holding company in South Africa.

Engagement and important conversations in 2022

- Continuous operational engagements throughout the year
- FNBB Botswana's Chief Risk Officer contributed to public Know Your Customer (KYC) during the customer education roadshow

Suppliers

	Metrics tracked
Our suppliers provide us with services relating to computer systems, properties, maintenance, advertising, and other outsourced services.	• Quality • Delivery Adherence

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 2022

- Committed to maximise sourcing from **local business suppliers**
- Identified small businesses with potential and **nurtured** them into larger projects via our inhouse experts and initiatives such as the Commercial segment's SMME Development Seminar

Media

	Metrics tracked
Journalists from print and digital media, radio, and television report on FNBB.	• Media monitoring and reputational analysis • 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 2022

- Hosted the **Journalism Academy** to upskills business reporters
- One-on-one media engagements
- Contracts and business partnerships with the media

Communities

	Metrics tracked
Communities are those individuals or groups that engage with FNBB about support on common matters beyond business relationships, including social upliftment, environmental protection, arts, and education.	• Allocation of 1% of net profit after tax • Percentage allocation per focus area: ◦ 2% arts and culture ◦ 10% social welfare ◦ 45% youth empowerment ◦ 36% sports and recreation ◦ 7% education

Needs and expectations

As part of our role as a bank, we 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 the financial value FNBB creates through corporate social investment.

Engagement and important conversations in 2022

- FNBB, together with police and UNICEF Botswana, launched a **Gender Based Violence campaign** to advocate for behavioural change
- **#Real Help for the Community** campaign celebrating and supporting home-grown, innovative business solutions with funding
- Supporting **Batswana athletes** by donating more than P1 million for the Tokyo 2020 Olympics and Paralympics (postponed due to COVID-19)
- Renewed sponsorship for the **Botswana Football Association National Junior teams** (for both boys and girls) to the value of P1 million
- Official sponsors of the **inaugural FNB marathon** in Kasane and Kazungula
- Renewed P1 million sponsorship of the **Botswana Tertiary Education Student's Sport Associations** (BOTESSA) to support youth sports development

Organised labour

46% of employees are members of the Botswana Financial Institution and Allied Workers Union which is an affiliate of the Botswana Federation of Trade Unions.

Metrics tracked

- Collective Bargaining Agreement

Needs and expectations

The union requires engagement and compliance with labour laws. They want to be consulted on business process development and changes that may impact employees.

Engagement and important conversations in 2022

In May 2022, FNBB and the Botswana Financial Institution and Allied Workers Union (Bofi Awu) commenced salary negotiations regarding the 2022/2023 annual salary review. After a few engagements, a settlement was reached as per the table below:

Performance Rating	Percentage increase
Outstanding	9%
Very good	8%
Good	7%
Room for improvement	0%
Unacceptable	0%

Government

Botswana is a democratic republic with a two-tier system of Government: national Government headed by the president and local Government headed by a mayor in towns/cities and a council chairperson in rural districts. We engage with Government bodies on national and local levels.

Needs and expectations

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.

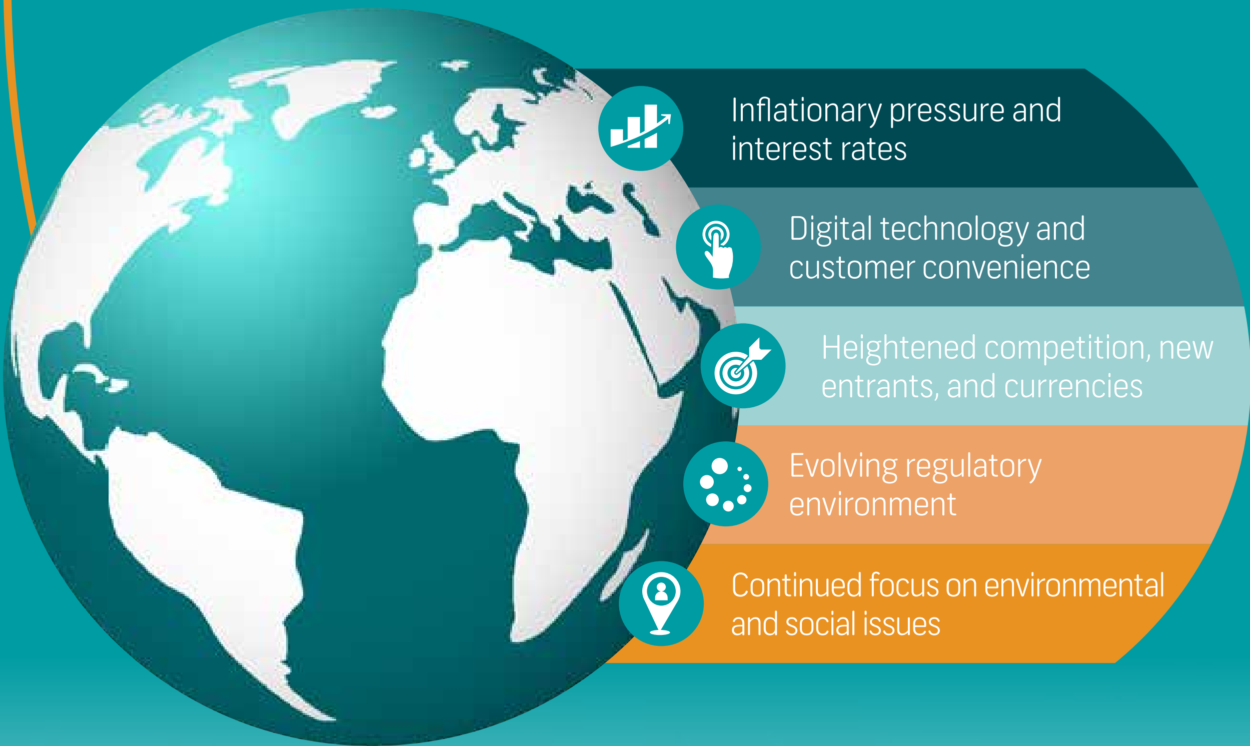
Engagement and important conversations in 2022

- We partnered with Government for the Forbes under 30 summit to drive entrepreneurship
- We participated in the national Budget Committee contributing economic insights
- We partnered with the Ministry of Health to introduce a self-service electronic platform for issuing COVID-19 certificates

5 What drives our business

Operating context

With the easing of travel restrictions, the cautious opening of key industries and increased consumer activity, the country is demonstrating a degree of economic recovery, although lingering financial stress is evident.



Inflationary pressure and interest rates

In August 2022, the Bank of Botswana's Monetary Policy Committee increased the monetary policy rate for the third time this year to 2.65% on the back of high, and still rising, inflation. The upward adjustment in fuel prices in May 2022 led to significant increases in transport fares while international supply and logistical constraints impact commodity prices. Further increases in response to persistent high international oil prices are expected should international demand increase and the conflict in Ukraine persist.

GDP grew by 11.4 % in 2021, compared to a contraction of 8.7% in 2020. Growth estimates for 2022 and 2023 are expected to be 4.3% and 4.2% respectively.

According to the Bank of Botswana, the reduction in excess market liquidity due to persistent foreign exchange outflows will be moderate going forward, based on improved diamond sales.

Digital technology and customer convenience

Around the world, the 'new normal' is increasingly technology-driven. People's reliance on digital technology continues to accelerate, with work and social lives adapting accordingly. In this interconnected digital society, faster and more convenient services are sought, including digital banking. This underscores the need for constant and reliable access to digital banking services. Simultaneously, concern regarding the protection of personal data and cyber security risks increased.

In addition, businesses seek to enhance customer convenience through robotic service and online advisory services. Offerings are increasingly differentiated through artificial intelligence (AI) and data analytics to provide hyper-personalisation. As a result of this trend, there is increasing competition for digital and technical talent.

Heightened competition, new entrants, and currencies

In line with rapid digitalisation, the non-banking financial sector in Botswana continues to evolve. Competitors such as mobile network operators and fintechs without a physical banking presence offer payment solutions and financial services, specifically in the retail and telecommunications sectors. There has been an emergence of new entrants in the traditional banking market as well.

Botswana's parliament passed a new law in February 2022 to regulate the sale, trade, and licensing of virtual assets such as cryptocurrencies. It requires anyone offering cryptocurrencies or digital tokens in Botswana to get a licence from the Non-Bank Financial Institutions Regulatory Authority and adhere to a list of conditions. This new law tightens Anti-Money Laundering measures.

Evolving regulatory environment

The financial services industry operates in a rapidly evolving regulatory environment. The regulator announced the **discontinuation of cheques** as a mode of payment by December 2023. This is in line with the advancement of digital methods of payment and addresses the risks associated with cheques. KYC compliance remains an industry focus to ensure compliance and Anti-Money Laundering (AML) regulatory adherence. Cash-in-transit heists increased in the first half of the financial year, resulting in increased collaboration between law enforcement agencies and the banking industry to mitigate the risk.

Continued focus on environmental and social issues

Globally, the advent of COVID-19 has raised the visibility of the most vulnerable in societies and addressing social inequalities remains paramount. Although Botswana experienced a degree of recovery in living conditions, lingering challenges such as youth unemployment remain. Long-term sustainable economic development requires attention to the factors that influence economic growth, balanced with environmental conservation and promoting health and wellbeing.

There is a global trend towards climate adaptation and net-zero financing and an increased focus on sustainability funding and reporting.

Material **matters**

FNBB defines material matters as themes, events or issues in the external environment that impact our ability as a business to create and preserve value. These material matters affect our performance, sustainability, and legitimacy. We therefore ensure that we identify all material matters, both positive and negative, and respond appropriately through our strategy while taking a forward-looking view on potential impact.

Our materiality determination process

With a well-embedded understanding of reporting requirements, our Executive Management team followed a structured process to determine material matters in 2022:

Executive Management reviewed and assessed the 2021 material matters

- The team debated significant changes in how each theme impacted value creation in the past year
- For each material matter, they discussed examples, trends and observations from all areas of the business

One new theme relating to crime targeted at banking assets was identified as an emerging material matter for 2022

The team confirmed that all 2021 material matters remained relevant, albeit with shifts in emphasis and nature

Executive Management reviewed the final list of 2022 material matters and recommended these for approval by the Board

The Board approved the 2022 material matters for disclosure in the integrated report

FNBB's 2022 material matters

1. Challenges in the economic and political landscape
2. Ensuring ethical conduct and compliance
3. Digitalisation that drives a secure customer experience and financial inclusion
4. Competing for customers
5. Employee wellbeing and engagement
6. Business continuity and efficiency
7. Climate change and extreme events
8. Crime targeted at banking assets

Challenges in the economic and political landscape

Economic

Global economic and political challenges are having a direct impact on our customers in Botswana via rising inflation, food and energy security issues and supply chain disruptions. The prolonged Russian invasion of Ukraine is triggering a re-evaluation of global systemic risk. The World Economic Forum describe ours as a world that is confronting multiple intersecting geopolitical events with highly unpredictable consequences.

This environment is also subject to rising interest rates which are exacerbating pressure on consumers and may impact their ability to repay loans, the bank's ability to increase its loan book and give rise to an increase in opportunistic financial crime.

Our response to protect value in 2022

- We created resilience by effectively responding to customer, employee, and community needs
- Continued to migrate customers to cost-effective digital channels
- Participated in private sector initiatives to form supportive partnerships with Government

Outlook for this material matter

Following a contraction in 2020 and a good recovery in 2021, GDP is expected to show only moderate growth in the next two years. In September 2021, S&P Global Ratings (S&P) maintained Botswana's sovereign credit rating for long and short term foreign and local currency sovereign credit at "BBB+/A-2". However, S&P revised the economic outlook from negative to stable on account of an anticipated rebound in Botswana's economic growth, partially led by the diamond mining recovery.

However, global uncertainties such as armed conflicts, cyberattacks and unpredictable weather might force customers and businesses to increase their strategic safety buffers, including capital, to stockpile goods and delay investments to shield themselves from future shocks.

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

Economic | Governance | Social | Environmental

Ensuring ethical conduct and compliance

Governance

Addressing corruption and crime is a national priority. Although Botswana was removed from the FATF List of Countries with strategic AML/CFT deficiencies in October 2021, the focus on governance continues to ensure compliance and mitigating related risks. In June 2022 the International Monetary Fund's Training Institute and the African Union Commission joined Government for a conference on the promotion of good governance and the fight against corruption. This is one of many initiatives to build consensus about good governance as a critical enabler for macroeconomic stability in Africa. Good governance is also a key driver for sustainable development and an ESG priority for investors.

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.

Our response to protect value in 2022

- 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
- 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
- We conduct educational campaigns to inform customers about potential fraud. We also have a security centre on the FNB App where customers can report fraud.

Outlook for this material matter

The bank continues 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.

We are committed to continue investing in digitalisation to enhance transparency, good governance, and fight corruption.

Stakeholders with an interest in this matter

- Communities
- Shareholders
- Customers

Strategic response

- Value protection

Digitalisation that drives a secure customer experience and financial inclusion

Social

Customers and small business owners are increasingly expecting banks to go beyond traditional account offerings and provide reliable tools and resources to help them understand and improve their financial health. They also demand more personalisation and tailored experiences that respond to specific needs. Rapid advances in digital technology and communication create new opportunities to meet these needs while also helping banks to reach underserved and vulnerable populations. Financial inclusion is becoming an important driver for responsible banking. Banks are shifting their focus to support customers through their life and business cycles while ensuring that lending practices are sustainable.

Existing customers 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.

Our response to protect value in 2022

- Accelerated migration of customers to digital channels and self-service platforms such as the FNB App, online and cellphone banking to maintain service excellence
- Increased investment in digitalisation and digital products to offer more convenience and quicker turnaround times
- Promoted increased use of the FNB App as a valuable broad-based digital banking tool
- Satisfied customers' service requirements by improving convenience and enhancing the security of financial transactions
- Expanded affordable and accessible banking channels such as CashPlus to support financial inclusion

Outlook for this material matter

By making banking more efficient, digitalisation 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 digitalisation 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 both new and existing customers have better access to services, enhance customer experience and mitigate cyber risks.

Stakeholders with an interest in this matter

- Communities
- Media
- Customers
- Regulators

Strategic response

- Customer experience
- Shared value
- Operational efficiencies

Economic | Governance | Social | Environmental

Competing for customers

Economic

Competition for banking customers is increasing with non-traditional financial services providers, such as mobile network operators and fintechs, setting aggressive and public targets for gaining new market share. They are closing the first-mover gap that FNBB enjoyed by introducing innovative new products rapidly, particularly in mobile payments. Customers are receptive to competitive offerings as disposable incomes are under increasing pressure and interest rates are rising.

Our response to protect value in 2022

- Provided convenient, cost-effective, and reliable services, products and solutions that match our customers' evolving needs
- Increased investment in product enhancements, for example eWallet features to send money in an easy, affordable and more secure way
- Increasing adoption of data-driven credit scoring to reduce risk and increase turnaround times of loan approvals
- Started exploring partnerships to accelerate our competitive response options

Outlook for this material matter

As a market leader, FNBB has to continuously defend its market position and reputation. Competition for banking customers is expected to increase as new competitors enter and gain traction in the Botswana financial services sector. The bank will continue protecting its market share by improving the service that we offer our customers.

Stakeholders with an interest in this matter

Customers

Regulators

Strategic response

Customer experience

Employee wellbeing and engagement

Social

Engaged and committed employees are essential to FNBB's customer-centricity journey as well as creating value for customers. As with workforces around the globe, our employees continue to experience the after-effects of the pandemic in their work, social and family lives. Mental health issues and fatigue are becoming more common, concurrent with employees experiencing more financial pressure due to economic conditions. At the same time, evolving technology and dynamic customer expectations demand new skills from employees and managers. Employers have to adjust to new work culture expectations and productivity measures to ensure employees remain engaged and able to innovate. The competition for talent is increasing while employees are re-evaluating what they expect from an employer.

Our response to protect value in 2022

- Opened a Wellness Centre for employees
- Executive management visited branches to personally engage with employees
- Employees enjoy more flexibility in terms of dress code and working hours to facilitate their return to the office after the pandemic. This helps create an environment that supports work-life balance
- The bank has policies and processes to reward and recognise excellence while recognising increasing cost of living demands for employees
- Training and succession planning address risks associated with the scarce and specialist skills required to future-proof the bank
- Assessed risk triggers and implemented preventative measures to maintain customer service levels

Outlook for this material matter

Global workplace trends and economic pressures will continue to challenge employees. With increasing competition in the sector, talented employees are in demand and have more options available. Retention will remain a focus area in the short term for FNBB.

Stakeholders with an interest in this matter

Employees

Organised labour

Strategic response

Solutionist people

Business continuity and efficiency

Economic

The pandemic offered valuable lessons in resilience and business continuity. At FNBB we efficiently managed a complex banking operation remotely for months, with great success. As more business challenges emerge, including supply chain disruptions and climate change impacts, the world is moving from measuring just-in-time to applying a just-in-case mindset. A deeper understanding of systemic risks is becoming embedded in operations and processes. More than just compliance with regulation and minimum standards is required: partnerships between business and Government are essential to protect and maintain infrastructure.

Our response to protect value in 2022

- A Business Continuity Management Policy is in place and employees are trained in emergency management
- Achieved 99.94% average service availability benchmark
- Concluded disaster recovery tests and addressed gaps to optimise IT services
- Optimised network configurations and third-party 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 that we remain responsive to disruptions and quick to capitalise on opportunities. The bank has robust Business Continuity measures in place that are supported by well-understood internal lines of reporting and oversight. These measures help us withstand the impact of interruptions to operations and ensure recovery.

Stakeholders with an interest in this matter

- Employees
- Regulators
- Suppliers
- Government
- Shareholders

Strategic response

- Operational efficiencies
- Value protection

Climate change and extreme events

Environmental

The most significant climate change impacts for Botswana are increased energy and water stress as a result of rising temperatures and changing rainfall patterns. These factors will affect retail and business customers in the agriculture, diamond mining, tourism, and hospitality sectors. These sectors contribute significantly to economic growth in Botswana, including food security and employment. FNBB can also further reduce energy and water use in its own operations.

Our response to protect value in 2022

- In the process of developing an ESG framework and defining FNBB's approach, for example in lending policies and own use of natural resources
- Started the Task Force on Climate-related Financial Disclosure (TCFD) journey for reporting on climate risk and impact
- Initiated a process to identify climate-related risks and opportunities, and set baseline targets
- Assisted customers to manage risks related to natural disasters and climate change with innovative services and products related to green initiatives
- Engaged with stakeholders and customers on ESG during the RMB conference to accelerate the adoption of ESG while positioning RMB as a market leader in ESG

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. As we increase our understanding, we are better positioned to meet new customer requests, for example for renewable energy funding.

Stakeholders with an interest in this matter

- Customers
- Media
- Government
- Shareholders

Strategic response

- Value protection
- Operational efficiencies

Crime targeted at banking assets

Economic

The pandemic highlighted social issues such as inequality and poverty and resulted in elevated levels of unemployment. Economic pressures and the need to make a living are leading to social ills and crime, with banks being a primary target. ATM bombings and cash in transit (CIT) heists are increasing, endangering life and damaging property. Government is providing commercial banks with support through police escorts for CIT. Cash heists are complex criminal operations involving a web of role players that requires a collective and strategic response.

Our response to protect value in 2022

- FNBB is working with the industry and Government to share information and develop mitigation plans
- We have been engaging with the Bank of Botswana to find mechanisms to deal with damaged or recovered cash
- We are exploring technology solutions that are activated in case of an explosion and are considering remote guarding
- FNBB is investing and working with partners to develop young unemployed people with IT skills by creating employment opportunities and expanding internal capacity to boost security

Outlook for this material matter

Botswana's economy is still very reliant on cash, despite the increasing adoption of digital banking and transactions. This will remain a risk in a low-growth economic environment.

Stakeholders with an interest in this matter

- Government
- Shareholders
- Customers

Strategic response

- Value protection

Economic | Governance | Social | Environmental

6 Our strategy

FNBB's 2025 strategy was launched in 2020 to deliver sustainable growth over the next five years. Our strategy responds to a dynamic operating environment and ensures that we continue to focus on those matters that enable us to create value. The successful implementation of our strategy will bring our purpose to life: to be a trusted partner committed to building a shared future of prosperity.

Strategy development, approval, and monitoring

The Board approved the strategic objectives for the five-year cycle in 2020. These have remained constant, but the focus areas per objective have been adjusted according to the dynamics in our operating environment, for example in response to the COVID-19 pandemic.

We assess our operating environment context and consider our material matters when evaluating our strategy. Overall, our strategy aims to support Botswana's Economic Recovery and Transformation Plan (ERTP) by leveraging opportunities across our business segments that improve the livelihoods of individuals, promote service diversification, and build national economic resilience.

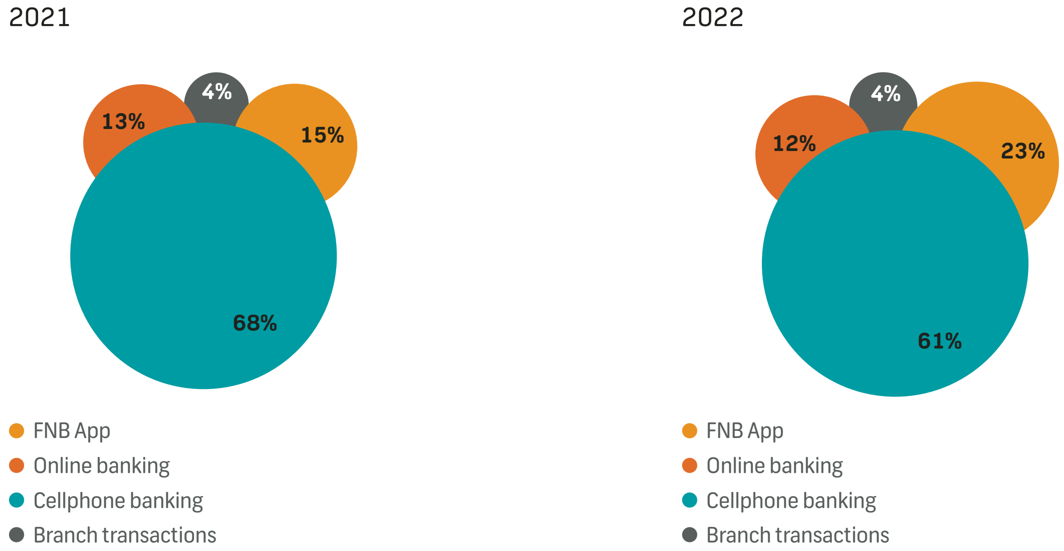
The Board uses a performance scorecard with 2025 performance measures, strategic focus areas and annual targets to measure annual performance against the 2025 objectives.

Digital transformation

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

We are making progress in converting customers to digital channels:



Solutionist people

Employee well-being and engagement is one of FNBB's material matters (see page 44). Our strategic response aims to create an environment where employees can perform to their best ability. This includes strengthening leadership, enhancing performance management, and equipping employees to provide unmatched customer service in an era of digital transformation.

Read more in the section on people and communities from page 54.

2025 strategic targets and 2022 performance

2025 strategic objectives and performance targets	2022 strategic focus areas	2022 target	2022 actual
Empower people to drive high performance 85% Group Engagement Survey score 4.2 average organisational performance rating out of 5 85 Index Culture Risk Assessment (CRA)*	• Implement Talent Management Framework • Implement high-performance culture blueprint • Deliver effective tools for remote communication and collaboration	85% Group Engagement Survey score 3.8 average organisational performance rating 70.4% Index Culture Risk Assessment	Group Engagement Survey not conducted this year 3.8 average organisational performance rating 73% Index Culture Risk Assessment

* *CRA is measured by the Culture Risk indexes as follows:*
Severe Risk – 0 – 24 Index
High Risk – Severe – 25 – 49 Index
High Risk – Medium – 50 – 54 Index
High Risk – Low – 55 – 59 Index
Elevated Risk – High – 60 – 64 Index
Elevated Risk – Medium – 65 – 69 Index
Elevated Risk – Low – 70 – 74 Index
Low Risk – 75 – 84 Index
Very Low Risk – 85 – 100 Index

Our progress

- Redesigned some workplace areas to create vibrant spaces in support of collaboration and innovation
- Developed future skills and competencies through platform-based learning
- Performed an internal Culture Risk Assessment and developed a subsequent action plan
- Developed a talent management framework
- Supported employee wellness through the Wellness Centre and ICAS support counselling

A productive work culture

We launched a "Productive Me" project to support a high-performance culture. The premise is that we work at our best when the workplace offers maximum flexibility, and when we involve our people in shaping our culture combined with the power of technology and connectivity.

Supportive spaces Our workspaces, branches and buildings are centred around people and their needs, their safety and wellbeing. We design for the best outcomes by decorating spaces, creating digital workplaces	Connectivity	Culture	**Culture and community** We respect the new work-life balance and allow a greater deal of humanity into our culture. An inclusive workplace culture enables diverse talent to thrive.
Technology We ensure that remote enablement is sustainable and apply hybrid solutions.	Tools	Flexibility	**Flexible organisation** Our updated remote working guidance helps us understand when our people are most productive. The best leaders are those with parity between high emotional and social skills and technical competency. They manage teams effectively, even when they are remote.

When we deliver all of this, we create a workplace where people can thrive.

Our priorities for 2023

Key focus areas	Strategic targets 2023
• Strengthen the employee value proposition and refine our branding as an employer of choice • Focus on building and retaining talent and succession planning • Transform our culture by implementing agreed action plans • Align rewards policy with the strategic direction of the bank	90% Group Engagement Survey score 3.8 average organisational performance rating 75% Index Culture Risk Assessment

Operational efficiencies

Connecting people to systems and processes that enable business continuity and efficiency is one of our economic material matters, enabling cost reduction through process automation and providing cost-effective opportunities to scale our services. The efficient design of our operations to support our digital transformation objective ensures that our services are agile, always available, and responsive to accelerated customer requirements in a digital environment.

2025 strategic targets and 2022 performance

2025 strategic objectives and performance targets	2022 strategic focus areas	2022 target	2022 actual
Connect people to systems and processes that accelerate them • Maintain operational cost increase at 0% year-on-year • 85% process optimisation • 100% process documentation • 50% process automation	• Organisational redesign enablement through business optimisation • Accelerated automation and robotics process automation • Data quality and integrity review; data strategy development • Network availability and accessibility • Build in-country development capabilities to accelerate platform journey	P17 million cost reduction from efficiencies 100% process mapping, documentation and governance 47.5% business processes optimisation 5% process automation, digitalisation and robotics	P14 million cost reduction from efficiencies 98% process mapping, documentation and governance 47.7% business processes optimisation 1.5% process automation, digitalisation and robotics

Our progress

- Established a local IT product development team to ensure timely product and system development for enhanced competitive posture
- Renewed and simplified the IT infrastructure landscape to facilitate increased stability and agility of our systems
- Successfully completed an annual systems disaster recovery test to ensure minimal disruption
- Completed automation of asset management
- Developed Single Sign On (SSO) on bank systems for internal users to improve the system integration journey
- Enhanced customer verification through selfie capture to enrich the biometric verification of our customers for improved security
- Established a retention team using predictive data to optimise our customer retention efforts
- Revamped the Lobatse and Kasane branches to create digitised, vibrant spaces for customers
- Reduced the size of branches as customers are transitioning to other platforms such as the FNB App with a comprehensive banking service offering

Efficiency markers and achievements in our channels

We improved efficiency this year by:

Increasing usability and added more features on all digital platforms to migrate clients to digital and CashPlus	Branch space reduction and lease negotiations achieved savings amounting to P2.1 million	Reducing transaction costs per minute by a percentage resulted in savings of P2.5 million	Improving turnaround time on customer queries from three days to 24 hours
Re-utilising space in the branches for more self-service options	Modernising the in-branch experience to enable seamless processes between touchpoints via automation	Reducing account opening turnaround time across all segments' invest and lending products	Optimising individual efficiency by developing a multi-skilled workforce and a high-performance culture

Our priorities for 2023

Key focus areas	Strategic targets 2023
• Continue to digitise manual intensive processes • Deploy virtual assistant tools for query management • Optimise processes for expired limits, statements, and balances • Scale our services through automation • Continue the branch transformation journey to create space efficiencies • Increase speed to market efficiencies with the creation of a local software development team	P17 million cost reduction 100% process mapping, documentation and governance 60% business processes optimisation 5% process automation, digitalisation and robotics

Customer experience

In an increasingly competitive environment, customers seek the most convenient and accessible options available, balancing this with trust in the brand, responsiveness to their needs, and a sense of security in making financial transactions and decisions. Maintaining customer loyalty and attracting new customers through excellent service is essential to our business's stability and profitability. Offering customised services based on big data, Artificial Intelligence (AI) learning and preferences is one of our strategic priorities to differentiate our customer experience and place FNBB ahead of evolving trends.

2025 strategic targets and 2022 performance

2025 strategic objectives and performance targets	2022 strategic focus areas	2022 target	2022 actual
Develop exceptional customer service, consistently • 90% customer experience index	• Internal service culture transformation • Standardise service standards and processes • Implement omnichannel initiatives to accelerate digital migration • Ecosystem and family banking value propositions • Optimise Contact Centre to enhance customer service and sales functions • Expand alternative channel services and functionalities, focusing on merchant services and CashPlus	85% External Customer Satisfaction Index (ECSI)	No ECSI was conducted this year but focused on implementing 2021 ECSI action plans We optimised the contact centre by increasing sales staff resulting in a call pick-up rate of 95% compared to 85% service level benchmark Launched Family Banking and Commercial Scored Credit as customer value propositions aimed at growth and retention CashPlus agents increased by 81% year on year to 649 agents Merchant Services turnover increased by 23% year on year

Our progress

- Enhanced the customer experience by optimising our CashPlus channel
- Launched Family Banking for private clients to extend their service benefits to their families
- Launched Commercial Scored Credit as a customer value proposition aimed at growth and retention and backed by automation
- Enhanced FNB App functionality and services for example FX on App for an improved and faster forex trading process and Rewards on App to give customers immediate and up-to-date visibility of their rewards
- Trusted advisor initiatives held industry experts' workshop and economic insights roadshow to enhance customer education and FNBB thought leadership
- Enhanced internal security controls to protect customer data
- Digital migration volumes are showing an upward trend in line with our investment in user-friendly, customer-centric banking platforms

Our priorities for 2023

Key focus areas	Strategic targets 2023
• Enhance digital channels to support customer satisfaction and their transition to digital • Educate customers on digital migration in terms of special features, convenience, affordability and zero-rated data • Creating and embedding a winning service culture among employees • Conduct strategic customer tracking • Develop our trusted advisor thought leadership • Increase self-service options • Automate account opening processes • Enhance customer data security • Optimise the Contact Centre for customer education and knowledge management • Implement the eco-system banking model • Money management and helping our customers to achieve financial wellness	90% ECSI

Value protection

Maintaining the quality of the country's financial system is vital to economic development. Botswana's banking regulations aim to keep the financial services industry stable. Our strategic response includes stringent compliance with regulations and ensuring ethical and responsible behaviour is embedded throughout our organisation. Our risk management culture ensures sustainability and stewardship, and we engage with Government to collaborate on policy development and implementation. We also seek innovative ways to diversify our revenue streams and optimise our balance sheet to help future-proof our value creation.

Read more in the section on governance from page 67, remuneration from page 94 and in the Chief Financial Officer's review from page 50.

2025 strategic targets and 2022 performance

2025 strategic objectives and performance targets	2022 strategic focus areas	2022 target	2022 actual
SMART responsible allocation of resources to achieve great returns • Achieve a risk managed* maturity status	• SMART responsible allocation of resources to achieve great returns as defined in the risk return framework	Risk defined with elements of risk managed	Risk defined with elements of risk managed

* *Risk-enabled maturity status has been revised to risk-managed status as a result of an assessment done for entities to be risk enabled which includes certain system advancements that will not be in place by 2025.*

Our progress

- Launched joint home loans advertising with a real estate agent to leverage their platforms for more product exposure, visibility, and customer base. This resulted in leads for the bank's team. We advertised funding in collaboration with agents who advertised estates. Through the partnership, we became the first-choice financer in home loan offerings
- Retail Banking's Workplace Banking unit entered into new scheme agreements featuring transactional accounts and negotiated loan interest rates as a value proposition with entities such as CEDA, BOFINet, Botswana Prisons Services, Central District Council and Botswana Development Corporation thereby growing its customer base
- A new feature on the FNB App allows customers to initiate sales without coming to the branch, with leads converted through the Contact Centre via eContracting
- The Contact Centre introduced services such as Premier and Gold upgrades, FNB Funeral Plan and the FNB App Apply (which allows customers to invest, borrow or switch to FNB)
- A new digital channel of communication – more cost-efficient compared to traditional SMSs – was introduced with push notifications, HTML emails and personalised messages
- A retention desk was initiated to manage customer base attrition using predictive data to find customers that are at the risk of attrition as a result of their accounts' inactivity and dormancy. A total of 11 601 Commercial accounts were reactivated through retention desk efforts

Our priorities for 2023

Key focus areas	Strategic targets 2023
• Continued digital migration • Diversify income and revenue streams • Collaborate on strategic partnerships • Pricing concessions for strategic customers • Deepen our market position through repricing and integration strategies • Focus on customer acquisition strategies • Continue to concentrate on risk reduction • Optimise the Contact Centre to drive sales	• Internal service culture transformation • Standardisation of service standards and processes • Ecosystem and family banking value propositions • Optimise Contact Centre – enhance customer service and sales functions • Expansion of alternative channels services and functionalities – focus on merchant services and CashPlus

Shared value

The rapidly changing macroeconomic environment highlights environmental and social challenges. As a result, the creation of shared value underpins all our business activities and extends from customers to our employees and communities. This strategic principle guides us in creating relevant and cost-effective products and services that enhance financial inclusion while contributing to the country's digital transformation goals. We create opportunities for employment and career progression, and we engage small businesses, youth, and citizen-owned enterprises across our supplier network. The development of our eCommerce platform will also stimulate economic activity and growth.

Read more in the section on shared value from page 61.

2025 strategic targets and 2022 performance

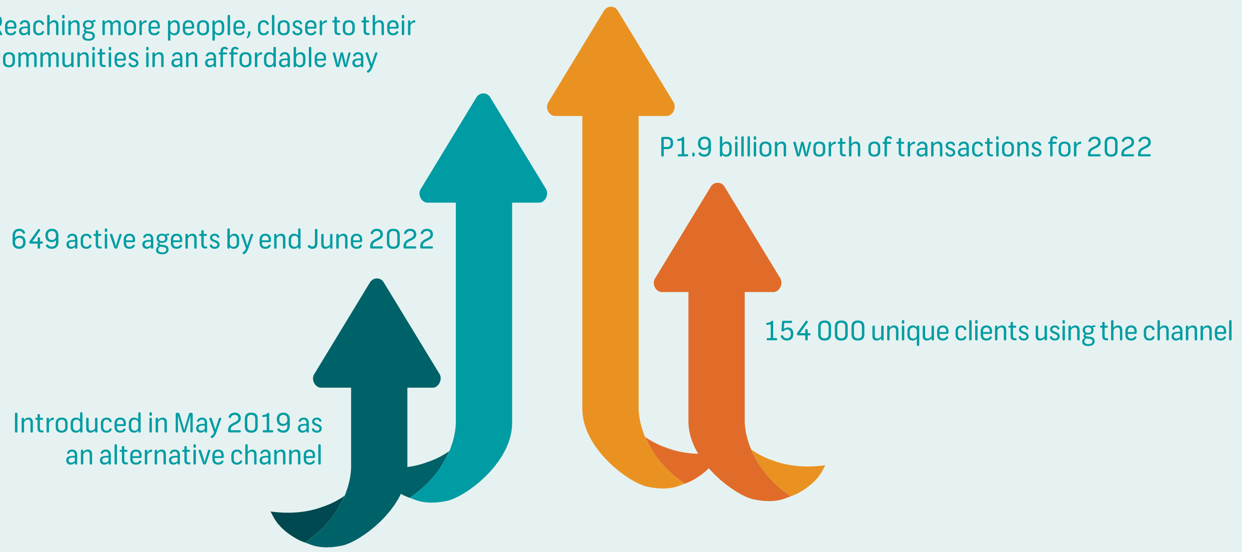
2025 strategic objectives and performance targets	2022 strategic focus areas	2022 target	2022 actual
Work together with communities to create social and economic value • Develop Shared Value Framework to determine measures	• Leverage platform capabilities to support eGovernment strategy • Elevate creative industry • Support home-grown solutions and innovations • Support Government's ERTP	Develop Shared Value Framework	• Operationalising delivery mechanisms in progress • Developed Shared Value Framework • Continuous measures for impact and Government classification • Started developing Economic Empowerment Policy to be embedded into our operational frameworks

Our progress

- Identified our delivery mechanisms for shared value across our business activities including corporate social investment, operations, human capital, knowledge and network effects and platforms
- Participated in national environment, social and human development projects through our FNBB Foundation to create sustainable benefits for communities as well as value for our customers, suppliers and employees
- Increased our procurement spend focus on citizen-owned companies in the form of funding to fulfil purchase orders and SME mentoring through supplier development
- Partnered with the UNDP supplier development programme and the Debswana Economic Empowerment programme to optimise mining value chain opportunities through FNBB's value proposition

Our Cash Plus growth trajectory

Reaching more people, closer to their communities in an affordable way



Our priorities for 2023

Key focus areas

- Develop delivery mechanisms framework including green funding and greening all FNB properties as well as SME access to funding
- Embed shared value into our operating frameworks
- Develop Economic Empowerment Policy
- Continue tracking, reporting, and measuring impact

Strategic targets 2023

- Reducing our carbon emissions by implementing green initiatives such as installing solar power panels on Francistown FNB Building
- Ring-fenced capital in Treasury for green projects in segments
- Relevant policy review to incorporate shared value principles for achievement of shared prosperity
- Economic Empowerment Policy implementation
- 10 pan-Bank, needle-moving Shared Proposed initiatives that will be implemented at scale

7 Leadership **reports**

Interview with the **Chairperson**

Balisi Mohumi Bonyongo discusses the Board's focus areas in 2022 and the decisions that enabled FNB Botswana to defend its position as the country's leading provider of financial services as it transitions to a bank of the future during a period of extreme volatility.

Balisi Mohumi Bonyongo
Chairperson

Q: Your tenure as Independent Non-Executive Chairperson has been defined by world and industry shifting events. How have these impacted Botswana and FNBB?

Like other economies globally, Botswana was deeply impacted by COVID-19. As restrictions lifted and economic activity resumed during 2021, our economy rebounded, and the bank regained pre-COVID levels of performance. However, our optimism was short-lived as escalating geopolitical tensions culminated in Russia's invasion of Ukraine. This compounded existing supply and travel constraints and will have long-lasting effects on global inflation, food and energy security and economic growth. Increasing interest rates and rising food and fuel prices impact consumers and businesses and lead to higher levels of unemployment.

COVID-19 exposed the vulnerability of Botswana's economic dependence on diamond exports and tourism and worsened the erosion of the country's previously resilient financial position. The Government implemented the Economic Recovery and Transformation Plan (ERTP) to diversify Botswana's economy by facilitating investment in the agriculture, manufacturing, and tourism sectors. FNBB has expertise in these sectors and is committed to contributing to the ERTP – this is strongly evident in our collaborative approach with Government and the allocation of resources to these sectors.

> "The major force reshaping our industry is digital transformation of business operations and communication. We can now use technology and data analysis to respond more effectively to our customers' needs and serve them more efficiently."

The increased adoption of digital banking and the rapid shift to remote working accelerated certain elements of our strategy, enabling the bank to survive the pandemic and to explore innovative new ways of serving customers. These disruptive trends opened up opportunities for traditional and non-traditional financial services providers to compete with incumbent banks, some attracting customers with unsustainable offers to gain market share. It also increased competition for talent as our competitors sought specialist banking skills and talent to achieve aggressive growth targets.

Q: How is the Board guiding FNBB's strategic response to these major trends?

The Board reviews the bank's strategy regularly to ensure that it remains relevant and responsive to risks and opportunities in our external environment. We reviewed the strategy and monitored its implementation to ensure that the bank was achieving sustainable growth.

In examining the bank's capacity to sustain future growth momentum, the Board considered certain realities. Firstly, all businesses are navigating increasingly volatile and rapidly changing operating contexts with associated risks and opportunities, which we continuously monitor. Secondly, as an established industry leader with a recognised brand and significant customer base in a relatively small market, FNBB has reached a level of maturity in its growth cycle and now faces increasing threats from new market entrants. This is compounded by technological advances that have eroded our competitive advantage. It is the commitment to customer experience, enhanced by technology and data analytics, that will differentiate us as a future leader and place the bank ahead of rapidly evolving trends.

Read more in the section on strategy from page 32.

Q: Are you satisfied that the bank has the appropriate leadership capacity and capability to guide it during this dynamic period?

The Board seeks to continuously rebalance and renew its composition when directors who play a foundational role in the bank's development retire, as has occurred in recent years. We strive for an appropriate balance of gender, age, tenure, and skills diversity and conduct succession planning to maintain this balance while ensuring that we are adequately capacitated to provide strategic direction. Sifelani Thapelo retired as an Independent Non-Executive Director and Markos Davias resigned as a Non-Executive Director at the 2021 Annual General Meeting (AGM) held on 3 November 2021. To rebalance our composition, the Board approved the appointment of two new directors subject to regulatory approval and shareholder ratification at the November 2022 AGM.

Louis Jordaan was appointed a Non-Executive Director with effect from 26 April 2022, following regulatory approval. Louis brings his vast knowledge of the banking sector and experience in the areas of credit, risk, governance, and strategy. He has nearly 30 years of banking experience across Retail, Commercial and Corporate and Investment Banking, much of it gained as a senior executive of several divisions within FirstRand, including CEO of FNB International Banking, Co-Head of RMB Structured Trade and Commodity Finance, Head of RMB Fixed Income, Currencies and Commodities for Africa, and Head of RMB Corporate Banking. Louis retired from FirstRand in December 2020, having served as a director and chairman of several subsidiary banks within FirstRand. We welcome Louis to FNBB and are confident that his wealth of experience will enrich the Board.

Luke Woodford was appointed an Executive Director with effect from 26 April 2022, following regulatory approval. Luke has worked for the FirstRand Group for over 15 years in various roles, including the FNB Home Loans division where he was integrally involved in the credit and collections processes following the 2008 global financial crisis. He was the CFO of FNB Tanzania, and then FirstRand India. In 2018, Luke was appointed CFO of FNBB where he continues to guide management and the Board on the bank's financial matters. Luke brings his vast knowledge of the banking sector and his experience in the areas of accounting, finance, credit, risk, and strategy to the Board. We welcome Luke to his new role and look forward to the benefit of his extensive experience.

The effectiveness of the Board and its Committees for the period under review was assessed through a formal annual evaluation. The 2022 evaluation was conducted in August 2022 and reviewed by the Directors' Affairs and Governance Committee (DAGC). Overall, the performance of the Board and its Committees was found to be satisfactory, with improvement specifically noted in gender diversity and succession planning. The DAGC is actively monitoring both aspects. The Board has two members with tenure over nine years and both of them were assessed for independence as per the King IV Report on Corporate Governance and the result was that both of them were confirmed independent.

The Board monitors the bank's ability to attract and retain experienced and competent management. During the year, we focused on talent management with an emphasis on executives. We want to ensure that they are aligned with the bank's culture of high performance and accountability, and capable of implementing the strategy. This resulted in the approval of a new Remuneration Philosophy and Policy for executive management and senior leadership. We also reviewed the bank's succession planning to create a clear and structured developmental path for leaders within the bank to enable seamless future leadership transitions.

> "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."

Read more in the sections on governance from page 67.

Q: In deploying their funds, banks have a material impact on the economies and societies in which they operate. As Botswana's biggest bank, how does FNBB reconcile its business objectives with its broader mandate in Botswana?

We are acutely conscious of our purpose as a bank and corporate citizen in Botswana. As a trusted partner to Government, we pay tax, promote progressive change, and support national endeavours to grow, and broaden access to the economy by supporting financial inclusion. We continuously strengthen the bank's governance so that our conduct does not harm stakeholders and underpins the safety and security of our industry. We support Government initiatives to ensure that Botswana remains an attractive investment destination that advances both economic growth and community development.

Through our shared value commitment, we respond to a range of environmental and social challenges. Our lending practices, aligned with our Environmental and Social Risk Assessment Policy and Equator Principles, provide guidance on responsible lending. However, there is no doubt that the economic and humanitarian crises in the wake of COVID-19 increased the urgency for more purposeful responses to vulnerable communities and natural environments.

This year FNBB embarked on a process to formalise its approach to environmental, social and governance (ESG) impacts. At the beginning of the second quarter of 2023, the Board will consider ESG policy and framework proposals to establish baseline indicators against which the bank can measure, monitor, and report on its ESG performance. Once approved, these will be implemented immediately. In a related development, the bank is moving towards the adoption of climate-related risk reporting as recommended by the Task Force on Climate-related Financial Disclosure (TCFD). To prepare its members to guide the bank's ESG approach, the Board participated in two training programmes on ESG risks and opportunities, including the financing of investments that mitigate climate risk. The bank also conducted workshops with its business customers to engage on opportunities for financing sustainable energy projects.

Q: What are the Board's expectations for the 2023 financial year and what will the Board focus on?

The Board expects FNBB's operating environment to remain complex and volatile as geopolitical tensions impact the global economy. Technology advances driving digital transformation will continue to pose risks and opportunities for the bank. Heightened competition is likely to remain a feature of Botswana's financial services industry.

The Board will review and maintain its oversight of the 2025 strategy. We expect the strategy to continue evolving to sustain growth as the bank adapts to changes in its external environment and transitions into an integrated financial services organisation of the future. The implementation of an integrated digital solutions platform will play a key role in improving customer service and experience.

The regulatory landscape remains dynamic as the industry faces an evolution in almost all aspects of banking. Our regulatory bodies look to FNBB to pioneer and lead the thinking around financial security, stability and treating customers fairly in this environment. We continue to engage with regulators, aiming to create a flexible, agile, and responsible ecosystem.

Q: Who would you like to acknowledge?

Our customers and business partners have been central to FNBB's resilience and growth throughout its history and will continue to play an important strategic role in the bank's future. I would like to acknowledge the internal partnerships between management, employees, teams, and colleagues that enable FNBB to remain relevant and responsive to its banking stakeholders and the broader Botswana society. I thank Steven Lefentse Bogatsu, the Executive Committee, and their teams for implementing the strategy and delivering pleasing results for the year.

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

On behalf of the Board, I acknowledge Sifelani Thapelo, who retired this year after 18 years of service. Sifelani brought his extensive legal and governance experience to the Board. We thank him for his excellent service and wise counsel and wish him well in his future endeavours. I would also like to thank Markos Davias for his valuable expertise in finance, corporate and investment banking, business strategy, statutory, and risk management during his five-year tenure. We wish him well in future.

Finally, I am grateful for the partnership I have with my colleagues on the FNBB Board, and I thank them for ensuring that FNBB fulfils its purpose.

Through these partnerships, I am confident that FNBB will continue to leverage the strength of its financial base, brand, and employees to consistently deliver exceptional customer service and create shared value for all stakeholders.

Chief Executive Officer's **review**

"FNB Botswana restored its growth momentum and achieved further milestones in the implementation of its 2025 strategy, despite an increasingly competitive operating environment and the emergence of more economic headwinds."

Steven Lefentse Bogatsu
Chief Executive Officer

Overview

FNBB delivered excellent results evidenced by an ROE of 25.7% despite very competitive market conditions.

The Botswana economy experienced a relative rebound, with the mining sector picking up again, tourism cautiously returning and the diamond industry bouncing back again. To offset the economic impact of the COVID-19 pandemic, the Government implemented interventions to prevent job losses, and this helped to buoy consumer spending and increase the focus on empowering local SMEs.

While the rebound in Botswana's primary economic sectors favoured large businesses, consumers and small businesses remain vulnerable to rising utility costs and interest rates. This limits their ability to repay loans and restricts growth in bank advances within an economy recording increased unemployment and rising consumer indebtedness.

The transition to digital banking continues to gather momentum as more customers migrate to digital and self-service platforms and the volume of digital transactions increases. 96% of our customers now use at least one of our digital channels, 44% use the FNB App and there was a corresponding reduction in visits to our branches. The bank's internal digital transformation also progressed, with increased optimisation and automation of processes to improve service efficiency and customer experience.

> "The implementation of an innovative, integrated financial solutions banking platform for consistent delivery of unmatched customer experience, will strengthen our competitiveness when it comes to efficient, convenient service."

The bank continued to make excellent progress in extending financial services to an increasing number of people in unbanked or underserved communities, including remote rural locations. Our CashPlus outlets grew by 81%, while CashPlus transaction volumes increased by 137% and we leveraged merchant service cash functionalities with eWallet and Cash@Till. Our campaign to convert customers to cashless transactions also gained momentum as card transactions remained resilient, if not increasing slightly over the period.

In addition to our gains in inclusive banking, we developed several other exciting initiatives to bring FNBB's purpose to life. Our procurement spending represents a major opportunity to use the bank's core business activities to solve social challenges at scale. We increased our focus on procuring from citizen-owned companies and measure our performance to ensure that we meet predetermined targets. In partnership with Debswana's Economic Empowerment Programme and the United Nations Development Programme, we are funding the development of local value chain suppliers. We also plan to invest in the development of young unemployed people with IT skills who need to be upskilled to become market ready. We are in the process of partnering with other companies to develop and create employment opportunities for the participants but also expand our own IT development capacity with local skills.

Our management and teams face considerable complexity as many return to office environments while standing by our customers and continuing to implement the bank's strategy. Responding to employee concerns, we introduced interventions to improve our value proposition. These include a Wellness Centre to address employees' mental well-being needs, more conducive workspaces, a talent management system, a Productive Me project in support of a high-performance culture and a new Remuneration Policy that addresses competitive remuneration and reward. We believe that these interventions contributed to an improvement in our internal Culture Risk Assessment score. However, we recognise that it is necessary to continue supporting employees and rebuilding their engagement.

Operational performance

> "A combination of revenue growth, lower impairments and cost containment resulted in a good outcome for our shareholders."

Although banks benefit from higher interest rates, this is offset by higher credit risk. From a funding perspective, we are operating in a highly competitive market. Total advances to customers increased by 8% to P16.1 billion and our market share remained stable, increasing slightly from 22% to 23%. Our responsible approach to lending kept impairments in check, despite the financial challenges faced by many of our customers.

Lower banking activity in a subdued economic environment limited our deposit growth. While interest income reflected the lower interest rates that prevailed for much of the year, increased use of digital channels contributed to pleasing growth in non-interest revenue.

Our primary investments were focused on replacing ageing IT infrastructure with an up-to-date and more agile point-of-sale (POS) system. We launched innovative new products to address specific customer pain points, such as foreign currency transactions via FX on App and FX Bulk uploads to support our business and corporate customers who import or export. We are also aiming to digitise our KYC process to enhance the KYC customer experience.

In the short term, we aim to secure a potential SME base of 77 000 customers which is an 11% growth from last year. This will be done through a rigorous process of assessing their needs and responding with innovative solutions that go a step further than financial services to adding much more value to their businesses. Other financial priorities will be focused on system investments and enhancing our collections capacity.

We have noted a concerning increase in crime levels in the country, with two cash-in-transit heists reported in the period, resulting in increased spending on security for cash and buildings.

> "Our business segments delivered strong performance, leveraging their competitive advantages to partner with their customers."

Retail

Turnaround in performance supported by:

5% growth
in non-interest revenue

2% growth
in deposits

4% growth
in gross advances

81% growth
in CashPlus outlets

Competitive advantage:

- Strong brand awareness and perception as a reliable banking partner with significant opportunities created in diverse and alternative channels such as CashPlus.
- A leader in workplace banking, with approximately 60% of the market, primarily essential services.
- Strong brand association with social investment through the FNBB Foundation.

Commercial

Strong performance influenced by:

14% growth
in customer base

13% growth
in deposits

1% decline
in gross advances

Competitive advantage:

- Banks 55% of Botswana businesses*.
- Largest network of ATMs and ADTs in the country and by far the highest number of social media followers in the banking industry.
- The bank of choice for SMEs opening new accounts.
- Named best SME Bank in Africa at Global Finance's inaugural SME Bank Awards
- Scored credit system enables the bank to improve its credit support for SMEs.

Corporate (RMB)

Exceptional performance driven by:

40% growth
in gross advances, resulting in 26% market share

13 new
customer acquisitions

50% increase
in foreign exchange trading income

Competitive advantage:

- Largest point-of-sale network and largest branch footprint in Botswana.
- Market leader in Global Markets. Rated Best Foreign Exchange Provider by Global Finance Magazine for five consecutive years.

* *Companies and Intellectual Property Authority (CIPA) database*

Retail

We aspire to build lifetime partnerships with our customers, matching innovative financial solutions with targeted experiences to meet their needs at each stage of their lives.

Highlights

- Entered into new scheme arrangements to grow our large corporate customer base
- Door-to-door card delivery launched countrywide, accelerating transition to cashless transactions, improving customer experience
- Launched services such as Forex and Rewards on FNB App to promote digital banking
- Team cross-pollination resulting in fresh insights
- Optimised lending operations team
- Automated monitoring of Wesbank turnaround time
- Partnership with real estate agent for home loans

Challenges

- Diversification of competitor environment as mobile network operators participate in financial services industry
- Increased pace of digital innovation intensified competitive pressure, requiring an agile response to fast-changing customer needs
- Increased pressure on retail customers as a result of high inflation, rising interest rates and job losses
- Increasing credit risk

Outlook

- Deepen customer insights with effective data analysis to enable contextualised customer service
- Automate onboarding and lending services to improve efficiency and customer experience
- Introduce private wealth advisory offering to premium segment

Commercial

Our new approaches to lending are making a big difference for SMEs – getting a loan in less than two days can save a restaurant or a corner shop.

Highlights

- Growth in CashPlus agents and increase in transactional volume
- Dedicated compliance teams focused on ensuring regulatory compliance
- Increased use of digital platforms with online banking penetration increasing from 87% in June 2021 to 91% in June 2022
- Client and lending book growth from agricultural sector
- Partnership with Debswana to support small businesses in the mining value chain
- New innovations for SMEs:
  - Scored Credit, backed by process automation results in credit decisions within 24 hours
  - Reduced turnaround time for new vehicle finance from more than a week to two days by waiving requirement for financial statements
  - Launching FX on App to enable faster foreign currency transactions and an improved process
  - Revamped purchase order finance offering with no financial statements required for assessments to a certain threshold and within certain parameters resulting in faster turnaround times

Challenges

- High credit risk
- Impact of inflationary pressure on business margins
- Competitors entering niche sectors
- Funding economic empowerment and participation structures

Outlook

- Positive outlook, despite economic headwinds
- Focused employees and a pipeline of digital solutions, including automated account opening and KYC compliance
- Upselling opportunities to extensive business customer base
- Centralised credit risk releases employees to focus on customers
- Target sectors include agriculture and working capital or trade finance for importers

Corporate (RMB)

We remain a trusted advisor to our customers and facilitate their growth ambitions by continuously advancing our technological capabilities and enhancing process efficiencies.

Highlights	Challenges	Outlook
• Secured primary banker status with a few key customers • Maintained zero NPL status • Launched FX Bulk uploads and FX on App, enhancing the foreign payments process and reducing turnaround times • Partnered with Botswana Stock Exchange to attract investment into Africa • Strengthened client engagement to unlock new opportunities • Full work capabilities enabled in a flexi work environment • Launch of internal talent mobility programme	• Speed to market when introducing enhanced technological offerings • Retention of specialised skills and talent in a competitive market and limited talent pool	• Further digital enhancements, including streamlining onboarding process to improve turnaround time and enhance client experience • Maintain leading market positions in non-interest revenue and profit before tax performance • Retain leading 40% market share in Global Markets

Acknowledgements

FNBB's swift recovery post COVID-19 is testimony to the quality of our people. I am deeply grateful to my executive team and all our employees for the commitment demonstrated in steering the bank through a complex and uncertain time.

I acknowledge the role of our loyal customers and service providers who supported business continuity and reminded us when we needed to do better. We look forward to strengthening these partnerships for our mutual benefit.

Finally, I thank the Chairperson and the Board for the stable foundation they create with wise counsel and guidance.

Future focus

We expect our operating environment to remain challenging in the year ahead. We have entered a rising interest rate cycle which will limit the scope of credit growth and impact the ability of customers to repay their loans. Inflation is likely to continue increasing until early 2023. Rising interest rates and costs, combined with job losses, will increase the pressure on consumers and small businesses and may result in an increase in loan impairments. Our deposits are also likely to be impacted by the outflow of pension funds which were restricted from international markets while Botswana was on the Financial Action Task Force list of countries with strategic AML/CFT deficiencies (Botswana's grey listing was lifted in October 2021). Increasing competition for banking customers and skilled talent compound these external risks.

COVID-19 reminded us that risk is almost always accompanied by opportunity, and there is plenty of opportunities ahead. Botswana remains an attractive, business-friendly investment destination. Government has a plan, which we fully support, to address economic vulnerability by diversifying into other growth sectors. FNBB's resilience is founded on a strong capital base, a maturing risk management system and a loyal customer base. We recognise that it is necessary to find new ways of staying ahead competitively and we monitor change and our customers' responses constantly to ensure that our strategy keeps us relevant and competitive.

Our most significant short-term opportunity will be to secure and grow our SME customer base. Our dedicated SME banking team is focused on better assessing their needs and providing them with the infrastructure and support needed to grow their businesses. We have a strong appetite for SME lending.

The next financial year will also see more investment in IT as we roll out the new single-view banking platform. We also plan to invest more in creating collections capacity.

As we enter a new year, I am confident that we have the people, culture, and strategic focus to maintain growth momentum and defend our leading position.

Performance

Customer base **+3%**
630 000
(2021: 610 000)

Customer deposits
P21.3 billion
(2021: P21.4 billion)

Gross advances **+8%**
P16.1 billion
(2021: P14.9 billion)

Impairments **(79%)**
P50 million
(2021: P241 million)

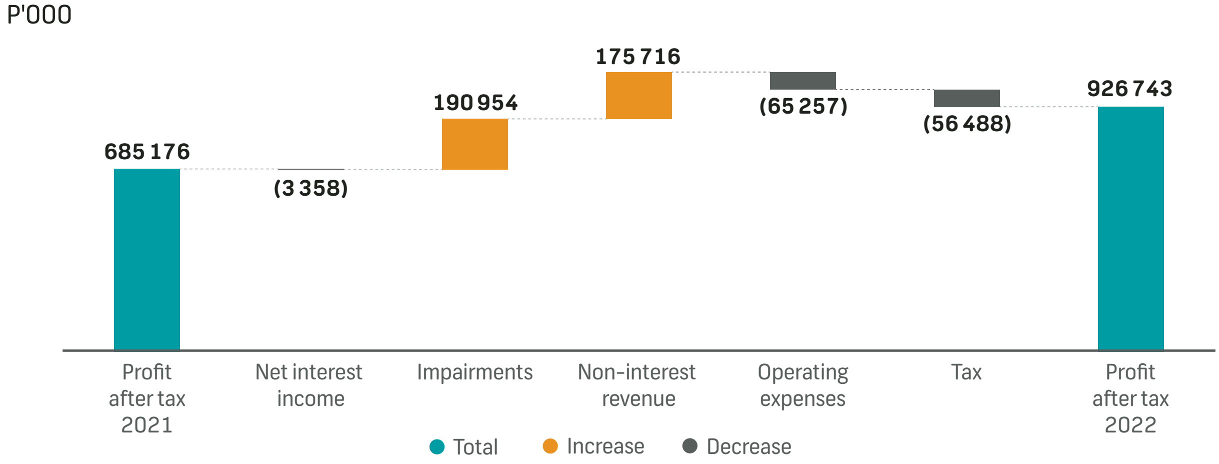
Cost-to-income ratio
51.1%
(2021: 51.9%)

Chief Financial Officer's **review**

Luke Woodford
Chief Financial Officer

Income statement

FNBB has achieved strong growth in profit before tax this year. This was underpinned by a normalisation of credit losses, as well as a sharp increase in the non-interest revenue (NIR) base. Return on equity of 25.7% (2021: 18.4%) increased due to the conservative level of capital held in the prior period, as well as the 35% increase in profit after tax.



An increase of 2% in interest income was driven by the cash and investment portfolio interest income following the sharp increase in the rates on Government securities over the period. The advances portfolio was realised in the latter part of the reporting period hence minimal interest income benefit was realised.

Interest expense increased by 11% as a result of a shift from overnight to term deposits from clients seeking higher yields. This is aligned to the bank's strategy to enhance balance sheet resilience. The increase of 101 basis points according to the Bank of Botswana's monetary policy rate (MoPR) was implemented late in the year and had minimal impact on interest expense.

Impairments declined by 79% year-on-year driven by sharp decreases in both the portfolio impairments (comprising Stage 1 and Stage 2) and Stage 3 impairments. In the prior period, the portfolio impairment charge was elevated due to the risk in the SME portfolio prevailing at the time. The risk in the SME portfolio reduced significantly over the year, resulting in an unwind of the prior period's expected credit losses and a net release in the portfolio impairment charge. The Stage 3 impairments decrease is attributable to reduced bad debt inflows. The significantly lower impairment charge of P50.3 million (2021: P241.5 million) resulted in the credit loss ratio reducing to 0.3% (2021: 1.6%).

Non-interest revenue increased by 15% year-on-year. This was driven primarily by a recovery in the foreign exchange business, while service and other fees rose by 9% and card commissions by 8% through increased volumes. The 30% growth in the foreign exchange revenue came from a return to pre-pandemic trading volumes, with increased overall activity across all sectors and customer segments.

The growth in service fees and card commissions was supported by increased volumes across the bank's digital and electronic channels, but most noticeably in merchant transactions. The bank continues to broaden its financial inclusion with further expansion of its CashPlus channel, thereby bringing services to more remote locations and enhancing convenience for our customers.

The cost-to-income ratio of 51.1% (2021: 51.9%) reflects FNBB's continued focus on balancing cost management initiatives with strategic investments. Employee benefits costs declined by 3% due to the resource optimisation process to align operational processes and human resource allocation that was done in the prior year. Other non-employment-related costs increased by 15% year-on-year, through volume-driven costs associated with revenue and development costs, and with the return to pre-pandemic business operations such as travel and promotional functions.

Statement of financial position

The statement of financial position experienced a marginal decline of 2% year on year. This followed the payment of the special dividend that was declared in the 2021 financial year. The growth in the advances portfolio has been funded from surplus deposits that had previously been invested in short-dated securities.

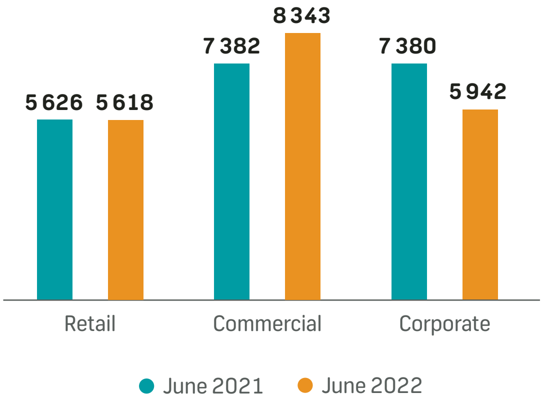
Funding and liquidity

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.

Deposits remained flat at P22.2 billion following corporate outflows as trading levels normalised and the Botswana FATF greylisting status was lifted. The Retail segment experienced a flattening out of the deposit portfolio due to increased customer spending. The Commercial segment experienced growth of 13% aligned with strong customer growth. The market experienced liquidity constraints throughout the year and priced up for term deposits. FNBB remains well-funded with a loan-to-deposit ratio of 71% and has options to raise additional funding from the market.

P'million	2021	2022	Change
Current and managed accounts	10 530	**10 370**	(2%)
Call and term deposits	9 367	**9 433**	1%
Savings accounts	1 499	**1 544**	3%
	21 396	**21 348**	–

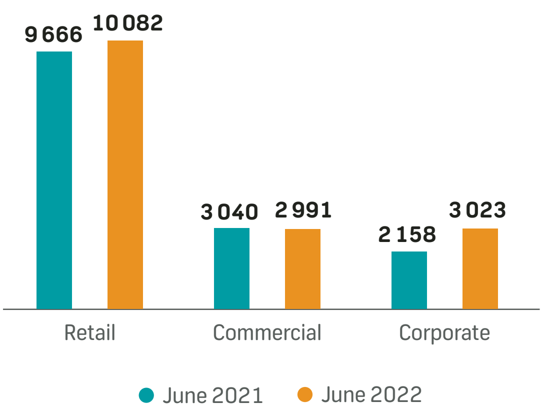
Deposits (P'million)



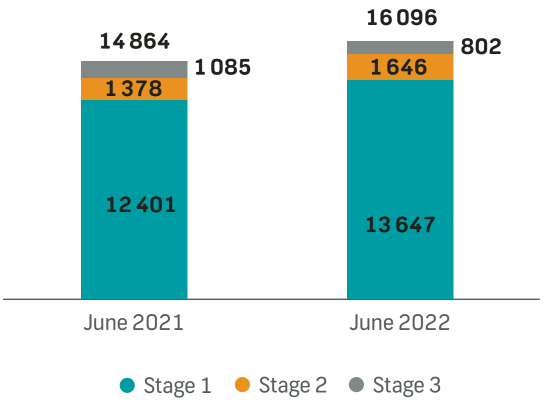
Deployment of funding

The bank continues to apply a cautious approach to lending to ensure responsible and manageable consumer exposure. This is evidenced by the gross customer advances growing at a similar pace to the market. The gross customer advances increased by 8% while the market gross advances rose by 7%. This is explained in detail below.

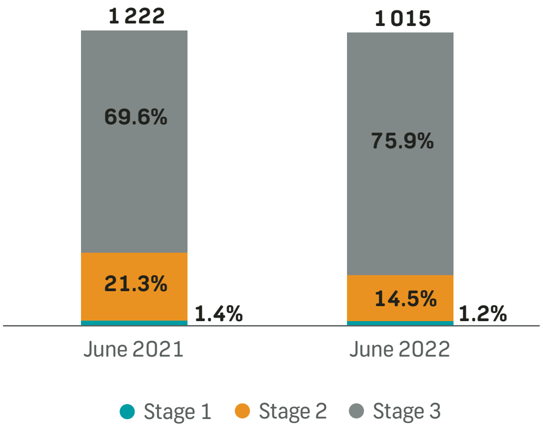
Advances and impairments (P'million)



Gross Advances Staging (P'million)



Balance sheet provisions, coverage, and credit loss ratio



	June 2021	June 2022
Provisions (P'million)	1 222	**1 015**
Credit loss ratio (%)	1.6	**0.3**

Retail advances saw an increase of 4% while Botswana's retail market increased by 6%. The bank's growth was driven largely by term loans where the tenor was selectively extended while maintaining a prudent credit approach. Corporate advances experienced excellent growth of 40% year-on-year, with the bank supporting a resurgence of expansion plans. The commercial segment is also reflecting fresh growth, but has experienced a moderate overall decline of 1% due to write-offs during the year of some long-outstanding and irrecoverable advances. The combined result of FNBB's commercial and corporate advances was an increase of 16%.

Non-performing loans (NPLs) declined by 26% year-on-year from P1.1 billion to P802 million, resulting in an NPL/gross advances ratio of 5% as at 30 June 2022 (7.3% as at 30 June 2021). While remaining open to lending and actively looking for opportunities to support our clients, the bank will continue to be cautious in maintaining the quality of its credit book.

Capital management

The bank's capital management strategy is to ensure an optimal level and composition of capital, effective allocation of financial resources including capital and risk capacity, with a view to achieving a sound return on equity and a sustainable dividend distribution to shareholders. The capital planning process is conducted on a forward-looking basis and considers, *inter alia*, the organic growth requirements and a safety margin for unexpected fluctuations in business plans and earnings volatility. Through this approach, compliance with both internal and regulatory capital adequacy requirements can be achieved, shareholders' returns can be safeguarded, and the bank can ensure that it remains a sound going concern even under severe stress conditions.

For the financial year ended 30 June 2022, FNBB continued to operate above both the internal and regulatory minimum capital adequacy ratios.

(t)	2020	2021	**2022**
Dividends			
Interim dividend per share	7	6	**10**
Final dividend per share	8	9	**16**
Special dividend per share	–	40	**–**
Total dividend per share	15	55	**26**
Dividend cover	1.8	0.5	**1.4**
Capital adequacy ratio regulatory minimum	12.5	12.5	**12.5**
Capital adequacy ratio pre-dividend	22.5	25.1	**19.5**
Capital adequacy ratio post-dividend	21.4	17.9	**17.9**

8 People and community

Human **resources**

Our solutionist people drive aims to create value for our stakeholders by driving excellence and innovation in human capital strategies and organisational design across the business. We strive to attract, select, and retain talent in this competitive environment.

Growing and developing our employees in an environment of digital transformation remains the focus of our journey towards our **2025 Solutionist people** strategy. The strategy is based on five interrelated pillars to empower our people:

High performance	Instilling a high-performance culture through a framework, employee engagement, risk assessments and action plans.
Growth and development	Developing skills and talent through a comprehensive talent management framework, programme, and training.
Accelerating environment	Thriving in an evolving workplace by developing creative spaces where employees can share ideas and innovate.
Exponential rewards	Aligning our reward philosophy, policy and practices with the business strategy, targets, and objectives.
Servant leadership	Developing a leadership style and philosophy that is inspirational, approachable, and interactive.

Our Solutionist people and performance

80% of FNBB employees have transitioned into a hybrid remote and office work model to facilitate more efficient business continuity. Due to our team's focus on wellness, there was an upswing in performance following the disruptive pandemic-related circumstances of the previous year.

1 460
employees
(2021: 1 470)

P4.7 million
invested in training
(2021: P3.7 million)

61%
women in executive roles
(2021: 65%)

5.5%
employee turnover
(2021: 4%)

Solutionist people are diverse thinkers and problem solvers, with a common purpose and curiosity for possibilities.

2022 areas of progress

- Continued enablement of the hybrid remote and office work environment
- Established a comprehensive employee mental health programme
- Pursued our 'Building Trust' promise to our stakeholders through an organisational culture risk assessment (CRA) action plan
- Digitised the offboarding platform
- Established a People Risk Forum

Our focus areas for 2023 will be

- Talent and succession planning in a competitive environment
- Employee growth and development through retooling and upskilling
- Developing and implementing further employee mental health and financial wellness initiatives
- Implementing Phase 2 of 'Productive Me' and further developing the hybrid working model
- Launching the revised reward structure and philosophy to remain competitive and attract the right people
- Relaunching the FirstRand philosophy and associated tools such as 'The FNBB Way' and '360 Survey for Culture'

Building a high-performance culture

FNBB's continuous cultural transformation journey aims to nurture and cultivate high performance, stimulating employees to go the extra mile in driving organisational excellence.

To formalise our intentions, we have outlined a robust High-Performance Culture (HPC) Framework that:

- Inspires the employee community to seek and create opportunities
- Helps employees to anticipate needs and identify solutions, even without being monitored
- Recognises collective achievement through teamwork

Culture risk assessment and employee engagement

FNBB conducts an external and independent Culture Risk Assessment (CRA) and Group Engagement Survey (GES) on alternate years. Although these external assessments were not done during the 2022 financial year, two internal assessments were deemed necessary to inform FNBB leadership of the existing nuances, with particular emphasis on the impact of the COVID-19 pandemic and consequent complexities.

As such, we conducted a **FirstRand Organisational Assessment** (FOA) to provide an understanding of employee and organisational health. The FOA is a valid and culturally sensitive assessment that adheres to our confidentiality, data quality and IT governance standards. An internally managed **Pulse Survey** was also conducted to determine specific engagement level perceptions. The survey consists of 10 questions relating to behavioural perceptions and issues of disengagement.

Following the FOA and Pulse Survey results, a **CRA action plan** was implemented relating to the organisational design of various departments and employee mental health and financial wellness training. The internal CRA dipstick survey in May 2022 tested progress and showed a great improvement to 73% on the overall results. The next steps will be to:

- Review the CRA action plan to respond to the dipstick survey and adopt a culture transformation plan. The plan will be shared with teams so that they are part of the journey.
- FNBB will resocialise the Group Ethics Code of Conduct and a Culture statement and train employees every year as part of compliance training.
- The recruitment process will include ethics as part of the job interview process, employee onboarding and during competency assessments.
- The human resource team will develop a Culture Toolbox where all culture components such as the FirstRand Philosophy, HPC and ethics can be packaged and socialised, and measured for impact. We intend to do periodic biannual ethics culture health checks or culture audits.
- Each department/business unit will develop an action plan led by executive management sponsors and report monthly to demonstrate effort in driving culture transformation. The human resource team will provide a standard reporting tool to be used by all departments on progress done.
- Each department/business unit has to appoint a CRA Action Planning Project Team who will be responsible for driving the department's /business unit's efforts together with the Human Resources Business Partner (HRBP).

Organisational CRA action plan

- **Pay scale project:** salary data was presented to the executive management and subsequently re-aligned to remove any disparity within certain salary brackets at a cost of P3.4 million
- **Leadership conduct:** developed coaching and mentoring framework, policy, and programme
- **Performance management system** held educational live sessions for teams
- **Fraud, theft, and corruption** held ethics team roadshows to all branches to improve awareness
- **Employee conduct:** appointed ICAS, a leading provider of wellness services, to drive a psychological safety awareness programme

Customer service orientation

FNBB uses the **Service Culture Index**, a self-assessment tool, to measure the development of service culture and the extent to which a desirable culture has been embedded into all processes and interactions. FNBB's Service Culture Audit for 2022 is 71%, illustrating that the bank is moving toward a more aligned commitment to exceptional service.

In support of our approach to building a high-performance service culture, we launched a **staff recognition programme** to reward excellent and outstanding performance in service delivery. In conjunction, we developed a framework to address service breakdowns and manage the consequences.

We aim to initiate a **Customer Service Academy** in the 2023 financial year, which will equip staff with key customer-centric competencies in service and support.

Ethical climate

FNBB subscribes to ethical principles that are part of the FirstRand Group and include honesty, integrity, fairness, equality, diversity, accountability, transparency, and individual rights.

The bank further upholds the FirstRand Promises that drive our culture. These promises have been instrumental in our continuous cultural transformation journey by embedding these in the bank's HR policies. Employees are held accountable for their actions in line with the bank's Disciplinary Policy.

The bank has a whistleblowing process which provides for anonymous reporting of unethical conduct. All cases reported are investigated and the necessary disciplinary action is taken in the event of a breach by a particular employee.

Whistleblowing cases 2022

Reportable actions	Total cases reported for the year-ended 30 June 2022	Open cases on 30 June 2022
17	17	6

People risk

Our people risk rating, as determined by our Risk Committee, was classified as high, but stable in 2022, and is addressed according to our risk management process set out on page 88. Our primary risks are related to talent retention, culture, and critical and future skills. To elevate our mitigation of this risk, we established the **People Risk Forum**, which meets six times a year and is responsible for driving the HR Strategy, which is core to the successful implementation of the bank's strategy.

People Risk Forum scope

- Oversee the people management processes across the bank and ensure consistent application within the network
- Oversee the management of people failures and recommend corrective actions to address root causes of operational failures
- Monitor the implementation of recommended remedial actions across the bank
- Monitor adherence and compliance to HR governance requirements in relation to people matters falling under this mandate
- Review and sign-off major changes or introductions of new human capital processes or interventions
- Review all HR policy changes and make recommendations to the executive management, REMCO and the Board for review and approval as required

Growth and development

FNBB strives to be an employer of choice through the systematic approach of integrated processes designed to attract, develop, assess, deploy, and retain individuals to achieve strategic objectives and meet future business needs.

Talent framework and development

We believe in building a shared future of prosperity through enriching the lives of customers, employees, and the societies that we serve. Our talent management approach seeks to:

- Encourage and enable our employees to acquire competencies to perform their current duties with maximum effectiveness and efficiency while preparing them for future growth
- Develop individual skills that span across a variety of business functions, with a key focus on critical and future skills, including embracing unique talents to differentiate our business
- Provide meaningful and challenging assignments to all employees across different functions, roles, and responsibilities, encouraging the lateral and vertical growth of individuals within the Group through talent sharing
- Support our transformation agenda by providing fair, equitable and transparent ways to recognise and reward employees in line with our transformation objectives
- Continue valuing our differences and reflect the demographic profile of the markets and societies that we serve
- Adopt talent succession strategies to safeguard business-critical capabilities
- Adhere to and influence legislation and regulations that impact our talent

Employees can select their own individual development options according to their career aspirations. Options include internal and external training, scholarships, mentoring and coaching, and role expansion opportunities. The results help us manage and align talent to meet current and future business needs, and create, retain, and attract an engaged and committed organisational culture.

Training

The training focus areas for this year were leadership development, technical competencies, soft skills and compliance-related training for upskilling and reskilling of employees.

In line with our training focus areas, we launched a range of new academies:

- Digital Academy
- Collections Academy
- Contact Centre Academy
- Rest of Africa (ROFA) Credit Academy

All employees were issued with Udemy licences, empowering them to take control of their own development through the online learning and teaching marketplace.

The following are some of the training interventions implemented this year:

Type of training	Number of employees trained
Academies:	
Contact Centre	76
Bankers Lab Collections	41
RoFA Credit	31
Branch manager development	10
Digital	124
Soft skills, technical, compliance and team building:	
Personal effectiveness, emotional intelligence, negotiation skills and induction	1 121
Technical (including First Aid, product knowledge, business growth, treasury sales, credit report writing)	135
Compliance (insurance prudential rules)	1 470
Team building (including operational, retail, project management, and finance)	638 teams
Online learning:	
Udemy for business	Licences bought: 1 392 Licences claimed: 75.1% Enrolled on courses: 83% Started a lecture: 83%
Scholarships:	
Master's degree	8 employees awarded for 2021/2022 38 employees applied for 2022/2023

Future-proofing our talent through FNBB Scholarships

Some of our employees are currently pursuing bachelor's and master's degree programmes with various universities in the following disciplines:

- Data Science, Technology, and Innovation
- Software Engineering
- Innovation and Enterprise
- Network Security and Computer Forensics
- Business Intelligence and Data Analytics
- Networking Security
- Artificial Intelligence and Robotics
- Computer Science and Data Analytics
- Financial Engineering and Risk Management
- Robotics Process Automation Certification
- Digital Business
- Big Data Science

Graduate development

Our graduate development programme equips graduate trainees through secondment to FNB and RMB South Africa. Those who are selected to the pool get to learn and gain hands-on experience from experts in other markets, enabling them to apply, practice and reinforce new knowledge and skills in the banking environment. The 2021/2022 graduate trainee intake focus areas were mathematics, statistics, financial mathematics, computer science and mechatronics. The candidates were placed under the Operations, RMB and IT departments.

Leadership development

In line with the bank's cultural transformation journey, we adopted the principle of "Servant Leadership", which is a set of behaviours and practices that we aim to instil among our leaders. This is a principle, whereby the traditional "power leadership" model is turned upside down and leaders achieve authority rather than power. By serving first, leaders unlock purpose and ingenuity in those around them, resulting in higher performance and engaged, fulfilled employees.

In December 2021, all executive management members and other leaders participated in "Servant Leadership" training, intending to cultivate inspirational leadership style, leadership accessibility and two-way communication. The programme will be rolled out to all employees through the Udemy platform.

In addition, we conducted the Junior Executive Committee Aspire Leadership and Junior Executive Management Thought Patterns programmes to impart leadership skills and traits. Leadership sessions are organised for selected coaches and mentors.

Leadership through dialogue

FNBB values continuous dialogue and consultation to build a harmonious environment through which employees are heard and able to thrive. To achieve this, the bank established a "Kgotla system", which is a platform for regular consultation and the exchange of ideas on departmental issues. The general goal of the system is to attain consensus on potential issues through dialogue. Moreover, the Kgotla plays a critical role in uniting, reconciling, and mediating any issues that may arise within the various departments as well as community building. Various departments continue to hold their Kgotla meetings.

FNBB Staff Volunteer Programme

Our Staff Volunteer Programme motivates and enables employees to effectively serve community needs with the support of the FNBB Foundation. It offers a tangible way for employees to become more personally invested in tackling social problems, strengthen employee skills and morale, and cultivate a more positive and productive environment.

The Volunteer Programme provides great benefits to employees such as improved leadership, communication, and interpersonal skills, as well as increased employee motivation and overall team spirit. The programme is progressing well, with the number of activities implemented and the projects' impact noticeable. The introduction of Volunteer Awards also stimulated more participation.

Read more in the section on shared value from page 61.

Accelerating environment

In response to rapid digitalisation and the changing workplace, we believe the hybrid work model – combining remote and office work – has the potential to improve the organisation in several ways. There is an element of flexibility and an opportunity to empower employees to work to their strengths, boosting productivity. We encourage a culture that views remote work as a positive alternative to completing deep-focus tasks in the office while ensuring that teams find a good balance of creativity and collaboration.

Our **Workday project** continued to make steady progress. HR team members participated in building the various system modules. Workday is cloud-based human capital management software that combines learning experiences in a single interface.

Employee wellness

Several additional initiatives are in place to facilitate employee wellness, both considering ongoing COVID-19-related issues as well as adapting to a rapidly evolving work environment.

Kids Lounge (crèche)	Launched in 2021, this crèche is closer to FNBB head office and was designed to offer emergency day care services for FNBB employees. The facility provides child-friendly spaces and is manned by a qualified doctor and psychologist.
Employee Wellness Counselling	This is a comprehensive counselling programme provided by external counsellors at ICAS via telephone and face-to-face platforms.
Employee Wellbeing Centre	Responding to employee needs, the centre was completed at the end of July 2022 and includes doctors, a psychologist, a physiotherapist, and dietetics/nutritionists. The process will be accompanied by the appointment of the same service providers in other parts of the country.
Hybrid Working Model support	Remote working includes facilitating interaction with colleagues to avoid isolation and encouraging a healthy work and life balance.

Exponential rewards

FNBB recognises that our employees are the primary sustainable source of competitive advantage in a modern, service-based economy. Our performance management process assists them in enhancing their performance and provides a mechanism for determining rewards.

Our reward philosophy and practices aim to:

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

FNBB Reward Philosophy

FNBB acknowledges the principle of total reward and all the related elements, such as remuneration, benefits, work-life effectiveness, recognition, performance management and talent development. The bank understands that total rewards must be designed and administered not only in the context of an organisation's internal environment but also based on external influences.

Read more in the remuneration section from page 94.

Fair pay and wage negotiations

A survey was conducted on the Botswana Banking and Financial services sector. FNBB Botswana's 50th percentile was benchmarked against the 50th percentile of the Total Guaranteed Package of the industry. The average comparative ratio for employees across all grades in terms of Total Guaranteed Pay is at the 101st percentile. In general, the majority of FNBB employees compare relatively well to the Botswana banking industry sector market median of between 80 to 120th percentile on a Total Guaranteed Pay basis. The results demonstrated that all salaries of non-managerial bands in FNBB are positioned well within the market range.

Wage negotiation agreements are conducted yearly with the Botswana Financial Institution and Allied Workers Union (Bofi Awu). Union membership remains stable representing about 50% of the non-managerial labour force. Negotiations are regulated through the collective labour agreement (CBA). Our relationship with the Union continues to be healthy. There is frequent consultation and negotiation on wages and other terms and conditions of employment, including the physical conditions under which employees are required to work. Read more about the outcome of recent negotiations on page 21.

Shared **value**

The principle of shared value harnesses the resources, skills, and innovation of FNBB to unlock environmental, economic, and social value for all our stakeholders, including the broader society in which we operate.

Our guiding principles to embed shared value throughout the bank's activities are based on:

Fairness and inclusivity
Guided by efficiency and transparency, providing needs-based, value-for-money products and services that deepen access to financial services and asset ownership.

Productive capital formation
Supporting productive capital formation and balanced economic growth.

Enabling networks
Leveraging our knowledge, network, and platforms to reach more customers and stimulate the economies we serve.

Financial risk management
- Intentionality
- Discipline
- Price externalities

Shared Value

Measurement and reporting
Deliberate and robust impact measurement of impact.

Shared value embedded in governance and structures

Shared value is fully embedded in all functions, and has been included in all executive management members' scorecards. A **shared value technical working group** with broad representation across the bank ensures the shared value principle is embedded into the bank's frameworks and business processes. The aim is to formalise the **Shared Value Steering Committee** to 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.

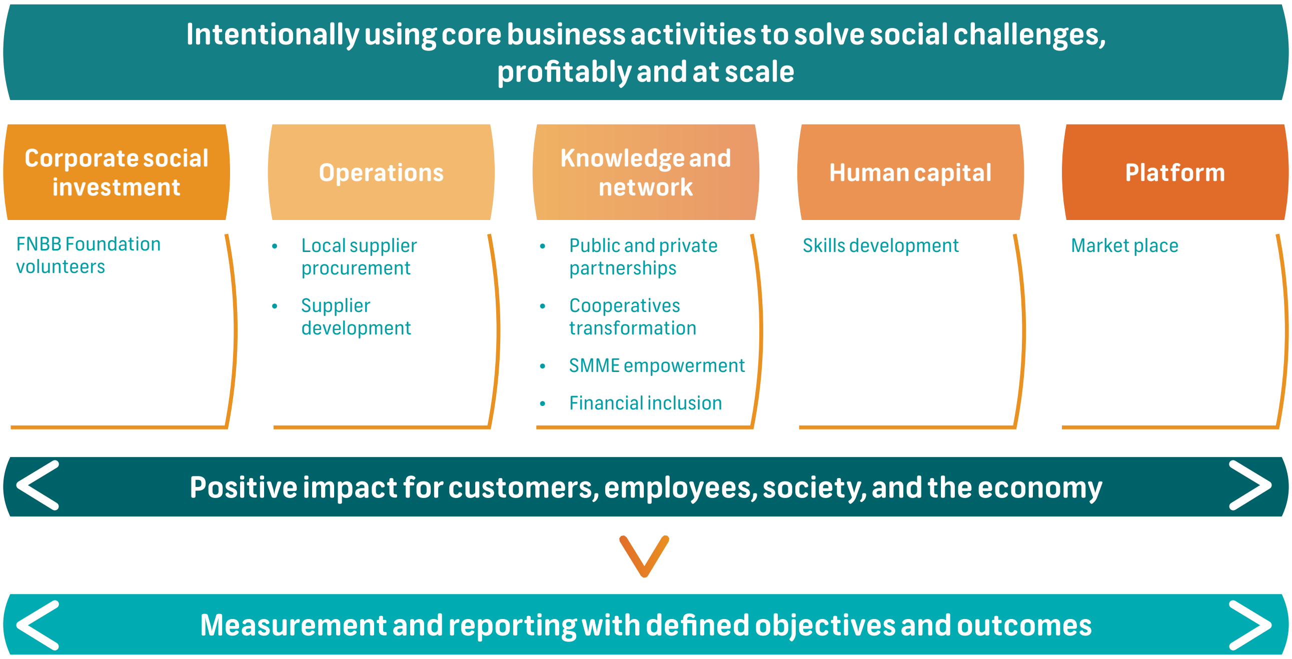
We are currently defining the structure for a shared value office, showing linkages to existing structures, identifying the key roles and responsibilities, and incorporating the existing FNBB Foundation. This will be formalised for implementation in the next financial year.

Establishing a baseline towards a shared value index

The aim of establishing a baseline is to:

- Define each problem we are proposing to solve in the context of our community
- Prove our intentions by measuring shared value activity
- Begin to track the long-term impact
- Identify and stop any unsustainable or unfair practices
- Ensure we are creating sustainable value for all stakeholders

How do we deliver shared value?



Empowering communities through the FNBB Foundation

The **FNBB Foundation** was established as a trust in 2001 to implement our Corporate Social Responsibility Policy. The Foundation is committed to empowering communities through various projects aligned to the following identified focus areas:

The project selection criteria include alignment with the focus areas within Botswana, creating sustainable benefits to communities, and falling within the scope of the annual budget allocation. Each project's impact is assessed from inception to project completion.

The Foundation is governed by a board of independent trustees together with the FNBB CEO. The Board consists of:

- Ms Regina Vaka-Sikalesele – Independent Trustee
- Ms Myra Sekgororoane – Chairperson and Independent Trustee
- Mrs Dorcas Kgosietsile – Independent Trustee
- Dr Lesedinyana Odiseng – Independent Trustee
- Mr Steven Lefentse Bogatsu – Executive Trustee

FNBB staff volunteer projects

Some of the significant staff volunteer projects for the year 2021/22 are listed below.

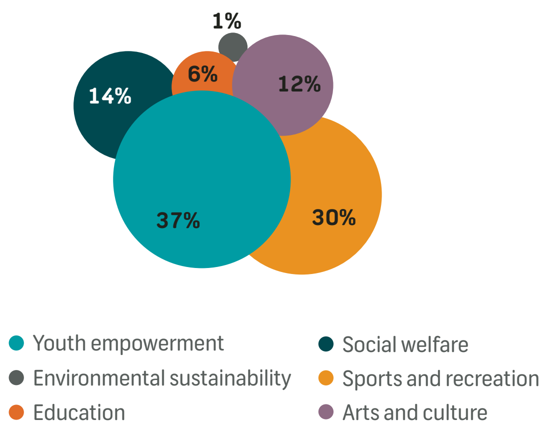
Business unit	Description
Operations	Developing hydroponic garden systems for the Batlang Support Group, a community-based organisation which was formed in response to the HIV and AIDS epidemic.
Mogoditshane branch	Installation of recreational and outdoor gym for the Mogoditshane community.
Retail segment team	Holding competitions and publishing results to support creative arts in various categories such as visual arts, dance, music, and fashion. Approved artwork published in The Voice and Mmegi newspapers and received social media coverage.
Airport Junction branch	Hosted a science, technology, engineering, arts, mathematics, and entrepreneurship youth programme in partnership with Dare to Dream.
Kasane branch	Catering and laundry equipment plus six months' food supplies to Ikuhane Hope Home of the elderly.
Ghanzi branch	Built a poultry house and provided 50 layer chickens for D'Kar Primary School.
Riverwalk branch	Conducted "Project Kgodiso" in partnership with Thapong Visual Arts Centre to provide business training and coaching for Thapong artists, following which an Art Exhibition was hosted for artists to promote and sell their work.
Palapye branch	Donated 200 broiler chickens and pillow manufacturing for Ratsie Setlhako Primary School children living with disabilities.
Commercial segment	Implemented electrical repairs and maintenance at Lobatse Senior Secondary School.
Risk	Annual National Broadcasting Summit, geared towards developing a globally competitive learner through the integration of media and ICT skills.
FNBB CEO's Charity Christmas Party	200 elderly members of Mogobane village received food hampers and were provided with lunch.

FNBB Foundation projects

Total FNBB Foundation investment
P6.8 million
(2021: P4.2 million)

Total beneficiaries
250 395

FNBB Foundation investment per focus area



Youth empowerment

In support of youth-owned enterprises and education, the **First Youth Project** focused on entrepreneurship and work readiness. This programme has been impactful as evidenced by many of these candidates receiving funding from the FNBB Foundation and securing employment opportunities within reputable companies. One such notable alumnus is successfully running an organic herb agro-business and was selected and sponsored by the Government of Botswana to attend the Forbes Under 30 Africa Summit in April 2022.

The FNBB Foundation also partnered with **Botswana Digital and Innovation Hub** (BDIH) to support and develop homegrown innovative solutions. The partnership was initiated to provide funding opportunities to eligible entities and encourage the participation of start-ups in solving new challenges posed by COVID-19. Start-ups benefit from technical advice, coaching, mentorship, access to markets, access to partner programmes, office space, subsidised corporate tax, a special dispensation of the import of skilled personnel and many other tailored interventions to help them grow.

Environmental sustainability

Botswana's unique natural environment requires careful conservation. The Children in the Wilderness organisation, which runs eight Eco-Clubs in the north of the country around the Okavango Delta and Maun, partnered with the Ministry of Basic Education to start environmental projects in schools. The FNBB Foundation joined hands with Children in the Wilderness at Parakarungu Primary School to sensitise more than 200 children to sustainable environmental conservation. Over this three-year partnership, the FNBB Foundation has committed funds towards the implementation of an environmental education, life skills and leadership development programme.

This year an environmental club was established in the school, whereby the school embarked on a poultry and vegetable garden project with the aim sustain the club by supplying produce to the school and members of the community. The poultry project has already commenced and the vegetable garden will be done in the last quarter of the calendar year.

The FNBB Foundation also partnered with the Gaborone City Council to build the **First Park Project**, in which we rehabilitated a former dumping site into a safe and peaceful play environment for the children and residents around Gaborone.

Education

To help schools keep up with the increasing pace of digitalisation, particularly following the advent of COVID-19, several teams across the bank donated computer equipment to some schools in the country. A total of 30 desktop computers were donated to **Ghanzi Senior** secondary school and another 30 to **Lotsane Senior** secondary school. These were phased-out desktop computers that were refurbished by the bank's Technical Services Department.

Social welfare

To improve the quality of life for people living with autism and to promote understanding of their condition, we supported **Autism Botswana** with an awareness-raising campaign. The support included procuring educational materials for children living with autism.

Sports and recreation

The FNBB Foundation donated a total amount of P1 million to the Tokyo 2020 National Olympics and Paralympics teams to reward their stellar performance, and we are proud of the athletes' and couches' patriotism towards the country.

Arts and culture

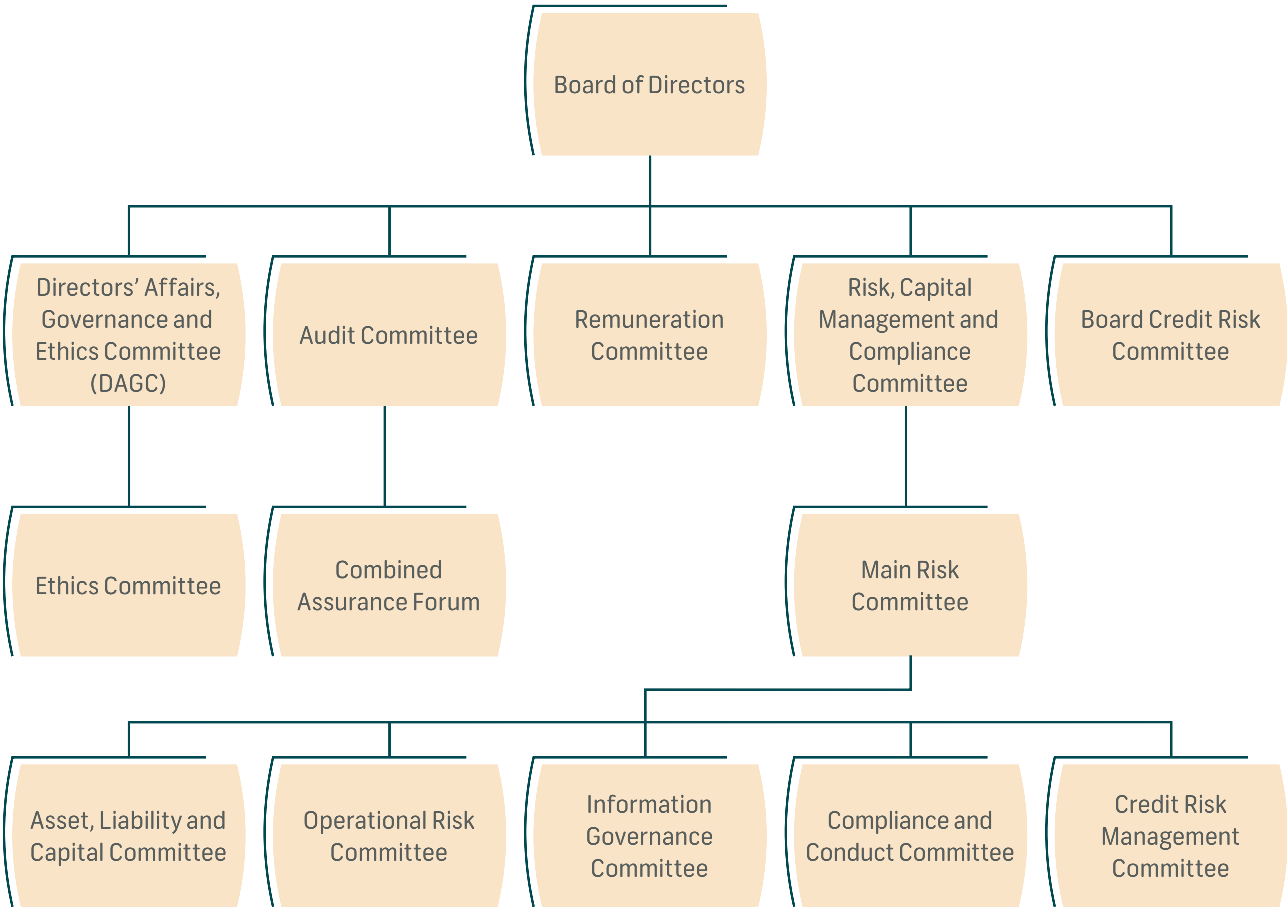
Many creative artists have been financially affected by the advent of COVID-19 and associated containment measures. To support artists, the Foundation created the *'Bodiragatsi jwame lentswe la me'* initiative, in which the FNBB Retail team oversee competitions. Creatives were invited to submit their work in the categories of photography and videography, dance and music, virtual artists, poetry and fashion.

9 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



Board of Directors

BALISI MOHUMI BONYONGO (54)

Independent Non-Executive Director (Chairperson)

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

Appointed to Board: 2019

RCCC, DAGC, REMCO

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 (72)

Non-Executive Director

BCom (University of Pretoria), CAIB (Bankers Diploma), 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, retail banking. John also serves on the board of FNB Mozambique.

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

MICHAEL WILLIAM WARD (67)

Independent Non-Executive Director

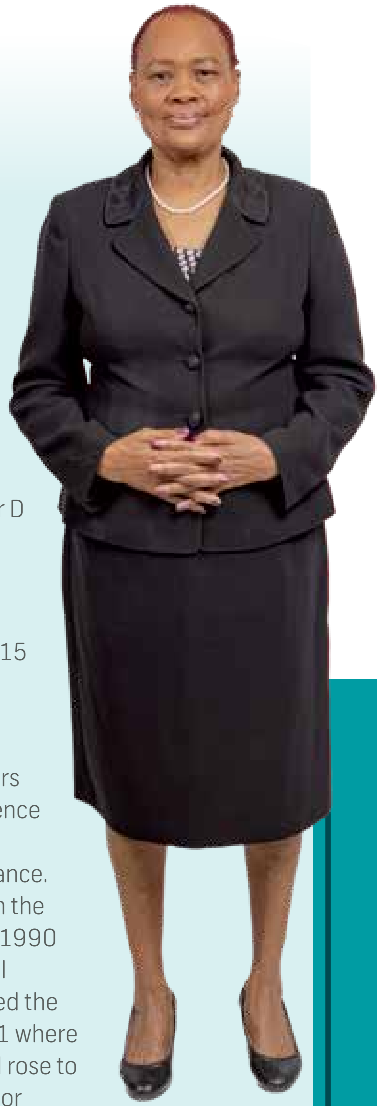
Appointed to Board: 2009

RCCC, BCRC

Mike opted early in his career to pursue a career as an entrepreneur and has over 30 years' experience of business in Botswana, mainly in commercial security. He is credited with creating one of Botswana's first home-grown public companies, Inco Holdings, which was listed in 1992. Mike was 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 then with ADT South Africa. Mike brings to the FNBB Board his entrepreneurial acumen and knowledge of the business environment in Botswana and the region.

DOREEN NCUBE (63)

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 in 1990 and briefly joined Shell Oil Botswana. She later joined the Bank of Botswana in 1991 where she held several roles and rose to the rank of Deputy Director of the Banking Supervision. In 2002 she joined Barclays Bank Botswana Limited in Compliance where she rose to the rank of Head of Risk Advisory Services and Regional Head of Compliance for Southern Africa. She previously served in Botswana Medical Aid Society Board where she chaired the board's Finance Committee.

EPHRAIM DICHOPASE LETEBELE (62)

Independent Non-Executive Director

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

Chartered Secretary (Associate of the Chartered Governance Institute of Southern Africa (CGISA)

Appointed to Board: 2017

BCRC, DAGC

Ephraim 's career began in Botswana's public service in 1979 where he served in various capacities for 26 years and 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 Secretariat of Botswana Public Officers' Pension Fund (BPOPF), where he served for eight years. In 2010, he established Ramokoroga (Proprietary) Limited as Managing Director , a property development and sub-letting business. In 2018, he was appointed Chief Executive Director of Prescient Fund Services (Botswana) (Pty) Ltd until January 2020 when the company ceased it operations in Botswana. Ephraim previously served in several boards in the telecommunication, education , pension and banking sectors.

JABULANI RICHARD KHETHE (59)

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 FirstRand 's Rest of Africa portfolio in April 2017 and has extensive banking, insurance, and leadership experience with financial institutions in South Africa. He has previously served as a member of the boards of the FirstRand Group's African subsidiaries, FNB Namibia and FNB Mozambique.

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

NASEEM BANU LAHRI (46)

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.

ASAD PETKAR (49)

Independent Non-Executive Director

Bachelor of Commerce (Information Systems and Economics), Bachelor of Commerce Honours (Information Systems) and Master of Commerce (Information Systems), all from the University of Cape Town

Appointed to Board: 2021

RCCC

Asad is a seasoned management consultant whose career commenced with KPMG Consulting in 2001. He is now the co-owner of an evolved and new generation management consultancy firm that has a presence in Botswana, Namibia, and Australia.

Asad's specific areas of expertise include corporate strategy development, deployment of strategic information technology that supports 4IR practices, organisational transformation, digitalisation, organisational re-structuring, talent management, finance and audit, performance management and SMME growth. Asad has and continues to serve on a number of Boards in various industries. These include appointments in property and real estate and education.

MASSIMO MARINELLI (64)

Independent Non-Executive Director

BCompt UNISA, Hons BCompt UNISA, Certified Fellow Chartered Accountant Botswana and Chartered Accountant South Africa

Appointed to Board: 2021

AC

Max is the former Country Managing Partner of Deloitte Botswana. During his distinguished career in public practice at Deloitte, spanning over 40 years served in South Africa and Botswana, he served 31 years as a Partner in Botswana, until he retired from Deloitte on 31 May 2020.Over the years, he provided extensive audit, tax, financial advisory, consulting, and corporate finance services to several large local entities, multi-nationals as well as some of Botswana's largest parastatals across all industries and sectors of the economy in Botswana.Max is a former Council Member and President of the Botswana Institute of Accountants. He is a member of the Board of Trustees of The Mokolodi Wildlife Foundation and holds several other directorships.

LOUIS FRANS JORDAAN (52)

Non-Executive Director

BCompt from the University of South Africa

Programme in Mathematical Modelling of Derivatives (Unisa)

Executive Development Program (Duke)

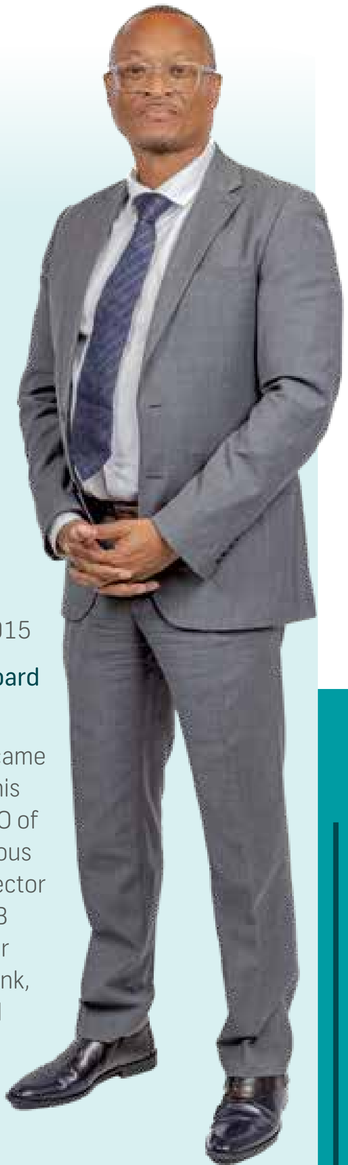
Appointed to Board: 2022

Louis is a banking expert with experience in the areas of credit, risk, governance, and strategy. He has nearly 30 years of banking experience across Retail, Commercial and Corporate and Investment Banking. Some of his roles include being senior executive of various divisions within FirstRand including CEO of FNB International Banking, Co-Head of RMB Structured Trade and Commodity Finance, Head of RMB Fixed Income, Currencies and Commodities for Africa, and his last role being the Head of RMB Corporate Banking.Louis retired from FirstRand in December 2020. While employed by FirstRand, Louis served as a director and chairman of several subsidiary banks within FirstRand.

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

STEVEN LEFENTSE BOGATSU (50)

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. 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.

LUKE DUNCAN WOODFORD (39)

FNBB CFO, Executive Director

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

Appointed to Board: 2022

Standing invitee of all Board Committees

Luke has worked for the FirstRand Group for over 15 years in various roles. During his tenure with the FirstRand Group, he worked in the FNB Home Loans division where he was integrally involved in the credit and collections processes following the 2008 global financial crisis. He was also the CFO of FNB Tanzania, following which he was transferred to FirstRand India, also in his capacity as CFO. In 2018, Luke was appointed the CFO of FNBB where he continues to guide Management and the Board on the Bank's financial matters.

He brings to the Board his vast knowledge of the banking sector and his experience in the areas of accounting, finance, credit, risk, and strategy.

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 as set out in the Board Charter.

Board considerations and future focus areas

Key Board activities 2022

Primary responsibilities

Effective governance	Effective leadership	Effective risk management and increasing risk maturity	Re-growth strategies	High-performance culture

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 2022

Reviewed financial reports

- Approved the Annual Financial Statements and Integrated Report
- Approved the 2023 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
- Maintained the Bank's capital adequacy within the prescribed regulatory levels
- 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 and setting the 2023 focus areas
- The executive management succession planning
- Implementation of executive management's accountability measures
- Strategies aimed at re-growing the business across all segments
- Effective management of Financial Controls
- The NIACC growth and protection of shareholder value
- 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 and ongoing focus areas

- Board effectiveness and continuity
- Effective Board Governance
- Implementation of the 2023 strategic focus areas and continuously measuring its performance
- Ethical foundation and culture
- Effective Leadership
- High-performance Culture
- Re-growth strategies

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 2022, the Board comprised 12 Board members, the majority of whom are Independent Non-Executive Directors.

Independence of directors

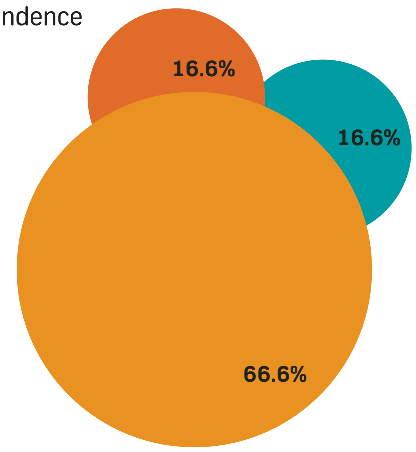
Assessment outcome

The DAGC evaluated the independence of two 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

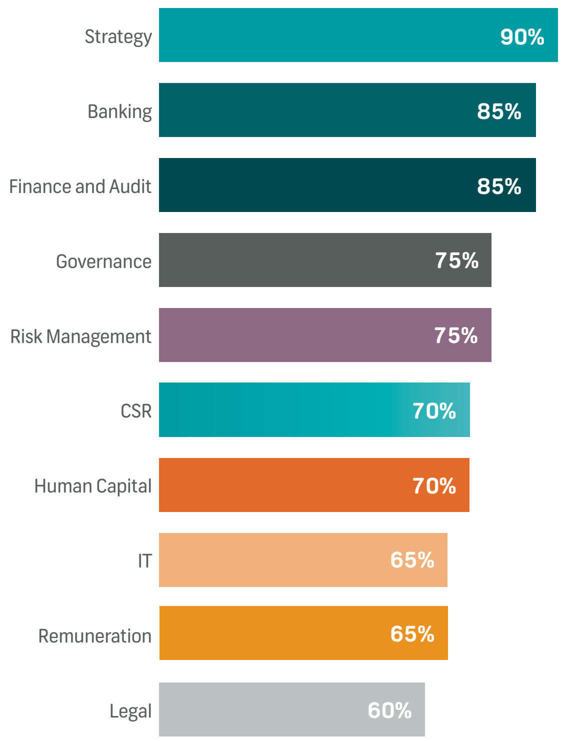
The Board ensures that its composition contains an appropriate mix of gender, age, tenure, and skills diversity. To ensure that diversity and independence are maintained when new directors are appointed, the Board is guided by its Governance Framework.

Independence



- Independent Non-Executive
- Non-Executive
- Executive

Skills diversity



Gender, age and tenure

Batswana **60%**
Female **20%**
Average tenure **5.25 years**
Average age **56**

Tenure

16%	33%	50%
>9 years	5 – 7 years	1 – 4 years

Board appointments after the financial year-end

Following the retirement of Sifelani Thapelo and the resignation of Markos Davias at the November 2021 AGM, the Board reviewed its succession plan and approved the appointment of two new directors. Louis Frans Jordaan and Luke Duncan Woodford were appointed as Non-Executive Director and Executive Director respectively with effect from 24 May 2022. Both appointments are subject to ratification at the AGM to be held on 3 November 2022. The two appointments increased the Board's composition to 12 members, eight of whom are Independent Non-Executive Directors, two Non-Executive Directors and two Executive Directors.

The Board is satisfied that its composition reflects an appropriate mix of knowledge, skills, experience, diversity, and independence. The Board strengthened its Strategy, Governance, Finance and Risk skills and experience as a result of two new director appointments after 30 June 2022.

In February 2022 the Board recomposed its Committees and appointed Asad Petkar on the RCCC to replace Markos Davias and Massimo Marinelli was appointed to the Audit Committee.

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 not less than a third of the non-executive directors to retire and, if eligible, offer themselves for re-election at every AGM. This re-election is not automatic. 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 2022 AGM, the following directors will retire by rotation and being eligible, offer themselves for re-election: Balisi Bonyongo, Jabu Khethe, Naseem Lahri and Michael Ward.

The retirement age for Non-Executive Directors is 70, in terms of the Constitution and 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 72, 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 the 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

[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.*

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.

Meeting attendance

Directors	Board	AC	BCRC	RCCC	DAGC	REMCO
Executive Directors						
SL Bogatsu[1]	4/4	4/4	12/15	4/4	6/6	2/2
Non-Executive Directors						
JK Macaskill	4/4	4/4*		4/4[2]	6/6*	
MG Davias[3]	1/4	1/4		1/4		
Independent Non-Executive Directors						
BM Bonyongo*	4/4			4/4	6/6	
S Thapelo[4]	1/4				1/6	2/2
MW Ward	4/4		15/15	4/4*		
D Ncube	4/4		14/15*	4/4		
JR Khethe	4/4	4/4			6/6	2/2*
ED Letebele	4/4		15/15		6/6	
N Lahri	4/4	4/4				2/2
A Petkar***	4/4	2/4		2/4		
M Marinelli***	4/4	2/4		2/4		
LF Jordaan****	2/4					
LD Woodford****	2/4	1/4	15/15	1/4	1/4	

* *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] *Resigned at the November 2021 AGM.*
[4] *Retired at the November 2021 AGM.*
*** *Appointed in August 2021, First meeting was November 2021 and appointed in committees effective May 2022*
**** *Appointed in April 2022.*

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 2022 training plan was approved by the Board.

2022 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
- Remuneration Philosophy, remuneration models, processes, share option schemes etc.
- ESG Risk Management (including climate)
- Stress testing
- Interest Rate Risk in the Banking Book
- Financial Institutions Credit

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 Constitution, 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 nine 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 board succession planning and gender diversity. There is a plan through the DAGC to ensure the improvement areas are addressed.

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:

- Emergency/ready now candidate
- Medium-term candidate (ready in one to three years)
- 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.

Executive team

MATHEWS TITO PHETOGO
Acting Chief Operating Officer (COO)

BCom Accounting (UB), Fellow Chartered Certified Accountant (FCCA), Senior Management Development Programme (Stellenbosch University), Advanced Programme (ECSP Europe & Orange business & controlling School)

Mathews has over 25 years' experience in the auditing, financial accounting, and operations management fields. He is currently the Acting Chief Operating Officer. He is also the current Chairperson of the SADC Payments Scheme Management Body (PSMB), having been a member of the committee since 2017. Matthews is the country payments lead and an ardent advocate of a structured national payments strategy. He also in charge of the bank's operational efficiencies strategy that seeks to automate the operating environment. Matthews 's exposure spans various industries, among others financial services, mining, retail, parastatals, manufacturing, construction, and telecommunications.

MOSES MCGEOFF
Chief Information Officer (CIO)

BSc Computer Science (UB) and an MBA (University of Maryland Global Campus)

Certified ITIL Expert, COBIT 5 Implementation, PRINCE 2 Practitioner, and RESILIA Cybersecurity Management.

Moses is accountable for developing and implementing information technology capabilities as a strategic resource to enable the bank's strategy. He first joined the bank in May 2019 as Head of IT Operations and has been instrumental in defining and implementing processes and technologies that facilitate effective and quality delivery of IT services to meet the needs of both the bank and its customers. His career spans 23 years, having worked in various sectors including consultancy services, IT infrastructure management, universities, and Government. Prior to joining FNBB, he worked at Botswana Institute on Technology Research and Innovation (BITRI), an organisation that he co-founded in 2014.

LINDIWE MOGOTSI
Chief Risk Officer (CRO)

BCom University of Melbourne, Australia and is a member of ACCA and CPA Australia

Lindiwe is responsible for providing overall leadership to the bank's risk management strategies and development of the bank's risk appetite and ensuring alignment and co-ordination of the entire risk management strategy across all the Bank's risk types and in accordance with the Bank's risk profile. Prior to joining FNBB, she served as Risk and Compliance Manager with American International Assurance Company Limited (AIA) Australia. She previously worked for BancABC (now Access Bank) as Head of Risk responsible for driving risk strategy and uplifting risk culture. She has also led several departments at Barclays Bank (now ABSA), which include collections, business performance (Retail and Business Banking) and balance sheet management.

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's 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
Acting Director, Commercial

Global Banking Programme (Columbia Business School), BANKSETA Regional Immersion Programme

Olebile was recently appointed Acting Commercial Director. Before this appointment, Olebile was responsible for RMB Botswana, the Corporate and Investment Banking segment of FNB Botswana and Merchant services. 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. Olebile's extensive financial services experience includes disruptive financial technologies, such as marketplace lending, technology-based financial consulting (robo-advisers), blockchain technology and digital transformation strategies.

BOITUMELO MOGOPA

Director, Retail

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

Boitumelo's banking and finance experience spans over 23 years, during which she developed a solid understanding of business strategy and implementation. In this 23 years she held various roles in the banking sector including CFO for FNBB , General Manager for Wealth Management and Shared Distribution and roles in the finance departments of Barclays Bank and Botswana Housing Corporation .

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 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, she provides the bank with effective compliance management strategies and tools and methodologies to drive and embed a 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.

RONALD KGAFELA

Acting Director, Human Resources

BA Administration-Human Resource Management, MSc Strategic Management

Ronald Kgafela is a Certified Professional Business Coach and an Organisational Development Consultant with a Masters in Strategic Management, a Bachelor of Administration (Human Resource Management) and a Post Graduate Diploma in Labour Law. Ronald is currently enrolled with the Herriot Watt University-Edinburgh Business School for a Doctor of Business Administration Degree. He brings to the table over 17 years of work experience in HR, OD, and Consultancy.

PEO POROGO

Acting Director, Marketing and Communications

Bachelor's Degree in Business Administration – Marketing

Management Development Programme from the University of Cape Town and Stellenbosch.

Peo is a Marketing and Communications professional with a career spanning over 15 years. Peo has a wealth of experience from various sectors of the economy such as Telecommunications, Fast Moving Consumer Goods (FMCG) and Banking. She started her career in 2007 at C. A. Sales & Distribution and later joined Orange Botswana, followed by Barclays Bank Botswana where she held numerous positions in the Marketing Department. Peo joined FNBB in 2016 as Marketing Manager for retail and progressed to position of Deputy Marketing and Communications Director. She oversees the Branding and Marketing portfolio with the mandate of positioning the FNBB Brand to effectively compete.

HARRIET MLALAZI

Co-Acting Director (RMB)

Bachelor's Degree in Business Administration – Marketing

Harriet Mlalazi is Acting Co-Director, RMB Botswana responsible for providing strategic leadership for the Corporate and Investment Banking Division of FNB Botswana. She has over 17 years' banking experience and has led multi-skilled teams in global markets, transaction banking, Lending, Trade and Advisory. She has had short term assignments to India, Zambia, and South Africa where she gained valuable experience. Harriet holds a BA degree in Marketing from the University of Botswana and is currently pursuing an MBA with Gordon Institute of Business Science, University of Pretoria.

LESEGO AYUB OSMAN

Co-Acting Director (RMB)

Postgraduate degree in Business Administration (MBA, Finance) from the University of Botswana

Executive Management Consulting Practicum from the Wharton School of Business University of Pennsylvania

Post Graduate Information Systems obtained from La Trobe University in Melbourne, Australia

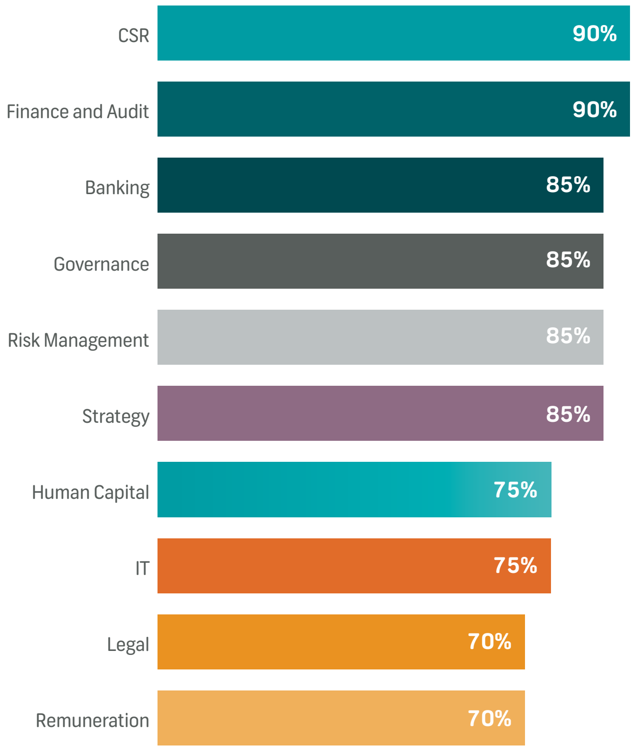
Lesego Ayub Osman is a seasoned finance professional with over two decades of experience in Financial Markets. Lesego's experience transcends several markets having worked in Botswana, South Africa, Malawi, Zimbabwe, and Tanzania during his career. He has worked in several Corporate Investment Banking roles including Relationship Manager Non-Banking Financial Institutions, Head of Trading, Head of Treasury, and Head of Global Markets across several top tier pan-African financial institutions.

Gender, age and tenure – Executives

Average tenure **5 years**
Average age **45**

Batswana **84%**
Female **61%**

Skills diversity – Executives



The Executive Team is as at 30 June 2022. There has been subsequent changes post the reporting period as follows:

1. Substantive HR Director appointed effective 1 September 2022
2. Substantive RMB Director appointed effective 1 September 2022
3. Acting Director Marketing confirmed as substantive effective 1 September 2022
4. Retail Director resigned effective 1 October 2022
5. Acting Director Commercial confirmed as substantive effective 12 September 2022

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 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 2022

JK Macaskill – Chairperson
NB Lahri
JR Khethe
M Marinelli
SL Bogatsu – Standing invitee
LD Woodford – Standing invitee

Key activities for 2022

- 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 2021/2022
  - Reviewed Internal and External Audit findings and assurances for 2021/2022
  - 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 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
  - Reviewed and approved the Internal Audit and the Combined Assurance Forum Charters
- 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 Charter 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
- Oversaw and assessed management's interaction with the Botswana Unified Revenue Service (BURS) on tax assessments related to withholding tax on Visa and Mastercard fees and the treatment of capital allowance on leased assets
- 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
- Conducted the annual assessment of the Chief Financial Officer, Internal and External Auditors in line with the requirements of King IV .

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 2022
- 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 partners 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 co-operation 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

BCRC has an independent role in making decisions within its delegated mandate. The Committee is mandated to approve credit applications from P30 million up to 10% of the bank's unimpaired capital. The Committee would furthermore recommend all applications above this threshold, 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 2022

D Ncube – Chairperson
ED Letebele
MW Ward
SL Bogatsu – Standing invitee
LD Woodford – Standing invitee

Key activities for 2022

- Interrogated processing of credit facilities to customers, together with the RCCC
- 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 its 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, and with appropriate risk/reward balance
- Monitored loan schemes and requested an extension of the variation allowing the Botswana Police Scheme to lend to non-banked customers
- Maintained oversight of the balance between advanced NPLs and impairment provisioning
- Conducted SARB Regulation 39 Self Governance Assessment

Ongoing focus areas

- Reviewing and monitoring of large exposures
- Monitoring of scheme loans given the post-COVID-19 challenges

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 with a view to protecting and managing the bank's capital. 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 Listing Requirements
- Other relevant Acts

Members at 30 June 2022

MW Ward – Chairperson
D Ncube
A Petkar
BM Bonyongo
JK Macaskill – Invitee
SL Bogatsu – Standing Invitee
LD Woodford – Standing Invitee

Key activities for 2022

- 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 ATMs 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 risks post covid
- Tracked progress of the IT access risk remediation and fraud risk management audit
- Considered interventions to strengthen asset and liability management and maintain risk metrics within established risk appetite
- Remained updated on Government spend and economic conditions
- Satisfied itself with the bank's standing in relation to the frameworks and policy universe
- Satisfied itself that all transfer pricing regulatory requirements were embedded in management and tax processes
- 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
- Oversight of material legislation
- Monitored the legal process to protect the bank's various intellectual properties
- Conducted SARB Regulation 39 Self Governance Assessment
  - Approving the following policies (whether through the RCCC or the Board):
    - External Communications and Disclosure Policy
    - Crisis Communications Policy
    - Protective Security Framework
    - Information Governance Committee Charter
    - Credit Impairment Framework
    - Capital Management Framework
    - ICAAP Report
    - Transfer Pricing Policy
    - Tax Risk Management and Compliance Framework
    - Environmental and Social Risk Assessment Policy
    - Legal Risk Management Framework
    - Financial Crime Risk Management Policy
    - Financial Crime Risk Management Framework
    - Funds Transfer Pricing Framework
    - PV01 Limit Review
    - ALCCO Mandate
    - Policy on Section 52 of South African Reserve Banks Act 94 of 1990
    - Financial Crime Risk Management Policy
    - Account Reconciliation Management Policy
    - Financial Crime Risk Management Framework
    - Compliance Framework
    - Asset and Liability (ALM) Risk Management Framework (in which the various limits as already approved by this Board remain unchanged)
    - Operational Risk Appetite Policy
    - Anti-Bribery and Corruption Policy
    - Whistle-Blowing Policy
    - Ethical Conduct in Financial Markets Policy
    - Fair Market Conduct Policy
    - Traded Market Risk Management Framework
    - Traded Market Risk Limits
    - Credit Risk Management Framework
    - Sovereign Credit Risk Framework & Limits
    - Operational Risk Management Framework
    - Anti-Bribery and Corruption Framework
    - Conflict of Interest Management Policy
    - Personal Account Trading Policy

Ongoing focus areas

- Risk on bank assets through bombings
- Cybersecurity
- Monitoring credit risk in the context of economic trends
- Regulatory compliance
- Micro and macro-operating environments and markets

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 2022 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 Type	Outlook	Q4 21/22	Q3 21/22	Q2 21/22	Q1 21/22
1	Strategic Risk		Medium	Medium		
1.1	Environment Scan	▲	Medium	Medium	Medium	Medium
1.2	Strategy Planning		Medium	Medium		
1.3	Business Development		Medium	Medium		
2	Business Risk	▶	Medium	Medium	Medium	Medium
3	Credit Risk		Medium	Medium	Medium	High
3.1	Wholesale	▲	Medium	Medium	Medium	Medium
3.2	Commercial		High	High	Medium	High
3.3	Retail		High	High	High	High
4	ALM Risk		Medium	Medium	Medium	Medium
4.1	Liquidity Risk	▲	Low	Low	Low	Low
4.2	Interest Rate Risk in the Banking Book		High	High	High	High
4.3	Foreign Exchange Risk		Low	Low	Low	Low
5	Traded Market Risk	▲	Low	Low	Medium	Medium
6	Financial Controls	▶	Medium	Medium	Medium	Medium
7	Compliance Risk		High	High		
7.1	Regulatory Risk	▲	High	High	High	High
7.2	Financial Crime Risk		High	High		
8	People Risk	▶	High	High	High	High
9	Reputational Risk	▶	Medium	Medium	Medium	Low
10	Information Governance Risk		High			
10.1	Data Governance	▲	High	High	High	High
10.2	Data Quality		High			
10.3	Records Management		High			
11	Operational Risk (including Fraud Risk)		High	High	High	High
11.1	IT Risk	▲	High	High	High	High
11.2	Legal Risk		Medium	Medium	Medium	Medium

▲ *Increasing risk*
▶ *Decreasing risk*

Directors' Affairs and Governance Ethics 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's mandate has also been extended to overseeing the bank's ethics programme.

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 2022

JK Macaskill – Chairperson
JR Khethe
BM Bonyongo
ED Letebele
SL Bogatsu – Standing invitee
LD Woodford – Standing invitee

Key activities for 2022

- Reviewed both executive management and Board succession plans, 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 Massimo 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 2022
- 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
- Oversaw the bank's ethics and culture risk

Ongoing focus areas

- Induction of new Board members
- Board effectiveness and continuity
- Continued focus on Board succession planning
- Continued focus on Board training
- Continued focus on ethics and culture risk
- Monitoring the evolving ESG and Sustainability programme
- Ethics governance

Remuneration Committee (REMCO)

Mandate

The Committee oversees the bank's remuneration and ensures that practices align with 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 2022

JR Khethe – Chairperson
BM Bonyongo
NB Lahri
SL Bogatsu – Standing invitee
LD Woodford – Standing invitee

Key activities for 2022

- Considered macroeconomic factors likely to have an impact on remuneration
- Considered the bank's business and financial performance
- Monitored union negotiations of non-managers' salaries and the mediation
- Considered and recommended to the Board a 2.5% increase in Board director fees
- Considered the 2022 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 to the Board for approval the REMCO Charter

Ongoing focus areas

- Continued improvements in remuneration disclosures, as per King IV
- Continued research and evaluation of remuneration best practices

King IV code on corporate governance is applied at FNBB

The below highlights the application status of King IV broadly by the Board. The intended application of the principles is to promote and harness ethical culture, good governance, effective control and legitimate business practices.

Principle	Status of Application	Comments
Principle 1: The governing body should lead ethically and effectively	Applied	• As part of the annual board evaluations board members are assessed on ethics and integrity. • Board members periodically attest to the Bank's code of ethics. • Board members declare their interests as a standing governance practice and as per the Conflict of Interest Policy
Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	Applied	• The Board through the DAGC has oversight of the bank's ethics culture. • Management through the Ethics Committee submits a quarterly ethics report to the DAGC
Principle 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.	Applied	• The Board has adopted a shared value framework through which the bank strives to unlock environmental, economic, and social value for all our stakeholders, including the broader society in which it operates in. This also includes but is not limited to the value created through the FNB Foundation activities. • Refer to the Shared Value section at page 61.
Principle 4: The governing body should appreciate that the organization's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	Applied	• Refer to page 1 on purpose of the bank • Refer to page 24 on material matters • Refer to page 32 on Strategy • Refer to page 50 on financial performance
Principle 5: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organization's performance and its short, medium- and long-term prospects.	Applied	• This report aligns with the relevant reporting standards as prescribed to ensure that stakeholders make informed assessment of the performance of the bank with no room for ambiguity . Page 5 of this report highlights the key reporting frameworks used.
Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.	Applied	• Refer to page 74 on Corporate Governance. The Board has adopted a Board Governance Framework wherein the Board serves as the focal point and custodian on corporate governance.
Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	Applied	• Refer to page 75 on Board Composition. • Refer to pages 68 – 73 on Board Member profiles.
Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties.	Applied	• Refer to page 76 on delegation. • Refer to pages 84 on Board Committee Reports

Principle	Status of Application	Comments
Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.	Applied	• Refer to page 78 on Board Evaluations
Principle 10: The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.	Applied	• The DAGC is responsible for the Executive Management appointments and succession planning • Refer to page 90 on DAGC report
Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives	Applied	• Refer to the RCCC report on page 86
Principle 12: The governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives.	Applied	• IT Risk is managed as part of operational risk by the RCCC. Refer to page 86 for the RCCC report
Principle 13: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.	Applied	• Compliance with applicable laws is a key risk that is managed through the RCCC. Refer to page 86 for the RCCC report • Additionally matters of business and market conduct are managed through the DAGC.
Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	Applied	• Refer to Remuneration Report on page 94
Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and external reporting purposes.	Applied	• The Bank's assurance is provided through the Internal and External audit functions. Additionally there is a combined assurance forum that has been set up. Refer to page 85 for further reading on this.
Principle 16: In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.	Applied	• Refer to the Stakeholder Report on page 18

Remuneration

Background statement

It is the view of the REMCO that the bank achieved the stated objectives of its Remuneration Charter and the intent to achieve fair and responsible remuneration set out in its Remuneration Policy.

FNBB recognises that our employees are the 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 our customers well and forming value-adding partnerships with them.

This is FNBB's third Integrated Report and represents an incremental improvement in the disclosure of director's remuneration as required by King IV.

Internal and external factors that influenced remuneration

The macro-economic environment, particularly inflation, influenced remuneration for 2021/2022. REMCO also considered 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, salary increases are not awarded to any employees rated less than three out of five.

The bank participated in annual salary surveys conducted by Emergence Growth. The survey was conducted on the Botswana Banking and Financial services sector. FNB Botswana's 50th percentile was benchmarked against the 50th percentile of the Total Guaranteed Package of the industry. The average comparative ratio for employees across all grades in terms of Total Guaranteed Pay is 101%. In general, the majority of FNBB employees compare relatively well to the Botswana banking industry sector market median of between 80 to 120th percentile on a Total Guaranteed Pay basis. The results demonstrated that all salary non-managerial bands in FNBB are positioned well within the market range.

Most recent results of voting

The BSE does not require the full remuneration implementation report to be submitted for shareholder voting but does require approval of Non-Executive Directors' fees at the AGM. At the 2021 AGM, 94.74% of shareholders voted in favour of the Non-Executive Directors' fees proposed.

Key decisions taken by the REMCO

The following key decisions were taken by the Committee:

- Approved salary budget for 2022/2023.
- Approved a mandate for non-managers' salary negotiations with the union for 2021/2022 salaries.
- Approved managerial salary increase for 2021/2022.
- Approved managerial and non-managerial pools for 2021/2022 performance.
- Approved share allocations for 2021/2022 performance.
- Recommended directors' fees to the Board for approval.
- Reviewed the REMCO Charter.

Future focus areas

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

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

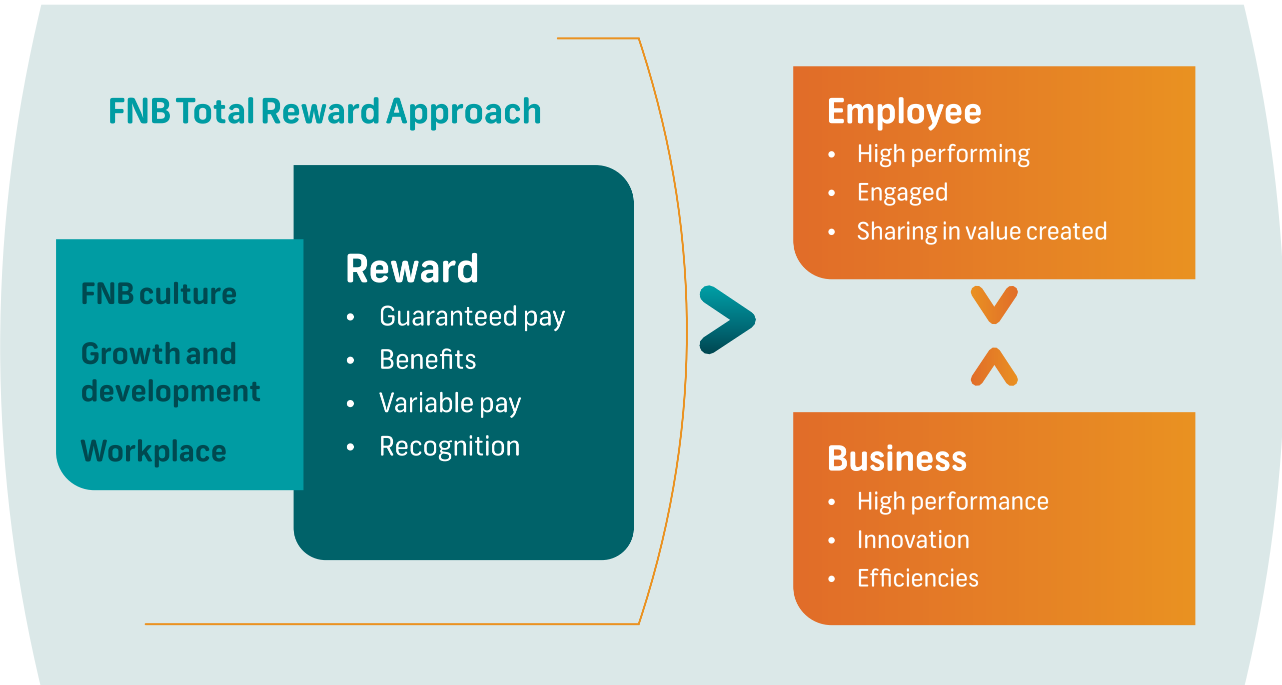
FNBB believes employees work for more than just monetary rewards. Thus, the bank focuses on total reward, including all elements of remuneration.

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 is 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. Employees 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.

Salary components

Component	Executive Management	Other Employees

Guaranteed package

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.

Executive Management

Year-on-year increases for Executive Management were set at:

Rating	Normal % increase	When rating decreases year-on-year	When rating significantly increases year-on-year
3.0 – 3.4	6.5%	5.0%	
3.5 – 3.9	7.0%	5.5%	7.5%
4.0 – 4.5	7.5%	6.0%	
4.5 – 4.9	8.0%		

Other Employees

Managerial and non-managerial

Category	Rating	Managerial	Non-managerial
Outstanding	5	8%	9%
Very good	4.0 - 4.9	7.50%	8%
Good	3.0 - 3.9	7%	7%
Room for improvement	2.0 - 2.9	0%	0%
Unacceptable	1.0 - 1.9	0%	0%
Average increase		6.80%	6.30%
Total increase		7%	

Other benefits

- Group Life Cover inclusive of income continuation benefit
- Pension fund 13.5%
- 100% medical aid cover
- Four months maternity leave at full salary
- Paid paternity leave of five days
- Payment for professional fees and subscriptions
- Favourable interest rates for home loans, personal loans and WesBank loans
- Annual Christmas gift from CEO
- Car allowance for managers and some non-managers as a tool of trade
- Banking charge exemptions
- Scholarship scheme
- Study loan at 0% interest (capped at P50 000)
- Subsidised gym fees at Head Office
- Subsidised meal fees at Head Office cafeteria
- Access to the Employee Assistance Programme, through the Employee Wellness Programme service offering
- Performance bonus
- Innovation programme that rewards ideas and implementation

Component	Executive Management	Other Employees
13th cheque	Equivalent to one month's 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 • A lock-in arrangement is in place where the new joiner repays FNBB should he/she leave the Company within a certain period.	
Bonus Allocation is discretionary based on individual performance, overall profitability and return on equity targets	The overall bonus pool for FNBB is determined at FirstRand Group level based on country performance.	The pools for all executive management, managerial and non-managerial employees is determined by the FNBB REMCO based on FNBB's financial performance and industry trends.
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. • 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 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: • 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 • The discovery that the assessment of any metrics upon which the award was made were based on erroneous, inaccurate, or misleading information • Any action or conduct which, in the reasonable opinion of the Board, amounts to dishonesty, fraud or misconduct • The discovery of a material failure in risk management to which the employee had contributed and is responsible for • The discovery that performance-related to financial and non-financial targets was misrepresented and that such misstatement led to the overpayment of incentives 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. Should an employee resign or be dismissed, unpaid bonus tranches are forfeited except where the REMCO deems an individual a 'good leaver'.	

Non-Executive Directors

Non-Executive Directors that are not employed by group receive fees for services as directors and for services provided as members of the Board and its Committees. These fees are paid on 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.

In 2022 the REMCO recommended to the Board and AGM an increase of 2.5% on the hourly rate against a 5% market benchmark for the 2022 financial year. This increase will be approved at the 2022 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 per hour 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 Management's fees – target illustrations

Below is an illustration of the potential effect on the total remuneration for Executive Management (Excluding CEO and CFO) (based on a single, total figure):

Element	Total
Total number of Executive Management members	13
Annual total base pay	P15 016 424.40
Annual total gross package (base, car allowance, medical aid)	P19 404 770.69
Short-term Incentive Plan	P5 091 374.79
Long-term Incentive Plan	P5 231 806.81

Implementation report

There were no deviations from the Remuneration Policy upon implementation.

Single total figure remuneration received and receivable at fair value – 2022

Name	Directors' fees (P)
Executive Directors	
SL Bogatsu	5 392 381
LD Woodford	3 708 604
Total	9 100 985
Non-Executive Directors	
JR Khethe	361 970
JK Macaskill	564 710
S Thapelo*	110 834
MW Ward	717 793
N Lahri	271 256
D Ncube	717 892
ED Letebele	619 988
BM Bonyongo	582 536
LF Jordaan	28 924
A Petkar**	185 291
M Marinelli***	181 877
Total	4 343 071
Total Executive Director and Non-Executive Directors	13 444 056

* *Retired at AGM, November 2021*
** *Joined the Board in 26 August 2021*
*** *Joined the Board in 26 August 2021*

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

Name	Directors' fees (P)
Executive Directors	
SL Bogatsu	3 954 100
Non-Executive Directors	
JR Khethe	331 000
JK Macaskill	485 000
S Thapelo	260 000
MW Ward	762 000
N Mokgethi*	95 000
D Ncube	718 000
M Davias	–
ED Letebele	571 000
NB Lahri	167 400
BM Bonyongo	513 000
Total	4 051 000
Total Executive Director and Non-Executive Directors	8 005 000

* *Retired at the AGM, November 2021*

Short Term Incentive (STI)and Long Term Incentive (LTI) for Executive Directors:

(P)	2021	2022
STI Allocation		
SL Bogatsu	1 440 000	**1 650 000**
LD Woodford	1 314 371	**1 596 000**
LTI Allocation		
SL Bogatsu	2 040 816	**2 042 360**
LD Woodford	1 058 201	**1 172 465**

10 Annual Financial Statements

Consolidated and Separate Financial Statements for the year ended 30 June 2022

First National Bank of Botswana Limited

(Registration number BW00000790476)

Consolidated and Separate Financial Statements for the year ended 30 June 2022

Report of the Audit Committee

The Group's Audit Committee comprises mainly of non-executive Directors, in accordance 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 and performance.

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) and the Banking Act (Cap 46:04).

On behalf of the Audit Committee

John K Macaskill
Chairman

Friday, 14 September 2022

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) and the Banking Act (Cap 46:04).

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 106 to 111.

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. 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 112 to 236, which were approved on 14 September 2022 and were signed on their behalf by:

Approval of financial statements

Balisi Bonyongo
Chairman

Steven L. Bogatsu
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 2022.

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) and the Banking Act (Cap 46:04).

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. 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 app). The Group has one operating subsidiary which 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 P927 million (2021: P 685 million) increased by 35% compared to the results for the year ended 30 June 2021. The Company income after tax of P915 million (2021: P 875 million) increased by 5%, compared to the results for the year ended 30 June 2021.

Stated capital

The Company's stated capital consists of 2 543 700 000 (2021:2 543 700 000) ordinary shares, of which First National Bank Holdings (Botswana) Limited holds 1 780 590 000 (2021:1 780 590 000) ordinary shares 70,00% (2021:70,00%), 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 23 012 (2021: 23 633), which represents approximately 0,0009% (2021: 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.

The Directors propose a final dividend of 16,00 thebe per share (2021: 49,00 thebe). An interim dividend of 10,00 thebe per share (2021: 6,00 thebe) for the year ended 30 June 2022 has been paid to holders of ordinary shares.

The post-dividend capital adequacy ratio at the end of June 2022 is 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. 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 Bank's operations will continue to remain uninterrupted.

On the basis of this review, and in light of the current financial position and profitable trading history, the directors are satisfied that the bank 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

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 2022 was as follows:

Directors	Office	Nationality	Appointed
Balisi Bonyongo	Chairperson	Motswana	
Steven L. Bogatsu	Chief Executive Officer	Motswana	
Jabulani R. Khethe	Independent Non-Executive Director	South African	
John K. Macaskill	Non-Executive Director	South African	
Doreen Ncube	Independent Non-Executive Director	Motswana	
Michael W. Ward	Independent Non-Executive Director	British	
Naseem B. Lahri	Independent Non-Executive Director	Motswana	
Ephraim Letebele	Independent Non-Executive Director	Motswana	
Massimo M. Marinelli	Independent Non-Executive Director	Italian	2021/08/26
Asad Petkar	Independent Non-Executive Director	Motswana	2021/08/26
Louis F Jordaan	Non-Executive Director	South African	2022/04/26
Luke D Woodford	Chief Financial Officer	South African	2022/04/26

Transfer Secretaries

Central Securities Depository Botswana

Business address	Plot 70667 4th Floor, Fair Precinct Fairgrounds
Postal address	Private Bag 00417 Gaborone

Auditors

Deloitte & Touche

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

Deloitte.

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 112 to 236, which comprise the consolidated and separate statements of financial position as at 30 June 2022, 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 2022, 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.

Key Audit Matter	How the matter was addressed in the audit
Impairment of Advances (Consolidated and Separate)	
We considered the impairment of advances to be a matter of significant importance to our current year audit due to the following: • Advances are material to the financial statements; • The level of subjective judgement and assumptions applied in determining the ECL on advances; • The uncertainty related to local and global economic stress. 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. The Group's advances broadly fall into three customer segments: • 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.	Our audit of the impairment of advances included, inter alia, the following procedures performed with the assistance of our credit and actuarial specialists. • Across all significant portfolios we assessed the ECL policies and judgements applied by management against the requirements of IFRS 9; • We tested the design and implementation of relevant controls over the processes used to calculate impairments; • 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; and • We evaluated the design and implementation and tested the operating effectiveness of controls relating to the calculation of arrears and days past due. Below is a summary of the substantive procedures performed for each segment:

Independent Auditor's Report *continued*

Key Audit Matter	How the matter was addressed in the audit
Impairment of Advances (Consolidated and Separate)	
Collectively assessed ECL Where advances are a large homogenous population of customers the ECL is calculated on a collective or portfolio basis. Where clients have not defaulted on their advances, management uses a portfolio provisioning approach in which they use statistical models incorporating various judgements and assumptions in developing their expected credit losses on the portfolio of clients. 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; • The incorporation of unbiased probability weighted forward-looking information.	**Retail and commercial advances** We performed the following procedures on the ECL for all material retail and commercial advances portfolios with the assistance of our credit and actuarial experts: • 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; • 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; • Tested the completeness and accuracy of data inputs into the models by tracing a sample of data inputs back to the information sourced by management from internal systems; • 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; • Assessed a sample of watch list accounts and accounts that are credit impaired (Stage 3) for reasonableness of collateral valuation considered in assessing ECL; and • Assessed the discount rates and periods used for discounting estimated future cash flows for reasonableness.

Key Audit Matter	How the matter was addressed in the audit
Impairment of Advances (Consolidated and Separate)	
Individually assessed ECL 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. The other key judgements we considered are: • valuation of collateral held. • estimation of the recoverable amounts and timing of future cash flows.	**Corporate advances** We performed the following procedures on the ECL for corporate advances with the assistance of our credit and actuarial specialists: • Assessed, the appropriateness of assumptions made by management in determining the level of impairment, including the probability of default and valuation of collateral and the incorporation of the macro-economic variables; • Tested the appropriateness of the forward looking information in order to evaluate whether the chosen macro-economic factors provide a reasonable representation of the impact of macro-economic changes on the ECL results; • Assessed the reasonability of the credit risk parameters calculated by management; and • 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.
Out of model adjustments and overlays 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. 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. Related disclosures in the Consolidated and Separate Financial statements: • Note 1.4 - Accounting policy for financial instruments; • Note 1.8 - significant judgements and sources of estimation uncertainty; • Note 13 - Advances to customers; • Note 14 - Impairment of advances; and • Note 39 - Financial risk management.	**Out of model adjustments and overlays** • 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; • 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; • Assessed the need for any other overlays not considered by management based on our expert judgement and widely available information; and • Performed a top down test of the reasonableness of the overall ECL provisions under stressed conditions to assess whether adequate provisions were recorded. In conclusion, we determined the impairment of allowances and related disclosures to be adequate.

Independent Auditor's Report *continued*

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 Statements 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.

14 September 2022
Gaborone

Deloitte & Touche
Firm of Certified Auditors
Practicing Member: Pragnaben Naik (CAP 007 2022)

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) and the Banking Act (Cap 46:04).

These financial statements comprise the statements of financial position (also referred to as the balance sheets) as at 30 June 2022, 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 financial instruments that are measured at 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 as 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 (CODM) for the respective segments under the current operating business 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 CODM 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 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 section 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. 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.

Foreign exchange gains or losses are recognised in profit or loss.

1.1 **Basis of preparation** *continued*

COVID-19 Impact

In the two prior financial years, additional judgements were applied to elements of the financial statements affected by the economic impact of COVID-19 (in particular Expected Credit Loss models) and adjustments were made on a conservative but reasonable basis.

Due to the dynamic nature of the COVID-19 pandemic, it was not possible to accurately predict the full extent, nor the duration, of its economic impact. While the virus remains a concern for global health, there has been a settling into a "new normal" throughout the global economy and as such, the requirement for COVID-19 related post-model adjustments to the Group's financial performance and position is greatly reduced.

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 considered projections of the Group's capital, funding and liquidity requirements, all of which are projected to remain within internal targets and above regulatory requirements.

As part of this assessment, the Directors considered the sufficiency of the Group's financial resources over the three-year forecast period. 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 its 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)	Provisions (Section 1.5.2) Other assets (Section 1.5.3)	Leases (Section 1.5.4)
		Property and equipment (Owned and Right of Use) (Section 1.5.5)		
1.6	Stated capital and equity	Shares issued and issue costs (Section 1.6.1)	Dividends paid/declared distributions (Section 1.6.2)	
1.7	Transactions with employees	Employee Benefits (Section 1.7.1)		

Significant Accounting Policies *continued*

1.1 Basis of preparation *continued*

New standards adopted in the current year

There were no new or amended IFRS standards which became effective for the year ended 30 June 2022 that impacted the Group's reported earnings, financial position or reserves, or the accounting policies.

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 Group measures investments in these entities in its separate financial statements at cost less impairment.

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. 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.

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 Subsidiaries *continued*

1.2.2 Related party transactions

Related parties of the Group, as defined, include:

- subsidiaries of the Group and entities that have significant influence over the Group, including subsidiaries of these entities,
- key management personnel (KMP), 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; and
- 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 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 agreements where the related deposit is measured at amortised cost.

The total interest expense is reduced by the amount of interest expense incurred in respect of liabilities used to fund the Group's fair value activities. This amount is reported in fair value income within non-interest revenue.

Significant Accounting Policies *continued*

1.3 Income, expenses and taxation *continued*

1.3.1 Income and expenses *continued*

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.

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 when the performance obligation is fulfilled.

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; and
- commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis.

Commitment fees for unutilised funds made available to customers in the past, are recognised as revenue over the period the facility remains unutilised. 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, electricity 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.

1.3 Income, expenses and taxation *continued*

1.3.1 Income and expenses *continued*

Non-interest revenue recognised in profit or loss *continued*

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, are recognised at 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; and
- 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.

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.

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; and
- prepaid expenses.

The liability method under IAS 12 is used, which means applying tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

For temporary differences arising from the fair value adjustments on investment properties, deferred income tax is provided at the rate that would apply on the sale of the property i.e. the capital gains tax rate.

Significant Accounting Policies *continued*

1.3 Income, expenses and taxation *continued*

1.3.2 Income tax expenses *continued*

Presentation

Deferred income tax is presented in profit or loss unless it relates to items recognised directly in equity or other comprehensive income.

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.

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.

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.

1.4 Financial instruments *continued*

1.4.1 Classification and measurement *continued*

Classification and subsequent measurement of financial assets *continued*

Business model continued

If sales of financial assets are infrequent, 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 to be considered as 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 value of sales relative to the total assets in the business model to determine whether it is significant.

A change in business model only occurs on the rare occasion when the Group genuinely changes the way in which it manages a financial assets. 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.

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 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 maturity 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.

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 model include:

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

Significant Accounting Policies *continued*

1.4 Financial instruments *continued*

1.4.1 Classification and measurement *continued*

Classification and subsequent measurement of financial assets *continued*

Amortised cost continued

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).

The business models of 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 these business models include:

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

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.

Advances also include marketable advances representing corporate bonds and certain debt investment securities qualifying as high-quality liquid assets.

The Group 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.

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 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.

The Group 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.

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

1.4 Financial instruments *continued*

1.4.1 Classification and measurement *continued*

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.

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.

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.

Significant Accounting Policies *continued*

1.4 Financial instruments *continued*

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;
- 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.

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. Where a change in terms is significant and is deemed to be a substantial modification, it results in derecognition of the original advance/facility and recognition of a new advance/facility. SICR test thresholds are reassessed 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 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.

1.4 Financial instruments *continued*

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

Advances *continued*

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 aforementioned definition of credit-impaired at initial recognition.

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 an articulated 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 either the sale or the material impairment 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 the equivalent of 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.

Significant Accounting Policies *continued*

1.4 Financial instruments *continued*

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

Advances *continued*

Collection and enforcement activities post write-off

The Group continues to enforce its legal right to collect on outstanding debt following the write off process. 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

All intercompany balances are classified as stage 1, unless there is evidence of impairment, in which case exposures are moved directly to stage 3.

1.4.3 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. Where the modification does not result in an accounting derecognition the original asset continues to be recognised.

1.4 Financial instruments *continued*

1.4.3 Transfers, modifications and derecognition *continued*

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 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:

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.

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.

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.

Significant Accounting Policies *continued*

1.4 Financial instruments *continued*

1.4.4 Offsetting of financial instruments and collateral *continued*

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.

1.5.2 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.

1.5.3 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.

1.5.4 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).

1.5 Other assets and liabilities *continued*

Classification and measurement *continued*

1.5.4 Leases *continued*

Group company is the lessee *continued*

The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted by using the rate included 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.

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.

Significant Accounting Policies *continued*

1.5 Other assets and liabilities *continued*

1.5.5 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 (Right of use assets); and
- other assets utilised in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings.

Property and equipment is measured at historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated.

Depreciation is on a straight line basis over the useful life of the assets, except for assets capitalised under finance leases where the Group is the lessee, in which case depreciation is calculated as set out in the accounting policy for leases. 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 cost less any subsequent accumulated depreciation.

During the current financial period, the accounting policy for the measurement of freehold and leasehold land and buildings was changed from the revaluation model to the cost model. Refer to section 1.9 for more details.

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
Capitalised leased assets (ROU)	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.

1.7 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:

	2022	2021
	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.

Significant Accounting Policies *continued*

1.8 Significant judgements and sources of estimation uncertainty *continued*

1.8.2 Impairment of goodwill *continued*

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 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.

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.

	2022	2021
Pre-tax discount rates (%)	**15,45**	15,13
Growth rates (%)	**4,90**	(2,00)

The discount rate used is the weighted average cost of capital for the specific segment or entity, adjusted for specific risks relating to the segment or entity. Some of the other assumptions include investment returns, expense inflation rates, tax rates and new business growth.

The period over which management has projected cash flows is 4 years (2021: 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 Significant judgements and sources of estimation uncertainty *continued*

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.

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 in accordance with IFRIC 23 principles

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 behavioral 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 and other relevant factors. Judgemental factors may result in the client being added to the watch list through the Group's ongoing risk management process.

SICR triggers are portfolio specific and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk with reference to historic default rates within that portfolio. The 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.

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 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.

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*

Commercial 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.

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. 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 expected net recovered value of collateral, the probability of recovery of that 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 various 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 a team of professional economists. These economists assess micro and macroeconomic developments to formulate (bottom-up) and adjust (top-down) the macroeconomic forecasts. Probabilities are assigned 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.

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*

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 to continue with historical correlations 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.

Economic Scenarios Applied in June 2022 ECL computation

The FLI component of ECL is a dual factor including GDP and monetary policy rate. As the FLI models did not sufficiently capture inflation, additional post-model adjustments were considered.

The economic scenarios applied are described as follows:

Upside: 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 and copper production 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 stable interest rates. The USD depreciates as a search for yield in emerging markets returns. Private and public sector investment increases on the back of greater policy certainty. Global inflation trends lower as supply side pressures dissipate. Stronger than expected global growth.

Baseline: The disruptions caused by the war between Russia and Ukraine, along with the sanctions imposed on Russia, pose upside risks to local price growth. Additionally, Botswana Housing Corporation (BHC) rental prices are expected to be revised upwards due to reduced subventions from the government to major parastatals. As a result of these factors, coupled with the expectation of local food prices continuing to tick up because of import substitution policies, inflation is expected to average 12.4% in 2022. The central bank's hiking cycle will see the monetary policy rate reaching a level of 3.4% by the second half of 2023. To reduce the size of Botswana's deficits in the long-term, service fees, charges and levies are expected to be adjusted to reflect the increasing cost of public sector service delivery. To date, electricity prices, water prices and rental prices have been increased, reducing the pressure for subventions from the government to major parastatals such as the Botswana Power Corporation (BPC), Water Utilities Corporation (WUC) and the Botswana Housing Corporation (BHC). Further increases in tariffs from these institutions are expected this year, for them to meet their operating costs. Over the medium term, preliminary budget figures indicate a more positive outlook of Botswana's fiscal position, due to a substantial rebound in mineral revenue, coupled with a recovery in the level of SACU receipts. The budget deficit is expected to be financed through a combination of domestic and external borrowing over the medium term.

Significant Accounting Policies *continued*

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 2022 ECL computation continued

Downside: The war in Ukraine continues to damage global supply chains, creating global shortage of commodities, with high inflation globally. 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 due to reduced government revenues as well as budget deficit increases. The ZAR depreciates sharply against the USD in response to a marked fall in the appetite for emerging market assets. BWP/ZAR increases sharply as a result. Global inflation lifts further due to supply side pressures. Global central banks tighten monetary conditions to address inflation and financial conditions tighten.

	FLIs: Applied in ECL Models		
	Upside	Baseline	Downside
Scenario – 2022			
2023	**5,25**	**3,70**	**0,90**
2024	**5,45**	**3,90**	**0,55**
2025	**5,50**	**4,00**	**0,40**
Weighting	**15 %**	**66 %**	**19 %**
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 %

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 the 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.

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 Significant judgements and sources of estimation uncertainty *continued*

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 2022		
Total	**42 549**	**2 720**
30 June 2021		
Total	23 191	580

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 2022			
Scenario			
2023	**5,25**	**3,70**	**0,90**
2024	**5,45**	**3,90**	**0,55**
2025	**5,50**	**4,00**	**0,40**
Weighting	**15%**	**66%**	**19%**
Sensitivity weighting	**10%**	**66%**	**24%**
Total impact on ECL (P'000)	**2 009**		
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		

Significant Accounting Policies *continued*

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 2022:

	Industry Overlay Sensitivity Analysis		
	Current factor	**Sensitivity factor**	**ECL Impact**
			P'000
Scenarios			
Low	**4**	**6**	**3 271**
Medium	**9**	**11**	**2 487**
High	**14**	**16**	**2 337**
Total			**8 095**

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 2021.

	Increased Probability of Default		
	Current factor	Sensitivity factor	ECL Impact
			P'000
Scenarios			
Low	4	6	20 353
Medium	8	10	1 057
High	12	14	8 115
Total			29 525

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 comprising: residential properties, commercial properties and vehicles. Each category was thoroughly assessed and appropriate discounts applied to the collateral. These estimated reduced collateral recovery rates were applied to stage 1, 2 and 3 accounts.

The June 2022 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	**3 593**	**11 503**	**15 096**
Commercial properties	**772**	**3 261**	**4 033**
Vehicles	**879**	**1 657**	**2 536**
Total	**5 244**	**16 421**	**21 665**

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

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.

Significant Accounting Policies *continued*

1.9 Change in accounting policy

During the current financial period, the Group elected to change its accounting policy for the measurement of freehold and leasehold land buildings from the revaluation model to the cost model. This change was implemented in order to remove unnecessary areas of judgement in the financial statements as the Group's portfolio of land and buildings is primarily held for the execution of the Group's operating activities.

The impact of the change in accounting policy is as follows:

	As reported 30 June 2020	Change in accounting policy	Restated 30 June 2020	As reported 30 June 2021	Change in accounting policy	Restated 30 June 2021
Group						
Statement of Financial Position						
Property and equipment	601 044	(40 259)	560 785	570 910	(40 259)	530 651
Deferred taxation	207 381	(10 393)	196 988	169 385	(10 393)	158 992
Retained income	3 283 696	30 000	3 313 696	2 571 400	28 436	2 599 836
2020*		30 000			30 000	
2021*		–			(1 564)	
Other non-distributable reserves	59 866	(59 866)	–	58 302	(58 302)	–
2020*		(59 866)			(59 866)	
2021*		–			1 564	
Company						
Statement of Financial Position						
Property and equipment	552 353	(6 788)	545 565	524 582	(6 788)	517 794
Deferred taxation	202 274	(6 787)	195 487	160 756	(6 787)	153 969
Retained income	3 078 744	45 830	3 124 574	2 555 777	44 894	2 600 671
2020*		45 830			45 830	
2021*		–			(936)	
Other non-distributable reserves	45 830	(45 830)	–	44 894	(44 894)	–
2020*		(45 830)			(45 830)	
2021*		–			936	

* *No restatement was made in the income statement for the change in the accounting policy as the impact was not considered material.*

Income Statements

for the year ended 30 June 2022

	Note(s)	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
Interest income and similar income	2	**1 432 283**	1 408 692	**1 432 283**	1 408 692
Interest expenses and similar charges	3	**(268 455)**	(241 506)	**(270 288)**	(239 771)
Net interest income before impairment of advances		**1 163 828**	1 167 186	**1 161 995**	1 168 921
Impairment of advances	14	**(50 297)**	(241 251)	**(50 297)**	(241 251)
Net interest income after impairment of advances		**1 113 531**	925 935	**1 111 698**	927 670
Non-interest income and expense					
Fee and commission income	4	**1 273 742**	1 151 841	**1 273 742**	1 135 338
Fee and commission expense	4	**(226 818)**	(138 425)	**(226 818)**	(138 425)
Other income	4	**343 731**	192 329	**343 323**	396 347
		1 390 655	1 205 745	**1 390 247**	1 393 260
Income from operations before operating expenditure		**2 504 186**	2 131 680	**2 501 945**	2 320 930
Operating expenses	5	**(651 221)**	(566 094)	**(655 844)**	(568 490)
Employee benefits expenses	6	**(628 007)**	(647 877)	**(628 007)**	(647 877)
Income before taxation		**1 224 958**	917 709	**1 218 094**	1 104 563
Indirect taxation	7	**(26 047)**	(16 853)	**(26 047)**	(16 762)
Profit before direct taxation		**1 198 911**	900 856	**1 192 047**	1 087 801
Direct taxation	7	**(272 168)**	(215 680)	**(277 341)**	(212 669)
Profit for the year attributable to owners of the company		**926 743**	685 176	**914 706**	875 132
Earnings per share					
Basic earnings per share (thebe)	9	**36,43**	26,94		
Diluted earnings per share (thebe)	9	**36,43**	26,94		

* *The comparatives have not been restated for the change in the accounting policy (see note 1.9) as the impact was not considered material.*

Statements of Comprehensive Income

for the year ended 30 June 2022

	Note(s)	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
Profit for the year		**926 743**	685 176	**914 706**	875 132
Other comprehensive income		**–**	–	**–**	–
Total comprehensive income for the year attributable to owners of the company		**926 743**	685 176	**914 706**	875 132

Statements of Financial Position

as at 30 June 2022

		Group			Company		
	Note(s)	2022	Restated 2021	Restated 2020	2022	Restated 2021	Restated 2020
		P'000	P'000	P'000	P'000	P'000	P'000
Assets							
Cash and short-term funds	11	**6 198 095**	5 470 758	4 697 599	**6 198 095**	5 470 758	4 697 599
Derivative financial instruments	12	**41 114**	35 307	76 872	**41 114**	35 307	76 872
Advances to banks	15	**–**	217 957	–	**–**	217 957	–
Advances to customers	13	**15 081 463**	13 642 027	14 686 767	**15 081 463**	13 642 027	14 686 767
Investment securities	15	**5 354 595**	7 889 039	9 509 211	**5 354 595**	7 889 039	9 509 211
Current taxation	32	**82 299**	85 239	86 324	**70 129**	69 656	80 418
Due from related parties	16	**6 563**	7 552	11 684	**22 244**	7 552	11 684
Other assets	17	**328 706**	406 658	479 314	**328 706**	398 430	369 702
Investments in subsidiaries	18	**–**	–	–	**13 540**	13 540	13 540
Property and equipment	19	**533 669**	530 646	560 785	**516 717**	517 794	545 565
Goodwill	20	**26 963**	26 963	26 963	**26 589**	26 589	26 589
Deferred taxation	8	**–**	–	3 706	**–**	–	–
Total assets		**27 653 467**	28 312 146	30 139 225	**27 653 192**	28 288 649	30 017 947
Equity and Liabilities							
Liabilities							
Derivative financial instruments	12	**28 632**	21 507	36 708	**28 632**	21 507	36 708
Accrued interest payable		**21 739**	21 360	28 079	**21 739**	21 360	28 079
Due to related parties	16	**24 775**	25 093	21 322	**35 790**	36 629	105 504
Creditors and accruals	24	**584 531**	680 558	723 587	**584 531**	649 716	708 826
Deposit from banks	22	**888 862**	490 153	545 002	**888 862**	490 153	545 002
Deposit from customers	21	**21 347 612**	21 396 057	23 171 897	**21 347 612**	21 396 057	23 171 897
Employee benefits liabilities	25	**98 227**	93 887	81 504	**98 227**	93 887	81 429
Borrowings	23	**1 329 454**	1 527 200	1 765 858	**1 329 454**	1 527 200	1 765 858
Deferred taxation	8	**6 336**	158 992	196 988	**6 251**	153 969	195 487
Total liabilities		**24 330 168**	24 414 807	26 570 945	**24 341 098**	24 390 478	26 638 790
Capital and reserves attributable to ordinary equity holders							
Share capital	28	**51 088**	51 088	51 088	**51 088**	51 088	51 088
Reserves	29	**2 865 219**	2 599 838	3 313 696	**2 854 014**	2 600 670	3 124 573
Dividend reserve		**406 992**	1 246 413	203 496	**406 992**	1 246 413	203 496
Total equity		**3 323 299**	3 897 339	3 568 280	**3 312 094**	3 898 171	3 379 157
Total Equity and Liabilities		**27 653 467**	28 312 146	30 139 225	**27 653 192**	28 288 649	30 017 947

The comparatives have been restated due to change in accounting policy for the measurement of property from the revaluation model to cost model. Refer to section 1.9 for more details.

Statements of Changes in Equity

for the year ended 30 June 2022

	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 2020 as previously stated	51 088	59 866	203 496	3 283 696	3 598 146
Transfer from revaluation reserve	–	(30 000)	–	30 000	–
Change in accounting policy (section 1.9)	–	(29 866)	–	–	(29 866)
Balance at 01 July 2020 as restated	51 088	–	203 496	3 313 696	3 568 280
Profit for the year	–	–	–	685 176	685 176
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	–	–	1 042 917	(1 399 035)	(356 118)
Balance at 01 July 2021 as restated	**51 088**	**–**	**1 246 413**	**2 599 837**	**3 897 338**
Profit for the year	**–**	**–**	**–**	**926 743**	**926 743**
2021 Final Dividends paid	**–**	**–**	**(1 246 413)**	**–**	**(1 246 413)**
2022 Interim Dividends paid	**–**	**–**	**–**	**(254 370)**	**(254 370)**
2022 Final Dividends proposed	**–**	**–**	**406 992**	**(406 992)**	**–**
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**–**	**(839 421)**	**(661 362)**	**(1 500 783)**
Balance at 30 June 2022	**51 088**	**–**	**406 992**	**2 865 218**	**3 323 299**
Note				29	

The comparatives have been restated due to the change in accounting policy for the measurement of property from the revaluation model to cost model. Refer to section 1.9 for more detail

	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 2020 as previously stated	51 088	45 830	203 496	3 078 743	3 379 157
Transfer from revaluation reserve	–	(30 000)	–	30 000	–
Change in accounting policy (section 1.9)	–	(15 830)	–	15 830	–
Balance at 01 July 2020 as restated	51 088	–	203 496	3 124 573	3 379 157
Profit for the year	–	–	–	875 132	875 132
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	–	–	1 042 917	(1 399 035)	(356 118)
Balance at 01 July 2021 as restated	**51 088**	**–**	**1 246 413**	**2 600 670**	**3 898 171**
Profit for the year	**–**	**–**	**–**	**914 706**	**914 706**
2021 Final Dividends paid	**–**	**–**	**(1 246 413)**	**–**	**(1 246 413)**
2022 Interim Dividends paid	**–**	**–**	**–**	**(254 370)**	**(254 370)**
2022 Final Dividends proposed	**–**	**–**	**406 992**	**(406 992)**	**–**
Total contributions by and distributions to owners of company recognised directly in equity	**–**	**–**	**(839 421)**	**(661 362)**	**(1 500 783)**
Balance at 30 June 2022	**51 088**	**–**	**406 992**	**2 854 014**	**3 312 094**
Note				29	

The comparatives have been restated due to change in accounting policy for the measurement of property from the revaluation model to cost model. Refer to section 1.9 for more detail

Statements of Cash Flows

for the year ended 30 June 2022

		Group		Company	
	Note(s)	2022	2021	2022	2021
		P'000	P'000	P'000	P'000
Cash flows from operating activities					
Cash (used in)/generated from operations before taxation and working capital changes	30	**(186 889)**	288 504	**(190 228)**	471 352
Interest and similar income received		**1 425 230**	1 410 837	**1 425 230**	1 410 837
Interest and similar expense paid		**(262 551)**	(248 100)	**(264 384)**	(246 365)
Taxation paid	31	**(421 884)**	(260 765)	**(425 532)**	(255 305)
Cash from operating activities		**553 906**	1 190 476	**545 086**	1 380 519
Movement in amounts due to other banks		**398 709**	(54 849)	**398 709**	(54 849)
Movement in deposits and current accounts	33	**(48 445)**	(1 775 840)	**(48 445)**	(1 775 840)
Movement in amounts due to related companies		**(318)**	3 771	**(839)**	(68 875)
Movement in accrued interest payable		**(353)**	(125)	**(353)**	(125)
Movement in creditors and accruals		**(102 653)**	(16 879)	**(71 811)**	(32 963)
Movement in employee benefits liabilities		**4 340**	12 383	**4 340**	12 458
Movement in investments – fair value through profit or loss		**53 071**	67 498	**53 071**	67 498
Movement in investments – amortised cost		**(618 364)**	(545 678)	**(618 364)**	(545 678)
Movement in advances to customers	34	**(1 482 680)**	801 344	**(1 482 680)**	801 344
Movement in advances to banks		**217 957**	(217 957)	**217 957**	(217 957)
Movement in other assets		**77 952**	72 655	**69 724**	(28 728)
Movement in amounts due from related companies		**989**	4 132	**(14 692)**	4 132
Cash flows used in operating activities		**(945 889)**	(459 069)	**(948 297)**	(459 064)
Cash flows to investing activities					
Acquisition of property and equipment	19	**(46 859)**	(40 634)	**(44 451)**	(40 639)
Cash flows (used in)/from financing activities					
Borrowings raised		**183 190**	–	**183 190**	–
Repayment of borrowings	23	**(389 398)**	(253 006)	**(389 398)**	(253 006)
Finance lease interest	3	**(5 172)**	(5 375)	**(5 172)**	(5 375)
Finance lease payments	24	**(24 327)**	(22 849)	**(24 327)**	(22 849)
Dividends paid	35	**(1 500 783)**	(356 118)	**(1 500 783)**	(356 118)
Net cash used in financing activities		**(1 736 490)**	(637 348)	**(1 736 490)**	(637 348)
Cash movement for the year		**(2 729 238)**	(1 137 051)	**(2 729 238)**	(1 137 051)
Cash and cash equivalents at the beginning of the year		**9 470 080**	10 795 275	**9 470 080**	10 795 275
Effect of exchange rate movement on cash balances		**356 838**	(188 144)	**356 838**	(188 144)
Total cash and cash equivalents at end of the year	36	**7 097 680**	9 470 080	**7 097 680**	9 470 080

Notes to the Consolidated and Separate Financial Statements

for the year ended 30 June 2022

	Note(s)	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
2. Interest and similar income					
Instruments at amortised cost					
Advances		**1 183 864**	1 202 443	**1 183 864**	1 202 443
Cash and short-term funds		**17 006**	11 443	**17 006**	11 443
Related parties	16	**32 468**	13 433	**32 468**	13 433
Unwinding of discounted present value of off-market staff loans		**15 911**	16 750	**15 911**	16 750
Investment securities		**160 274**	123 259	**160 274**	123 259
Instruments at fair value through profit or loss					
Investment securities		**22 760**	41 364	**22 760**	41 364
		1 432 283	1 408 692	**1 432 283**	1 408 692
3. Interest expense and similar charges					
Financial liabilities at amortised cost					
Term deposits		**159 269**	130 213	**161 102**	128 478
Current and call accounts		**37 183**	48 880	**37 183**	48 880
Savings deposits		**3 801**	3 368	**3 801**	3 368
Deposits from banks and other financial institutions		**943**	416	**943**	416
Related parties	16	**24 147**	15 155	**24 147**	15 155
Borrowings		**37 940**	38 099	**37 940**	38 099
Lease liabilities		**5 172**	5 375	**5 172**	5 375
		268 455	241 506	**270 288**	239 771

Notes to the Consolidated and Separate Financial Statements *continued*
for the year ended 30 June 2022

4. Non-interest income and expense

	Group		Company	
	2022	2021	**2022**	2021
	P'000	P'000	**P'000**	P'000
Fee and commission income				
Card commissions	**446 774**	369 955	**446 774**	369 955
Agent commission	**6 948**	16 842	**6 948**	339
Facility fees	**46 108**	41 648	**46 108**	41 648
Commissions – guarantees and letters of credit	**3 814**	4 032	**3 814**	4 032
Cash deposit fees	**53 778**	51 982	**53 778**	51 982
Commissions – bills, drafts and cheques	**83 190**	77 621	**83 190**	77 621
Service fees	**478 268**	436 859	**478 268**	436 859
Commissions – customer service	**154 862**	152 902	**154 862**	152 902
Total fee and commission income	**1 273 742**	1 151 841	**1 273 742**	1 135 338
Fee and commission expense				
Card commissions	**148 369**	94 278	**148 369**	94 278
Cash deposit fees	**13 427**	15 094	**13 427**	15 094
Service fees	**13 609**	4 519	**13 609**	4 519
Commissions – customer service	**51 413**	24 534	**51 413**	24 534
Total fee and commission expense	**226 818**	138 425	**226 818**	138 425
Other income				
Fair value gains or losses:				
Net gain/(loss) on bond trading	**1 563**	(28 186)	**1 563**	(28 186)
Net gain/(loss) arising on financial liabilities at fair value	**5 796**	(11 725)	**5 796**	(11 725)
Foreign exchange trading income	**301 479**	217 194	**301 479**	217 194
Fair value gains or losses	**308 838**	177 283	**308 838**	177 283
Other non-interest income				
Non-financial assets and liabilities				
Loss on sale of property and equipment	**(521)**	(1 038)	**(505)**	(1 038)
Dividend income – related party	**–**	–	**–**	204 067
Other*	**35 414**	16 084	**34 990**	16 035
Other non-interest income	**34 893**	15 046	**34 485**	219 064
Total other income	**343 731**	192 329	**343 323**	396 347
Total non-interest revenue	**1 390 655**	1 205 745	**1 390 247**	1 393 260

* *Other includes commission from non-banking product sales via various platforms including online banking.*

5. Operating expenses

	Group		Company	
	2022	2021	**2022**	2021
	P'000	P'000	**P'000**	P'000
Audit fees				
Current year	**8 149**	8 180	**7 450**	8 130
Prior year	**1 118**	1 836	**1 817**	1 836
	9 267	10 016	**9 267**	9 966
Depreciation				
Buildings	**16 715**	11 413	**16 639**	9 808
Motor vehicles	**1 261**	2 747	**1 261**	2 747
Furniture and fixtures	**30 805**	35 329	**32 589**	34 572
Capitalised leased assets (ROUA)	**24 404**	23 378	**24 404**	23 378
	73 185	72 867	**74 893**	70 505
Directors' remuneration				
For service as executive directors	**9 441**	4 295	**9 441**	4 295
For services as non-executive directors	**4 440**	4 051	**4 440**	4 051
	13 881	8 346	**13 881**	8 346
Operating lease charges				
Non-capitalised lease charges				
Short-term lease charge	**10 472**	8 950	**13 498**	11 805
Service fee paid to related company				
Systems	**154 604**	111 848	**154 604**	111 848
Services	**84 208**	72 910	**84 208**	72 910
Products	**39 722**	30 782	**39 722**	30 732
	278 534	215 540	**278 534**	215 490
Professional fees	**18 302**	14 967	**18 302**	14 967
Other operating expenses				
Advertising and marketing	**34 494**	23 476	**34 494**	23 476
Communication	**46 195**	30 494	**46 187**	30 461
Computer expenditure	**19 287**	16 612	**19 287**	16 612
Property maintenance	**62 280**	58 404	**62 154**	57 733
Stationery, storage and postage	**13 728**	14 456	**13 709**	14 424
Service fees	**11 934**	8 553	**11 934**	8 553
Other	**59 662**	83 413	**59 704**	86 152
Other operating costs	**247 580**	235 408	**247 469**	237 411
Total operating expenses	**651 221**	566 094	**655 844**	568 490

Other is inclusive of various expenses comprising mainly of travel, staff functions and entertainment, membership fees, motor vehicle cost, insurance, donations and credit checks.

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
6. Employee benefits expenses				
Direct employee costs				
Salaries, wages and allowances	**521 414**	513 015	**521 414**	513 015
Defined pension contributions	**47 771**	47 488	**47 771**	47 488
Leave pay	**13 012**	10 955	**13 012**	10 955
Other	**45 810**	76 419	**45 810**	76 419
	628 007	647 877	**628 007**	647 877

Other is inclusive of various staff related costs including training, subsistence & meal allowances, recruitment costs and off-market staff loan subsidy adjustment. Also included is the assumption of liability share scheme which is prepaid and the expense recognised over 3 years.

	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
7. Taxation				
Indirect taxation				
Value added tax	**26 047**	16 853	**26 047**	16 762
Direct taxation				
Current taxation				
Local income tax – current period	**418 378**	222 040	**418 138**	221 727
Local income tax – prior year under provision	**6 446**	12 625	**6 921**	17 155
Withholding tax on dividend income	**–**	15 305	**–**	15 305
	424 824	249 970	**425 059**	254 187
Deferred taxation				
Originating and reversing temporary differences	**(140 568)**	(16 990)	**(140 797)**	(25 771)
Deferred tax – prior year over-provision	**(12 088)**	(17 300)	**(6 921)**	(15 747)
	(152 656)	(34 290)	**(147 718)**	(41 518)
Total direct taxation expense per income statements	**272 168**	215 680	**277 341**	212 669
Reconciliation of the taxation charge				
Reconciliation between accounting profit and tax expense				
Profit before direct taxation	**1 198 911**	900 856	**1 192 047**	1 087 801
Tax at the applicable tax rate of 22% (2021: 22%)	**263 760**	198 188	**262 250**	239 316
Tax effect of adjustments on taxable income				
Under-provision of current tax in prior years	**6 446**	12 625	**6 921**	17 155
Over provision of deferred tax in prior years	**(12 088)**	(17 300)	**(6 921)**	(15 747)
Withholding tax on dividend income	**–**	15 305	**–**	15 305
Income taxed at different tax rate – dividend income	**–**	–	**–**	(44 894)
Donations	**1 964**	1 531	**1 963**	1 531
Other	**12 086**	5 331	**13 128**	3
Total tax expense per income statements	**272 168**	215 680	**277 341**	212 669
Effective tax rate	**22,70%**	23,94%	**23,27%**	19,55%

	Group			Company		
	2022	2021	2020	**2022**	2021	2020
	P'000	P'000	P'000	**P'000**	P'000	P'000
8. Deferred taxation						
Balance at beginning of year	**158 992**	193 282	183 176	**153 969**	195 487	190 083
Temporary differences for the year*	**(140 568)**	(16 990)	10 106	**(140 797)**	(25 771)	5 404
Prior year over provision	**(12 088)**	(17 300)	–	**(6 921)**	(15 747)	–
Balance at the end of the year	**6 336**	158 992	193 282	**6 251**	153 969	195 487
The balance comprises of the following:						
Accelerated capital allowances**	**24 373**	204 912	200 524	**24 517**	195 906	196 899
Other temporary differences	**(18 037)**	(45 920)	(7 242)	**(18 266)**	(41 937)	(1 412)
	6 336	158 992	193 282	**6 251**	153 969	195 487

* *The significant reduction in temporary differences relates to a change in a tax treatment of WesBank leases.*

** *The comparatives have been restated due to a change in accounting policy for measurement of property from the revaluation model to the cost model. Refer to section 1.9*

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	
	2022	2021
	P'000	P'000
Earnings attributable to ordinary equity holders	**926 743**	685 176
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)	**36,43**	26,94

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 – P'000	**926 743**	685 176
Weighted average number of ordinary shares in issue (thousands)	**2 543 700**	2 543 700
Diluted earnings per share (thebe)	**36,43**	26,94

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

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 112 to 138 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 – 2022			
Assets			
Cash and short-term funds	6 198 095	–	–
Advances to customers	15 081 463	–	–
Due from related parties	6 563	–	–
Other assets	328 706	–	–
Investment securities	5 312 010	42 585	–
Derivative financial instruments	–	41 114	–
Current tax receivable	–	–	–
Property and equipment (restated)	–	–	–
Goodwill	–	–	–
Total assets	26 926 837	83 699	–
Liabilities			
Deposits from banks	888 862	–	–
Deposits from customers	21 347 612	–	–
Borrowings	1 154 987	–	174 467
Accrued interest payable	21 739	–	–
Due to related parties	24 775	–	–
Employee benefits liabilities	–	–	–
Creditors and accruals	411 128	–	–
Derivatives financial instruments	–	28 632	–
Deferred tax liability	–	–	–
Total liabilities	23 849 103	28 632	174 467

Non-financial instruments	Total carrying value	Current	Non-current
P'000	P'000	P'000	P'000
–	6 198 095	6 198 095	–
–	15 081 463	3 581 614	11 499 849
–	6 563	6 563	–
–	328 706	328 706	–
–	5 354 595	3 409 894	1 944 701
–	41 114	41 114	–
82 299	82 299	82 299	–
533 669	533 669	–	533 669
26 963	26 963	–	26 963
642 931	27 653 467	13 648 285	14 005 182
–	888 862	888 862	–
–	21 347 612	20 422 504	925 108
–	1 329 454	269 210	1 060 244
–	21 739	21 739	–
–	24 775	24 775	–
98 227	98 227	98 227	–
173 403	584 531	584 531	–
–	28 632	28 632	–
6 337	6 337	–	6 337
277 967	24 330 169	22 338 480	1 991 689

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

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 – 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 (restated)*	–	–	–
Goodwill	–	–	–
Total assets	27 521 484	130 963	–
Liabilities			
Deposit 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	512 295	–	–
Derivatives financial instruments	–	21 507	–
Deferred tax liability	–	–	–
Total liabilities	23 806 153	21 507	166 005

* *The comparatives have been restated due to a change in accounting policy for measurement of property from the revaluation model to the cost model. Refer to section 1.9 for more details.*

** *Prior year maturity analysis has been revised to align it with the current year methodology which is based on the contractual capital repayment structure of advances.*

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	3 377 992	10 264 035
–	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	–
530 646	530 646	–	530 646
26 963	26 963	–	26 963
659 699	28 312 146	17 482 950	10 829 196
–	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	680 558	394 339	286 219
–	21 507	21 507	–
158 992	158 992	–	158 992
421 142	24 414 807	21 196 880	3 217 927

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

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 – 2022			
Assets			
Cash and short-term funds	6 198 095	–	–
Advances to customers	15 081 463	–	–
Due from related parties	22 244	–	–
Other assets	328 706	–	–
Investment securities	5 312 010	42 585	–
Derivative financial instruments	–	41 114	–
Current tax receivable	–	–	–
Investments in subsidiaries	–	–	–
Property and equipment (restated)	–	–	–
Goodwill	–	–	–
Total assets	**26 942 518**	**83 699**	**–**
Liabilities			
Deposit from banks	888 862	–	–
Deposits from customers	21 347 612	–	–
Borrowings	1 154 987	–	174 467
Accrued interest payable	21 739	–	–
Due to related parties	35 790	–	–
Employee benefits liabilities	–	–	–
Creditors and accruals	411 128	–	–
Derivatives financial instruments	–	28 632	–
Deferred tax liability	–	–	–
Total liabilities	**23 860 118**	**28 632**	**174 467**

Non-financial instruments	Total carrying value	Current	Non-current
P'000	P'000	P'000	P'000
–	6 198 095	6 198 095	–
–	15 081 463	3 581 614	11 499 849
–	22 244	22 244	–
–	328 706	328 706	–
–	5 354 595	3 409 894	1 944 701
–	41 114	41 114	–
70 129	70 129	70 129	–
13 540	13 540	13 540	–
516 717	516 717	–	516 717
26 589	26 589	–	26 589
626 975	27 653 192	13 665 336	13 987 856
–	888 862	888 862	–
–	21 347 612	20 422 504	925 108
–	1 329 454	269 210	1 060 244
–	21 739	21 739	–
–	35 790	35 790	–
98 227	98 227	98 227	–
173 403	584 531	584 531	–
–	28 632	28 632	–
6 251	6 251	–	6 251
277 881	24 341 098	22 349 495	1 991 603

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

10. Analysis of assets and liabilities by category *continued*

	Amortised cost	At fair value through profit or loss – Mandatory	At fair value through profit or loss – 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 (restated)*	–	–	–
Goodwill	–	–	–
Total assets	27 513 256	130 963	–
Liabilities			
Deposit 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

* *The comparatives have been restated due to a change in accounting policy for measurement of property from the revaluation model to the cost model. Refer to section 1.9 for more details.*

** *Prior year maturity analysis has been revised to align it with the current year methodology which is based on the contractual capital repayment structure of advances.*

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	3 377 992	10 264 035
–	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	–
517 794	517 794	–	517 794
26 589	26 589	–	26 589
644 430	28 288 649	17 472 679	10 815 970
–	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	–
153 969	153 969	–	153 969
400 031	24 390 478	21 177 955	3 212 523

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

	Note(s)	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
11. Cash and short-term funds					
Coins and bank notes		**411 060**	446 051	**411 060**	446 051
Money at call and short notice – related parties	16	**151 003**	18 059	**151 003**	18 059
Money at call and short notice – other banks		**1 163 955**	1 278 762	**1 163 955**	1 278 762
Balances with Bank of Botswana – Primary reserve requirement		**442 029**	456 873	**442 029**	456 873
Balances with Bank of Botswana – Statutory account balance		**16 758**	15 255	**16 758**	15 255
Standing deposit facility (SDF)		**160 005**	–	**160 005**	–
Balances with other banks – related parties	16	**3 176 899**	2 827 637	**3 176 899**	2 827 637
Balances with other financial institutions – related party	16	**351 322**	–	**351 322**	–
Balances with other banks – other banks		**325 064**	428 121	**325 064**	428 121
		6 198 095	5 470 758	**6 198 095**	5 470 758
The carrying value of cash and short-term funds approximates the fair value.					
Amounts denominated in foreign currencies included in above balances		**3 569 286**	3 452 111	**3 569 286**	3 452 111
Balances with Bank of Botswana – Primary Reserve Requirement		**442 029**	456 873	**442 029**	456 873

Banks are required to deposit a minimum average balance, calculated monthly, with Bank of Botswana as the Primary Reserve. 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 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.

Interest rate swaps

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, which is the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly, over time.

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

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.

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.

12. Derivative financial instruments *continued*

	Assets		Liabilities	
	Notional	Fair value	Notional	Fair value
	P'000	P'000	P'000	P'000
Group and Company				
2022				
Currency derivatives				
Currency options	**10 000**	**2 095**	**10 000**	**2 095**
Trading derivatives	**248 232**	**2 755**	**609 744**	**15 787**
Currency swaps	**211 107**	**11 102**	**141 248**	**4 194**
Interest rate derivatives				
Interest rate swaps	**359 168**	**25 162**	**251 294**	**6 556**
	828 507	**41 114**	**1 012 286**	**28 632**
Related party (FirstRand Bank Limited) derivatives included in above balances				
Trading derivatives	**104 049**	**620**	**240 843**	**7 516**
Interest rate swaps	**324 748**	**23 157**	**34 420**	**2 005**
Currency swaps	**211 107**	**11 102**	**–**	**–**
	639 904	**34 879**	**275 263**	**9 521**
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

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

13. Advances to customers

	Note(s)	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
Sector analysis					
Agriculture		**213 013**	184 042	**213 013**	184 042
Building and property development		**259 654**	344 010	**259 654**	344 010
Individuals		**10 130 886**	9 758 935	**10 130 886**	9 758 935
Manufacturing and commerce		**443 317**	361 623	**443 317**	361 623
Transport and communication		**169 453**	190 854	**169 453**	190 854
Other advances		**4 879 763**	4 024 514	**4 879 763**	4 024 514
Gross advances		**16 096 086**	14 863 978	**16 096 086**	14 863 978
Less: impairment of advances	14	**(1 014 623)**	(1 221 951)	**(1 014 623)**	(1 221 951)
Net advances		**15 081 463**	13 642 027	**15 081 463**	13 642 027
Category analysis					
Term loans*		**6 707 243**	6 047 708	**6 707 243**	6 047 708
Instalment sales		**1 709 983**	1 895 978	**1 709 983**	1 895 978
Property loans		**6 257 007**	5 684 944	**6 257 007**	5 684 944
Overdraft and managed accounts		**1 164 389**	1 014 370	**1 164 389**	1 014 370
Other		**257 464**	220 978	**257 464**	220 978
Total customer advances		**16 096 086**	14 863 978	**16 096 086**	14 863 978
Gross value of advances		**16 096 086**	14 863 978	**16 096 086**	14 863 978
Less: impairment of advances	14	**(1 014 623)**	(1 221 951)	**(1 014 623)**	(1 221 951)
Net advances		**15 081 463**	13 642 027	**15 081 463**	13 642 027
Maturity analysis**					
Maturity within one year		**3 581 614**	3 377 992	**3 581 614**	3 377 992
Maturity between one and five years		**8 093 701**	7 668 050	**8 093 701**	7 668 050
Maturity more than five years		**4 420 771**	3 817 936	**4 420 771**	3 817 936
		16 096 086	14 863 978	**16 096 086**	14 863 978

* *Term loans include marketable advances of P222 488 000 (2021: P-).*

** *Prior year maturity analysis has been revised to align it with the current year methodology which is based on the contractual capital repayment structure of advances.*

13. Advances to customers *continued*

Instalment sales of P1 896 000 were described as suspensive sale debtors and lease payments receivable in the prior year. To better reflect the nature of this category of advances, the balances described as suspensive sale debtors and lease payments are now described as instalment sales.

	Amortised cost	Loss allowance	Total
	P'000	P'000	P'000
Analysis of advances per category – 2022			
Term loans	**6 707 243**	**(364 822)**	**6 342 421**
Instalment sales	**1 709 983**	**(98 123)**	**1 611 860**
Property loans	**6 257 007**	**(358 690)**	**5 898 317**
Overdraft and managed account	**1 164 389**	**(175 603)**	**988 786**
Other	**257 464**	**(17 385)**	**240 079**
Total	**16 096 086**	**(1 014 623)**	**15 081 463**
Segmental analysis			
Retail	**10 081 991**	**(567 999)**	**9 513 992**
Commercial	**2 990 898**	**(413 340)**	**2 577 558**
Corporate	**3 023 197**	**(33 284)**	**2 989 913**
Total	**16 096 086**	**(1 014 623)**	**15 081 463**
Analysis of advances per category – 2021			
Term loans	6 047 708	(486 979)	5 560 729
Instalment sales	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

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

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 2022

	Gross advances			
	Stage 1	Stage 2	Stage 3	Total
	P'000	P'000	P'000	P'000
Group and Company				
Amortised cost	12 401 432	1 377 901	1 084 645	14 863 978
Amount as at 01 July 2021	12 401 432	1 377 901	1 084 645	14 863 978
Stage 2 to stage 1	370 347	(370 347)	–	–
Stage 3 to stage 1	25 569	–	(25 569)	–
Stage 3 to stage 2	–	56 055	(56 055)	–
Stage 1 to stage 2	(709 318)	709 318	–	–
Stage 1 to stage 3	(85 722)	–	85 722	–
Stage 2 to stage 3	–	(64 008)	64 008	–
Opening balance after transfers	12 002 308	1 708 919	1 152 751	14 863 978
Net movement current year	1 645 111	(62 530)	13 502	1 596 083
Attributable to change in measurement period	–	(37 249)	–	(37 249)
Attributable to change in risk parameters	–	–	–	–
Change due to new business net of attrition	1 645 111	(25 281)	13 502	1 633 332
Bad debts written off	–	–	(363 975)	(363 975)
Net interest (suspended)/released	–	–	–	–
Amount as at 30 June 2022	13 647 419	1 646 389	802 278	16 096 086

	Loss allowance			
	Stage 1	Stage 2	Stage 3	Total
	P'000	P'000	P'000	P'000
	172 921	294 162	754 868	1 221 951
	172 921	294 162	754 868	1 221 951
	24 435	(24 435)	–	–
	9 020	–	(9 020)	–
	–	17 205	(17 205)	–
	(34 423)	34 423	–	–
	(869)	–	869	–
	–	(10 085)	10 085	–
	171 084	311 270	739 597	1 221 951
	(3 448)	(73 364)	186 046	109 234
	–	17 430	–	17 430
	(36 787)	(115 895)	166 276	13 594
	33 339	25 101	19 770	78 210
	–	–	(363 975)	(363 975)
	–	–	47 413	47 413
	167 636	237 906	609 081	1 014 623

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

14. Impairment of advances *continued*

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

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

14. Impairment of advances *continued*

- The reconciliation of the gross advances (gross carrying amount) and loss allowance (ECL) 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 reconciliation distinguishes between the back book and new business as this provides meaningful information to the user in gaining an understanding of the performance of advances overall. The current year movement in ECL is split between new business and back book and the temporary stress scenario.
- 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 change in exposure and additional ECL raised or released is included in the impairment stage as at the end of the reporting period. Exposures that are in the back book can move directly from stage 3 to stage 1 if the curing requirements have been met in a reporting period. The opening balances as at 1 July are transferred to the impairment stage at 30 June in the transfers section. The current year movements of the back book is included in changes in exposure and net movement on gross carrying amount (GCA) and ECL provided/(released) are reflected separately in the reconciliation. The current year movement in the ECL for stage 2 advances is split between exposure where there has been a change in the measurement basis from 12 months to lifetime ECL and other changes.
  - The movement on GCA is the net amount of additional amounts advanced on the back book and any settlements. Transfers on the back book are reflected separately and new business originated during the financial year, the transfers between stages of the new origination and any settlements.
- Current year ECL provided/(released) relates to:
  - an increase/(decrease) in the carrying amount of the back book during the current financial year, as well as the increase/(decrease) in the risk associated with the opening balance of the back book; and
  - includes interest on stage 3 advances for stage 3 exposures in the back book and new business.

14. Impairment of advances *continued*

- New business is broadly defined as any new product issued to a new or existing customer during the current financial year, including any increase or decrease during the current financial year. All new business 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. Therefore, exposures in the new business lines can be reported in stage 3 at the end of the reporting date.
- The majority of the fair value advances are originated within the RMB corporate and investment banking portfolio.
- The decrease in the advance as a result of a write-off is equal to the decrease in the ECL (bad debts written off), as exposures are 100% provided for before being written off. There is however an exception in the RMB corporate and investment banking portfolio, where partial write-offs are permitted on a case-by-case basis.
- The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is P324 505 000 (2021: P 423 568 000)

For more information on the computation of ECL, refer to accounting policy 1.8.

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

14. Impairment of advances *continued*

Analysis of the gross advances and loss allowance on total advances per class as at 30 June 2022

	Gross advances			
	Stage 1	Stage 2	Stage 3	Total
	P'000	P'000	P'000	P'000
Group and Company				
Residential mortgages	3 019 438	187 949	276 244	3 483 631
Instalment sales	792 463	361 996	60 206	1 214 665
Overdrafts	12 889	11 622	13 324	37 835
Term loans	4 584 843	483 555	124 989	5 193 387
Other	124 146	14 760	9 436	148 342
Total Retail	8 533 779	1 059 882	484 199	10 077 860
Property mortgages	1 024 144	127 524	93 958	1 245 626
Instalment sales	425 219	51 755	18 343	495 317
Overdrafts	376 659	102 547	74 664	553 870
Term loans	345 750	119 336	126 007	591 093
Other	98 404	5 642	5 077	109 123
Total Commercial	2 270 176	406 804	318 049	2 995 029
Corporate business banking	392 952	179 703	30	572 685
Investment banking	2 450 512	–	–	2 450 512
Total Corporate	2 843 464	179 703	30	3 023 197
Total advances	13 647 419	1 646 389	802 278	16 096 086

Loss allowance

	Stage 1	Stage 2	Stage 3	Total
	P'000	P'000	P'000	P'000
	65 207	23 855	176 027	265 089
	4 262	20 393	49 980	74 635
	1 109	5 636	11 685	18 430
	27 482	62 846	108 257	198 585
	3 045	3 082	5 133	11 260
	101 105	115 812	351 082	567 999
	23 941	14 673	54 986	93 600
	3 391	8 547	11 550	23 488
	21 412	32 625	72 283	126 320
	12 170	36 300	115 336	163 806
	1 190	1 122	3 814	6 126
	62 104	93 267	257 969	413 340
	1 996	28 827	30	30 853
	2 431	–	–	2 431
	4 427	28 827	30	33 284
	167 636	237 906	609 081	1 014 623

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

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
Group and Company				
Residential mortgages	2 883 825	128 694	307 743	3 320 262
Instalment sales	1 235 075	43 298	49 491	1 327 864
Overdrafts	25 852	6 416	14 039	46 307
Term loans	4 358 955	323 780	146 377	4 829 112
Other	122 023	13 436	6 629	142 088
Total Retail	8 625 730	515 624	524 279	9 665 633
Property mortgages	904 353	105 351	160 879	1 170 583
Instalment sales	360 563	166 731	40 823	568 117
Overdraft	375 426	85 576	129 828	590 830
Term loans	27 093	378 404	228 829	634 326
Other	73 185	3 338	–	76 523
Total Commercial	1 740 620	739 400	560 359	3 040 379
Corporate business banking	320 944	58 647	7	379 598
Investment banking	1 714 138	64 230	–	1 778 368
Total Corporate	2 035 082	122 877	7	2 157 966
Total advances	12 401 432	1 377 901	1 084 645	14 863 978

For more information on the computation of ECL 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
	42 421	37 911	155 471	235 803
	6 696	10 368	43 497	60 561
	1 557	3 029	11 214	15 800
	58 547	39 215	121 430	219 192
	3 702	3 469	7 214	14 385
	112 923	93 992	338 826	545 741
	25 829	26 816	88 490	141 135
	3 365	26 819	37 919	68 103
	18 142	42 358	115 333	175 833
	7 047	72 915	172 732	252 694
	1 268	2 831	1 561	5 660
	55 651	171 739	416 035	643 425
	2 021	17 895	7	19 923
	2 326	10 536	–	12 862
	4 347	28 431	7	32 785
	172 921	294 162	754 868	1 221 951

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

14. Impairment of advances *continued*

	Loss allowance Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000
Group and Company				
Amount as at 30 June 2022	**167 636**	**237 906**	**609 081**	**1 014 623**
Significant components of total loss allowance				
– Forward looking information	**(16 288)**	**(5 761)**	**–**	**(22 049)**
– Model driven including watchlist	**183 924**	**243 667**	**–**	**427 591**
– Specific provisions	**–**	**–**	**609 081**	**609 081**
Group and Company				
Amount as at 30 June 2021	172 921	294 162	754 868	1 221 951
– Forward looking information	(24 934)	(52 256)	–	(77 190)
– Model driven including watchlist	197 855	346 418	–	544 273
– Specific provisions	–	–	754 868	754 868

A credit watchlist is utilised in which counterparties with early indicators of credit risk are monitored. The inclusion of a counterparty on the watchlist is considered a SICR event and such, a combination of a model driven and specific provision is applied.

Breakdown of impairment charge recognised in the income statement

	2022 Amortised cost P'000	2022 Total P'000	2021 Amortised cost P'000	2021 Total P'000
Group and Company				
Increase in loss allowance	**109 235**	**109 235**	288 300	288 300
Recoveries of bad debts	**(58 938)**	**(58 938)**	(47 049)	(47 049)
Impairment of advances recognised during the period	**50 297**	**50 297**	241 251	241 251

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 – 2022			
Agriculture	**9 055**	**11 052**	**20 107**
Building and property development	**1 091**	**24 593**	**25 684**
Individuals	**139 207**	**343 856**	**483 063**
Manufacturing and commerce	**767**	**8 345**	**9 112**
Transport and communication	**5 536**	**23 253**	**28 789**
Other advances	**37 541**	**197 982**	**235 523**
Total non-performing advances – 30 June 2022	**193 197**	**609 081**	**802 278**
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
Category analysis – 2022			
Overdrafts and managed accounts	**4 037**	**83 980**	**88 017**
Term loans	**27 404**	**223 593**	**250 997**
Instalment sales	**17 018**	**61 530**	**78 548**
Property loans	**139 189**	**231 013**	**370 202**
Other advances	**5 549**	**8 965**	**14 514**
Total non-performing advances – 30 June 2022	**193 197**	**609 081**	**802 278**
Retail	**132 979**	**350 980**	**483 959**
Commercial	**60 218**	**258 101**	**318 319**
Credit-impaired advances	**193 197**	**609 081**	**802 278**
Category analysis – 2021			
Overdrafts and managed accounts	16 663	126 554	143 217
Term loans	80 263	296 394	376 657
Instalment sales	8 984	81 416	90 400
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
Retail	200 927	338 825	539 752
Commercial	128 850	416 043	544 893
Credit-impaired advances	329 777	754 868	1 084 645

Instalment sales of P1 896 000 were described as suspensive sale debtors and lease payments receivable in the prior year. To better reflect the nature of this category of advances, the balances described as suspensive sale debtors and lease payments are now described as instalment sales.

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

	Fair value through profit or loss	Amortise cost	Total
	P'000	P'000	P'000
15. Investment securities			
Group and Company – 2022			
Bank of Botswana Certificates	–	899 585	899 585
Government Bonds	–	3 178 474	3 178 474
Government and Parastatal Bonds	42 585	–	42 585
Treasury Bills	–	1 233 951	1 233 951
	42 585	5 312 010	5 354 595
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

P899 585 000 (2021: P 3 999 322 000) 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 and twenty eight days maturity period (2021: seven days to three months).

Repurchase transactions – P'000

	Advances to banks		Associated liabilities recognised in deposits	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
Repurchase agreements	–	217 957	–	–

Both the transferred investments and related deposits under repurchase agreements are reported at amortised cost.

	2022	2021
	P'000	P'000
Loss allowance on investment securities		
Stage 1	458	430
Total Investment securities	458	430
Analysis of Investment securities		
Amortised cost	458	430
Total Investment securities	458	430

16. Related parties

Relationships

Ultimate holding company	FirstRand Limited – South Africa
Holding company	First National Bank Holdings (Botswana) Limited
Subsidiaries	Refer to note 18
Common management/Common control	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.

		Group		Company	
	Note(s)	2022	2021	2022	2021
		P'000	P'000	P'000	P'000
Related party balances					
Due from related parties					
FirstRand Limited – South Africa		**3 327 902**	2 846 885	**3 327 902**	2 846 885
RMB International Mauritius Ltd	11	**351 322**	–	**351 322**	–
First National Bank Holdings (Botswana) Limited		**6 563**	6 363	**6 563**	6 363
Financial Services Company of Botswana Proprietary Limited		**–**	–	**15 681**	–
		3 685 787	2 853 248	**3 701 468**	2 853 248
Less money at call and short notice					
FirstRand Limited – South Africa – call balances	11	**(151 003)**	(18 059)	**(151 003)**	(18 059)
FirstRand Limited – South Africa – nostro balances	11	**(3 176 899)**	(2 827 637)	**(3 176 899)**	(2 827 637)
RMB International Mauritius Ltd		**(351 322)**	–	**(351 322)**	–
		6 563	7 552	**22 244**	7 552
Due to related companies – current liabilities					
Financial Services Company of Botswana Proprietary Limited		**–**	–	**–**	10 536
Financial Services Properties Proprietary Limited		**–**	–	**146**	–
First National Insurance Agency Proprietary Limited		**–**	–	**6 231**	–
First Funding Proprietary Limited		**–**	–	**4 528**	1 000
Plot Four Nine Seven Two Proprietary Limited		**–**	–	**110**	–
FirstRand Limited – South Africa		**24 775**	25 093	**24 775**	25 093
Due to related companies – creditors and accruals		**24 775**	25 093	**35 790**	36 629

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 2022

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	
	2022	2021	**2022**	2021
	P'000	P'000	**P'000**	P'000
Interest income				
FirstRand Limited – South Africa Proprietary Limited	**32 468**	13 433	**32 468**	13 433
Non-interest income				
Dividends – First National Insurance Agency Proprietary Limited	**–**	–	**–**	204 067
Agent Commission – FNB Insurance Brokers (Botswana) Proprietary Limited	**6 948**	339	**6 948**	339
	6 948	339	**6 948**	204 406
Interest expenditure				
FirstRand Limited – South Africa	**24 147**	15 155	**24 147**	15 155
Operating expenses				
Service fees – FirstRand Limited (Note 5)	**278 534**	215 540	**278 534**	215 490
Rent expense – Financial Services Company of Botswana Proprietary Limited	**–**	–	**3 026**	2 855
Management fees – FNB Insurance Brokers (Botswana) Proprietary Limited	**(347)**	(295)	**(347)**	(295)
Management fees – Financial Services Company of Botswana Proprietary Limited	**–**	–	**(36)**	(25)
	278 187	215 245	**281 177**	218 025
Transaction with key management personnel:				
Compensation paid to key management personnel				
Share-based payments	**1 596**	89	**1 596**	89
Short-term employee benefits	**17 223**	16 812	**17 223**	16 812
	18 819	16 901	**18 819**	16 901
Post employment benefits				
Pension	**659**	810	**659**	810
Advances				
Personal loans	**813**	544	**813**	544
Credit card	**282**	259	**282**	259
Instalment Sale	**1 136**	2 412	**1 136**	2 412
Property loans	**11 473**	16 226	**11 473**	16 226
Total advances	**13 704**	19 441	**13 704**	19 441

For all the above facilities, standard 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 P17 940 000 (2021: P26 520 000). Personal loans, overdrafts and credit card balances are unsecured.

17. Other assets

	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
Suspense accounts	**63 823**	42 471	**47 620**	34 280
Other sundry debtors	**264 883**	364 187	**281 086**	364 150
Total carrying amount of other assets	**328 706**	406 658	**328 706**	398 430

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 P21 650 000 (2021: P20 759 000) 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. All of these subsidiaries are domiciled in Botswana.

	Company			
Name of company	Nature of business	% holding	Carrying amount 2022	Carrying amount 2021
		%	P'000	P'000
Financial Services Company of Botswana Limited	Property owning company	100,00	**12 500**	12 500
First Funding Proprietary Limited	Dormant	100,00	**1 000**	1 000
Premium Credit Botswana Proprietary Limited	Dormant	100,00	**10**	10
First National Insurance Agency Proprietary Limited	Dormant	100,00	**30**	30
Plot Four Nine Seven Two Proprietary Limited	Dormant	100,00	**–**	–
Financial Services Properties Proprietary Limited	Dormant	100,00	**–**	–
			13 540	13 540

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

	2022		
	Cost	Accumulated depreciation	Carrying value
	P'000	P'000	P'000
19. Property and equipment			
Group			
Freehold and leasehold land and buildings*	368 211	(93 620)	274 591
Leasehold improvements	155 918	(102 015)	53 903
Furniture and equipment	387 799	(311 946)	75 853
Motor vehicles	18 206	(13 863)	4 343
Right of use asset – property	175 188	(50 557)	124 631
Capital – Work in progress	348	–	348
Total	1 105 670	(572 001)	533 669
Company			
Freehold and leasehold land and buildings*	333 597	(71 837)	261 760
Leasehold improvements	155 918	(102 015)	53 903
Furniture and equipment	382 025	(310 293)	71 732
Motor vehicles	18 206	(13 863)	4 343
Right of use asset – property	175 188	(50 557)	124 631
Capital – Work in progress	348	–	348
Total	1 065 282	(548 565)	516 717

* *The comparatives have been restated due to a change in the accounting policy for the measurement of property from revaluation model to the cost model. Refer to section 1.9*

	2021			2020		
	Cost	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
	P'000	P'000	P'000	P'000	P'000	P'000
	368 211	(93 831)	274 380	349 673	(89 670)	260 003
	145 081	(86 352)	58 729	147 769	(81 038)	66 731
	353 448	(280 517)	72 931	322 268	(248 143)	74 125
	17 356	(12 953)	4 403	15 305	(10 275)	5 030
	161 727	(42 563)	119 164	159 656	(20 247)	139 409
	1 039	–	1 039	15 487	–	15 487
	1 046 862	(516 216)	530 646	1 010 158	(449 373)	560 785
	333 597	(66 347)	267 250	330 458	(63 793)	266 665
	142 445	(86 352)	56 093	145 133	(81 038)	64 095
	348 929	(279 040)	69 889	317 747	(247 423)	70 324
	17 356	(12 953)	4 403	15 317	(10 275)	5 042
	161 727	(42 563)	119 164	159 656	(20 247)	139 409
	995	–	995	30	–	30
	1 005 049	(487 255)	517 794	968 341	(422 776)	545 565

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

19. Property and equipment *continued*

Reconciliation of property and equipment – Group – 2022

	Opening balance	Additions	Disposals
	P'000	P'000	P'000
Freehold and leasehold land and buildings*	274 380	–	–
Leasehold improvements	58 729	11 591	–
Furniture and equipment	72 931	34 067	(521)
Motor vehicles	4 403	1 201	–
Right of use asset– property	119 164	16 113	–
Capital – Work in progress	1 039	–	–
	530 646	62 972	(521)

Reconciliation of property and equipment – Group – 2021

	Opening balance	Additions	Disposals
	P'000	P'000	P'000
Freehold and leasehold land and buildings*	260 003	5 253	–
Leasehold improvements	66 731	84	(832)
Furniture and equipment	74 125	31 436	(103)
Motor vehicles	5 030	2 222	(103)
Right of use asset– property	139 409	2 070	–
Capital – Work in progress	15 487	1 639	–
	560 785	42 704	(1 038)

	Transfers	IFRS 16 lease adjustment	Depreciation	Total
	P'000	P'000	P'000	P'000
	1 265	**–**	**(1 054)**	**274 591**
	(754)	**–**	**(15 663)**	**53 903**
	180	**–**	**(30 804)**	**75 853**
	–	**–**	**(1 261)**	**4 343**
	–	**13 757**	**(24 403)**	**124 631**
	(691)	**–**	**–**	**348**
	–	**13 757**	**(73 185)**	**533 669**

	Transfers	IFRS 16 lease adjustment	Depreciation	Total
	P'000	P'000	P'000	P'000
	13 285	–	(4 161)	274 380
	–	–	(7 254)	58 729
	2 802	–	(35 329)	72 931
	–	–	(2 746)	4 403
	–	1 063	(23 378)	119 164
	(16 087)	–	–	1 039
	–	1 063	(72 868)	530 646

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

19. Property and equipment *continued*

Reconciliation of property and equipment – Company – 2022

	Opening balance	Additions	Disposals
	P'000	P'000	P'000
Freehold and leasehold land and buildings*	267 250	–	–
Leasehold improvements	56 093	8 313	–
Furniture and equipment	69 889	34 937	(505)
Motor vehicles	4 403	1 201	–
Right of use asset – property	119 164	16 113	–
Capital – Work in progress	995	–	–
	517 794	60 564	(505)

Reconciliation of property and equipment – Company – 2021

	Opening balance	Additions	Disposals
	P'000	P'000	P'000
Freehold and leasehold land and buildings*	266 665	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	–
	545 565	42 709	(1 038)

* *The comparatives have been restated due to a change in the accounting policy for the measurement of property from revaluation model to the cost model. Refer to section 1.9*

Transfers consist of reallocation of assets within the respective categories so as to accurately reflect the nature of the asset.

Transfers	IFRS 16 lease adjustment	Depreciation	Total
P'000	**P'000**	**P'000**	**P'000**
(4 513)	**–**	**(977)**	**261 760**
5 160	**–**	**(15 663)**	**53 903**
–	**–**	**(32 589)**	**71 732**
–	**–**	**(1 261)**	**4 343**
–	**13 757**	**(24 403)**	**124 631**
(647)	**–**	**–**	**348**
–	**13 757**	**(74 893)**	**516 717**

Transfers	IFRS 16 lease adjustment	Depreciation	Total
P'000	P'000	P'000	P'000
(555)	–	(2 554)	267 250
–	–	(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)	517 794

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

	2022			2021		
	Cost	Accumulated impairment	Carrying value	Cost	Accumulated impairment	Carrying value
	P'000	P'000	P'000	P'000	P'000	P'000
20. Goodwill						
Group						
Goodwill	**26 963**	**–**	**26 963**	26 963	–	26 963
Company						
Goodwill	**26 589**	**–**	**26 589**	26 589	–	26 589

	2022	2021
	P'000	P'000
21. Deposits from customers		
Group and Company		
Current and managed accounts	**10 370 141**	10 529 915
Savings accounts	**1 544 281**	1 499 047
Call and term deposits	**9 433 190**	9 367 095
	21 347 612	21 396 057

Included in the call and term deposits is a balance of P7 127 000 (2021: P 7 119 000) relating to First National Bank Holdings (Botswana) Limited.

	2022	2021
	P'000	P'000
Discounted maturity analysis		
Withdrawal on demand	**18 658 181**	18 095 485
Maturing within one year	**2 626 389**	2 921 168
Maturing two to five years	**63 042**	362 875
Maturing over 5 years	**–**	16 529
	21 347 612	21 396 057

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

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
22. Deposit from banks				
Unsecured and payable on demand	**888 862**	490 153	**888 862**	490 153
	888 862	490 153	**888 862**	490 153

Included in this amount is a balance due to FirstRand Group Limited of P603 760 000 (2021: P453 215 000), First National Bank Zambia P259 000 (2021: P 28 000), and First National Bank Eswatini P83 000 (2021: P82 000), First National Bank Tanzania P27 000 (2021: P 27 000), FNB Lesotho P416 000 (2021: P22 000) and First National Bank Namibia P37 000 (2021: P 494 000).

23. Borrowings

	Group		Company	
	2022	2021	**2022**	2021
	P'000	P'000	**P'000**	P'000
Subordinated Unsecured Bonds (Qualifying as Tier 2 capital)				
Floating rate	**–**	161 840	**–**	161 840
– Medium Term Notes of P1 000 000 each (2021:161,84 at P1 000 000 each)				
Fixed rate	**–**	40 000	**–**	40 000
– Medium Term Notes of P1 000 000 each (2021:40,00 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 (2021:196,80 at P1 000 000 each)				
Floating rate	**117 750**	–	**117 750**	–
117 750,00 Medium Term Notes of P1 000 each (2021:- at P- each)				
Fixed rate	**65 440**	–	**65 440**	–
6 544,00 Medium Term Notes of P10 000 each (2021:- at P- each)				
	379 992	398 642	**379 992**	398 642
Unsubordinated Unsecured Bonds				
Floating rate	**238 470**	238 470	**238 470**	238 470
23 847,00 Medium Term Notes of P10 000 each (2021:23 847,00 at P10 000 each)				
	618 462	637 112	**618 462**	637 112
Other borrowings				
Zero coupon deposit				
Botswana Life Insurance Limited (BLIL) Proprietary Limited – 15 year zero coupon deposit	**174 467**	166 005	**174 467**	166 005
Other zero coupon deposits	**470 048**	542 367	**470 048**	542 367
	644 515	708 372	**644 515**	708 372
Negotiable Certificates of deposit	**66 477**	181 716	**66 477**	181 716
Total borrowings	**1 329 454**	1 527 200	**1 329 454**	1 527 200

The Bank of Botswana, at the launch of the 2022 Monetary Policy Statement on 23 February 2022, highlighted several changes that would be made to Botswana's monetary policy implementation framework. These changes included the adoption of the yield on the main monetary policy instrument as the anchor policy rate to replace the Bank Rate. This new rate is called the Monetary Policy Rate (MoPR). The introduction of MoPR took place on 28 April 2022 and simultaneously the Bank Rate was discontinued as the anchor policy rate. The Group had in issue at the time a series of Notes all of which reflected the Bank Rate as the reference rate for Interest Rate Determination (FNBB006, FNBB009, FNBB010, FNBB011).

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

23. Borrowings *continued*

The Group, following extensive stakeholder engagements, undertook the necessary steps to transition all legal documentation to reference the MoPR in place of Bank Rate, while ensuring noteholders were not adversely impacted. Due to the extensive legal procedures required to enact these changes, the pertinent legal documentation continued to reference the Bank Rate as at 30 June 2022. An Extraordinary General Meeting (EGM) took place in July 2022 in which relevant pricing supplements were amended to by substituting the Reference Rate from the Bank Rate to MoPR and providing for an adjusted Margin above MoPR.

The Subordinated Unsecured Registered Bonds bear interest at fixed and floating rates of 7,20% and MoPR plus 200 basis points and 250 basis points per annum respectively with maturity dates ranging from December 2029-2031. 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 MoPR plus 100 basis points and MoPR plus 95 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.

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	%	
65 547	**9**	**February 2027**
930	**5**	**August 2028**
66 477		

	Group 2022	Group 2021	Company 2022	Company 2021
	P'000	P'000	P'000	P'000
Reconciliation of borrowings				
Opening balance	**1 527 200**	1 765 858	**1 527 200**	1 765 858
– Proceeds on the issue of other liabilities	**183 190**	–	**183 190**	–
– Redemption of other liabilities	**(389 398)**	(253 006)	**(389 398)**	(253 006)
– Fair value movement	**8 462**	14 348	**8 462**	14 348
Total other liabilities	**1 329 454**	1 527 200	**1 329 454**	1 527 200

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.

23. Borrowings *continued*

Financial liabilities designated as at fair value through profit or loss

	2022		2021	
	Fair value	Contractually payable at maturity	Fair value	Contractually payable at maturity
	P'000	P'000	P'000	P'000
Zero coupon deposits	**174 467**	**200 000**	166 005	200 000

Total fair value income included in profit or loss for the year

	2022	2021
	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	**(8 462)**	(14 348)

24. Creditors and accruals

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
Accounts payable	**20 808**	10 369	**20 781**	10 327
Other creditors and accruals	**277 910**	359 474	**277 987**	328 724
Suspense accounts	**140 410**	172 969	**140 410**	172 969
Lease liabilities	**138 838**	132 212	**138 838**	132 212
Audit fees	**6 565**	5 534	**6 515**	5 484
Creditors and accruals	**584 531**	680 558	**584 531**	649 716

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.

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

24. Creditors and accruals *continued*

	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
Reconciliation of lease liabilities (IFRS 16)				
Opening balance	**132 212**	151 839	**132 212**	151 839
Leases capitalised during the year	**16 113**	2 070	**16 113**	2 070
Capital payments during the year	**(24 327)**	(22 849)	**(24 327)**	(22 849)
Early termination of leases	**14 840**	1 152	**14 840**	1 152
Closing balance	**138 838**	132 212	**138 838**	132 212
Maturity analysis of future lease payments outstanding at the reporting date				
1 – 3 months	**7 596**	7 428	**7 596**	7 428
4 – 12 months	**18 710**	22 284	**18 710**	22 284
1 – 5 years	**73 967**	74 470	**73 967**	74 470
Over 5 years	**38 565**	28 030	**38 565**	28 030
	138 838	132 212	**138 838**	132 212

25. Employee benefits liabilities

	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
Leave pay				
At the beginning of the year	**38 747**	37 807	**38 747**	37 807
Additional accrual recognised	**12 980**	12 404	**12 980**	12 404
Utilised	**(19 083)**	(11 464)	**(19 083)**	(11 464)
At the end of the year	**32 644**	38 747	**32 644**	38 747
Bonus				
At the beginning of the year	**55 140**	43 697	**55 140**	43 622
Additional accrual recognised	**81 969**	73 184	**81 969**	72 675
Utilised	**(71 526)**	(61 741)	**(71 526)**	(61 157)
At the end of the year	**65 583**	55 140	**65 583**	55 140
At the end of the year	**98 227**	93 887	**98 227**	93 887

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

26. Capital adequacy

Tier 1 – Core capital

	Note(s)	Group 30 June 2022 P'000	Group 30 June 2021 P'000
Stated		**51 088**	51 088
Retained income – adjusted to revised operating capital by Bank of Botswana		**2 816 389**	2 539 750
		2 867 477	2 590 838
Goodwill		**(26 963)**	(26 963)
IFRS 9 transition adjustment		**–**	31 598
		2 840 514	2 595 473
Tier 2 – Supplementary capital			
Stage 1 and 2 provisioning		**206 749**	190 251
Subordinated Unsecured Bonds	23	**379 992**	398 642
		586 741	588 893
Total qualifying capital		**3 427 255**	3 184 366
Risk adjusted assets*			
– Credit risk weighted assets (Simple Approach)		**16 539 959**	15 220 047
– Market risk weighted assets		**95 756**	68 572
– Operational risk weighted assets		**2 503 164**	2 439 717
		19 138 879	17 728 336
Capital adequacy ratios (%)		**17,91**	17,96
Core capital (%) (Basel Committee guide: minimum 4.5%)		**14,84**	14,64
Supplementary capital (%)		**3,07**	3,32
Total (%)		**17,91**	17,96
Bank of Botswana required minimum risk asset ratio (%)		**12,50**	12,50

* *The change in accounting policy (refer to section 1.9) has had no material impact on the prior year risk weighted assets and capital adequacy ratio.*

The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the Group's solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The Group, therefore, maintains capitalisation ratios aligned with its risk appetite and appropriate for safeguarding operations and stakeholder interests. The key focus areas and considerations of capital management is to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity, and a sustainable dividend policy.

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. The Group undertakes an annual Internal Capital Adequacy Assessment Process (ICAAP) wherein required buffers on regulatory capital adequacy levels are set to ensure that the Group is sufficiently capitalised through the cycle.

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

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% (2021: 20,5%) of pensionable salary towards retirement funding). This is made up of an employee contribution rate of 7,0% (2021: 7,0%) and an employer contribution rate of 13,5% (2021: 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	
	2022	2021	**2022**	2021
	P'000	P'000	**P'000**	P'000
28. Stated capital				
Ordinary shares of no-par value 2,543,700,000 (2021: 2,543,700,000)	**51 088**	51 088	**51 088**	51 088

	Group			Company		
	2022	2021	2020	**2022**	2021	2020
	P'000	P'000	P'000	**P'000**	P'000	P'000
29. Reserves						
Other non-distributive reserves						
Balance as previously stated	**–**	58 302	59 866	**–**	44 894	45 830
Change in accounting policy	**–**	(58 302)	(59 866)	**–**	(44 894)	(45 830)
Balance as restated	**–**	–	–	**–**	–	–
Retained earnings						
Balance at 01 July (as previously stated)	**2 599 838**	3 313 696	2 800 744	**2 600 670**	3 124 573	2 807 107
Change in accounting policy	**–**	–	30 000	**–**	–	45 830
Balance at 01 July (as restated)	**2 599 838**	3 313 696	2 830 744	**2 600 670**	3 124 573	2 852 937
Profit for the year	**926 743**	685 176	864 507	**914 706**	875 132	653 191
Ordinary dividends	**(254 370)**	(152 622)	(178 059)	**(254 370)**	(152 622)	(178 059)
Retained earnings	**3 272 211**	3 846 250	3 517 192	**3 261 006**	3 847 083	3 328 069
Dividend reserve						
Final dividends proposed	**(406 992)**	(228 933)	(203 496)	**(406 992)**	(228 933)	(203 496)
Special dividends proposed	**–**	(1 017 480)	–	**–**	(1 017 480)	–
	(406 992)	(1 246 413)	(203 496)	**(406 992)**	(1 246 413)	(203 496)
Total reserves	**2 865 219**	2 599 838	3 313 696	**2 854 014**	2 600 670	3 124 573

	Group		Company	
	2022	2021	**2022**	2021
	P'000	P'000	**P'000**	P'000

30. Cash generated by operations before taxation and working capital changes

	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
Profit before taxation	**1 198 911**	900 856	**1 192 047**	1 087 801
Adjustments for:				
Depreciation and amortisation	**73 185**	72 867	**74 893**	70 505
Loss on sale of property and equipment	**521**	1 038	**505**	1 038
Foreign exchange movements on cash balances	**(356 838)**	188 144	**(356 838)**	188 144
Impairment losses on loans and advances	**50 297**	241 251	**50 297**	241 251
Unrealised loss on derivative financial instruments	**1 318**	26 365	**1 318**	26 365
Net (gain)/loss on financial instruments held at fair value through profit and loss	**8 462**	25 169	**8 462**	25 169
Finance lease adjustments	**1 083**	–	**1 083**	–
Interest and similar income	**(1 432 283)**	(1 408 692)	**(1 432 283)**	(1 408 692)
Interest expense and similar expenses	**268 455**	241 506	**270 288**	239 771
	(186 889)	288 504	**(190 228)**	471 352

31. Current income tax paid

	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
Amounts overpaid at the beginning of the year	**(85 239)**	(86 324)	**(69 656)**	(80 418)
Charged to the income statement	**424 824**	249 970	**425 059**	254 187
Amounts overpaid at the end of the year	**82 299**	85 239	**70 129**	69 656
Other	**–**	11 880	**–**	11 880
Cash amounts paid	**421 884**	260 765	**425 532**	255 305

32. Current income taxation asset

	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
Opening asset	**85 239**	86 324	**69 656**	80 418
Charged to the income statement	**(424 824)**	(249 970)	**(425 059)**	(254 187)
Cash amounts paid net of refunds received	**421 884**	260 765	**425 532**	255 305
Other	**–**	(11 880)	**–**	(11 880)
Closing net asset	**82 299**	85 239	**70 129**	69 656

33. Movement in deposits and current accounts

	Group 2022 P'000	Group 2021 P'000	Company 2022 P'000	Company 2021 P'000
Movement in current and managed account deposits	**(159 774)**	(1 754 478)	**(159 774)**	(1 754 478)
Movement in savings deposits	**45 234**	44 339	**45 234**	44 339
Movement in call and term deposits	**66 095**	(65 701)	**66 095**	(65 701)
	(48 445)	(1 775 840)	**(48 445)**	(1 775 840)

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

	Group		Company	
	2022	2021	**2022**	2021
	P'000	P'000	**P'000**	P'000
34. Movement in advances to customers				
Net amount outstanding at the beginning of the year	**13 642 027**	14 686 767	**13 642 027**	14 686 767
Impairment of advances	**(50 297)**	(241 251)	**(50 297)**	(241 251)
Net amount outstanding at the end of the year	**(15 081 463)**	(13 642 027)	**(15 081 463)**	(13 642 027)
Movement in accrued interest	**7 053**	(2 145)	**7 053**	(2 145)
	(1 482 680)	801 344	**(1 482 680)**	801 344
35. Dividends paid				
Previous year's final dividends paid during the year	**1 246 413**	203 496	**1 246 413**	203 496
Interim dividends	**254 370**	152 622	**254 370**	152 622
Total dividends paid to shareholders	**1 500 783**	356 118	**1 500 783**	356 118

		Group		Company	
	Note(s)	**2022**	2021	**2022**	2021
		P'000	P'000	**P'000**	P'000
36. Cash and cash equivalents					
Cash and short-term funds	11	**6 198 095**	5 470 758	**6 198 095**	5 470 758
Bank of Botswana Certificates	15	**899 585**	3 999 322	**899 585**	3 999 322
		7 097 680	9 470 080	**7 097 680**	9 470 080

		Group		Company	
	Note(s)	2022	2021	2022	2021
		P'000	P'000	P'000	P'000
37. Contingencies and commitments					
Letters of credit		**13 775**	5 906	**13 775**	5 906
Guarantees – performance		**343 250**	334 528	**343 250**	334 528
Guarantees – other		**68 944**	143 582	**68 944**	143 582
		425 969	484 016	**425 969**	484 016

The above contingencies represent guarantees and letters of credit.

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
Commitments				
Revocable	**1 551 804**	1 561 873	**1 551 804**	1 561 873
Irrevocable	**888 127**	865 997	**888 127**	865 997
Undrawn commitments to customers	**2 439 931**	2 427 870	**2 439 931**	2 427 870
Capital commitments				
Capital expenditure approved by the Directors				
– not yet contracted for	**81 205**	71 528	**81 205**	71 528

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 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. Numerous legal proceedings have been undertaken by various stakeholders seeking damages from the Group. The Group approximates the possible exposure of P2 000 000, 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 2022 the Group acted as a custodian in respect of Botswana Government bonds amounting to P2 224 007 000 (2021: P8 261 197 000), money markets P1 155 929 000 (2021: P4 018 720 000) and equities amounting to P8 233 385 000 (2021: P11 202 562 000). 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.

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management

Only consolidated amounts have been disclosed, as 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.

Risk governance in the Group

The Group believes that effective risk, performance and financial resource management is key to its success and underpins the delivery of sustainable returns to shareholders. These disciplines are, therefore, deeply embedded in the Group's tactical and strategic decision-making.

Effective risk management is supported by effective governance structures, robust policy frameworks and a risk-focused culture. Strong governance structures and policy frameworks foster the embedding of risk considerations in business processes and ensure that consistent standards exist across the Group. In line with the Group's corporate governance framework, the board retains ultimate responsibility for providing strategic direction, approving risk appetite and ensuring that risks are adequately identified, measured, monitored, managed and reported on.

Effective risk management requires multiple points of control or safeguards that should consistently be applied at various levels throughout the organisation.

The primary board committee overseeing risk matters across the Group is the Board Risk, Capital management and Compliance Committee (RCCC)

Overview of financial risk

The financial instruments recognised on the Group's statement of financial position expose the Group to various financial risks.

The information presented in this note represents the information required by IFRS 7 and sets out the Group's exposure to these financial risks. This section also contains details on the Group's capital management process.

<table>
<tr><th colspan="3">Overview of financial risk</th></tr>
<tr><td>Credit Risk</td><td colspan="2">The risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default, pre-settlement, and concentration risk.</td></tr>
<tr><td></td><td>Credit risk arises primarily from the following instruments:
• advances;
• certain investment securities; and
• off-balance sheet exposures.
Other sources of credit risk are:
• cash and cash equivalents;
• accounts receivable included in other assets; and
• derivative balances.</td><td>The following information is presented for these assets;
• credit assets and concentration risk;
• information about the quality of credit assets; and
• credit risk mitigation techniques and collateral held.</td></tr>
</table>

39. Financial risk management *continued*

<table>
<tr><th colspan="3">Overview of financial risk</th></tr>
<tr><td>Liquidity Risk</td><td colspan="2">The risk that the Group may not be able to effectively meet current and future cash flow and collateral requirements without negatively affecting the normal course of business, financial position or reputation.</td></tr>
<tr><td></td><td>All assets and liabilities with differing maturity profiles expose the Group to liquidity risk.</td><td>The following information is presented for these assets and liabilities:
• undiscounted cash flow analysis of financial liabilities;
• discounted cash flow analysis of total assets, and liabilities;
• collateral pledged.</td></tr>
<tr><td>Market Risk</td><td colspan="2">Traded market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in the market prices or rates.</td></tr>
<tr><td></td><td>Interest rate risk in the banking book is the sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates. It originates from the differing repricing characteristics of balance sheet positions/instruments, yield curve risk, basis risk and client optionality embedded in banking book products.</td><td>The following information is presented for interest rate risk in the banking book:
• projected NII sensitivity to interest rate movements.</td></tr>
<tr><td></td><td>Structural foreign exchange risk is the risk of an adverse impact on the Group's financial position and earnings or other key ratios as a result of movements in foreign exchange rates impacting balance sheet exposures. It arises from balances denominated in foreign currencies and Group entities with functional currencies other than the pula.</td><td>Information on the Group's net structural foreign exposures and sensitivity of these exposures are presented.</td></tr>
<tr><td>Capital Management</td><td colspan="2">The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the Group's solvency and quality of capital during calm and turbulent periods in the economy and financial markets. The Group, therefore, maintains capitalisation ratios aligned with its risk appetite and appropriate for safeguarding operations and stakeholder interests. The key focus areas and considerations of capital management are to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity, and a sustainable dividend policy.</td></tr>
</table>

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

Credit risk

Objective

Credit risk management objectives are twofold:

- Risk control: Appropriate limits are placed on the assumption of credit risk and steps are taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task.
- Management: Credit risk is taken within the constraints of the Group's risk/return and credit risk appetite framework. The credit portfolio is managed at an aggregate level to optimise the exposure to this risk. The Group credit risk management function and relevant board committees, fulfil this role.

Based on the Group's credit risk appetite, as measured on an ROE, NIACC and volatility-of-earnings basis, credit risk management principles include holding the appropriate level of capital and pricing for risk on an individual and portfolio basis. The scope of credit risk identification and management practices across the Group, therefore, spans the credit value chain, including risk appetite, credit origination strategy, risk quantification and measurement, as well as collection and recovery of delinquent accounts.

Assessment and management

Credit risk is 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 financial reporting 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 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.

39. Financial risk management *continued*

Mapping of FR grades to rating agency scales

FR rating	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)

Indicative mapping to the international rating scales of S&P Global ratings. The Group currently only uses mapping to S&P rating scales

Credit assets and concentration risk

The assets and off-balance sheet amounts included in the table below expose the Group to credit risk. For all on-balance sheet exposures, the gross amount disclosed represents the maximum exposure to credit risk, before taking collateral and other credit enhancements into account.

Credit concentration risk is the risk of loss to the Group arising from an excessive concentration of exposure to a single counterparty, industry, market, product, financial instrument or type of security, or maturity. This concentration typically exists when a number of counterparties are engaged in similar activities and have similar characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Concentration risk is managed based on the nature of the credit concentration in each portfolio.

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

Geographic concentration of significant credit asset exposure

	Botswana	Southern Africa	Europe
	P'000	P'000	P'000
Group – 2022			
On-balance sheet exposures			
Cash and short-term funds	**1 354 916**	**2 728 375**	**1 415 708**
Derivative financial instruments	**6 236**	**34 878**	**–**
Advances to customers	**15 081 463**	**–**	**–**
Investment securities	**5 354 595**	**–**	**–**
Due from related parties	**6 563**	**–**	**–**
Other assets	**328 706**	**–**	**–**
Off-balance sheet exposures	**22 132 479**	**2 763 253**	**1 415 708**
Guarantees, acceptances and letters of credit	**425 969**	**–**	**–**
Commitments	**2 439 931**	**–**	**–**
	24 998 379	**2 763 253**	**1 415 708**
Group – 2021			
On-balance sheet exposures			
Cash and short-term funds	1 346 302	2 076 761	1 248 322
Derivative financial instruments	10 251	25 056	–
Advances to banks	217 957	–	–
Advances to customers	13 642 027	–	–
Investment securities	7 889 039	–	–
Due from related parties	7 552	–	–
Other assets	406 658	–	–
Off-balance sheet exposures	23 519 786	2 101 817	1 248 322
Guarantees, acceptances and letters of credit	484 016	–	–
Commitments	2 427 870	–	–
	26 431 672	2 101 817	1 248 322

Sector analysis concentration of advances

Advances expose the Group to concentration risk in various industry sectors. The tables in Note 13 and 14 set out the Group's exposure to various industry sectors for total advances and credit-impaired advances.

North America	Rest of the world	Total
P'000	P'000	P'000
689 683	**9 413**	**6 198 095**
–	**–**	**41 114**
–	**–**	**15 081 463**
–	**–**	**5 354 595**
–	**–**	**6 563**
–	**–**	**328 706**
689 683	**9 413**	**27 010 536**
–	**–**	**425 969**
–	**–**	**2 439 931**
689 683	**9 413**	**29 876 436**
796 028	3 345	5 470 758
–	–	35 307
–	–	217 957
–	–	13 642 027
–	–	7 889 039
–	–	7 552
–	–	406 658
796 028	3 345	27 669 298
–	–	484 016
–	–	2 427 870
796 028	3 345	30 581 184

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

Quality of credit assets

The following table shows the gross carrying amount of advances carried at amortised cost, 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 that do not have a rating of FR91-100 relate to technical cures (performing accounts that have previously defaulted but do not meet the 12-month curing definition and therefore remain in stage 3)

	Financial risk (FR) 1 – 25		Financial risk (FR) 26 – 90	
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
	P'000	P'000	P'000	P'000
Term loans				
2022				
Stage 1	**311 578**	**5 731**	**5 541 131**	**427 687**
Stage 2	**3 992**	**–**	**517 376**	**1 161**
Stage 3	**–**	**–**	**–**	**–**
	315 570	**5 731**	**6 058 507**	**428 848**
Term loans				
2021				
Stage 1	225 412	401 777	4 818 095	2 691
Stage 2	305	–	524 604	535
Stage 3	–	–	–	–
	225 717	401 777	5 342 699	3 226

	Financial risk (FR) 1 – 25		Financial risk (FR) 26 – 90	
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
	P'000	P'000	P'000	P'000
Instalment sales				
2022				
Stage 1	**–**	**–**	**1 205 289**	**–**
Stage 2	**–**	**–**	**319 478**	**–**
Stage 3	**–**	**–**	**–**	**–**
	–	**–**	**1 524 767**	**–**
Instalment sales				
2021				
Stage 1	1 593 304	–	2 334	–
Stage 2	207 862	–	2 166	–
Stage 3	–	–	–	–
	1 801 166	–	4 500	–

Financial risk (FR) 91 – 100		Total	Total
On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
P'000	P'000	P'000	P'000
646	**–**	**5 853 355**	**433 418**
81 523	**546**	**602 891**	**1 707**
250 997	**217**	**250 997**	**217**
333 166	**763**	**6 707 243**	**435 342**
–	–	5 043 507	404 468
105 100	4	630 009	539
374 192	–	374 192	–
479 292	4	6 047 708	405 007

Financial risk (FR) 91 – 100		Total	Total
On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
P'000	P'000	P'000	P'000
12 393	**–**	**1 217 682**	**–**
94 274	**–**	**413 752**	**–**
78 549	**–**	**78 549**	**–**
185 216	**–**	**1 709 983**	**–**
–	–	1 595 638	–
–	–	210 028	–
90 312	–	90 312	–
90 312	–	1 895 978	–

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

Quality of credit assets *continued*

	Financial risk (FR) 1 – 25		Financial risk (FR) 26 – 90	
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
	P'000	P'000	P'000	P'000
Property loans				
2022				
Stage 1	**915 206**	**103 239**	**4 654 373**	**277 224**
Stage 2	**–**	**–**	**103 030**	**1 608**
Stage 3	**–**	**–**	**–**	**–**
	915 206	**103 239**	**4 757 403**	**278 832**
Property loans				
2021				
Stage 1	737 004	68 807	4 097 074	289 035
Stage 2	6 242	–	280 160	12 596
Stage 3	–	–	–	–
	743 246	68 807	4 377 234	301 631

	Financial risk (FR) 1 – 25		Financial risk (FR) 26 – 90	
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
	P'000	P'000	P'000	P'000
Overdraft and managed accounts				
2022				
Stage 1	**338 732**	**1 000 848**	**443 768**	**314 819**
Stage 2	**72 339**	**95**	**200 844**	**28 137**
Stage 3	**–**	**–**	**–**	**–**
	411 071	**1 000 943**	**644 612**	**342 956**
Overdraft and managed accounts				
2021				
Stage 1	355 668	925 507	365 771	385 510
Stage 2	83 657	9 454	60 878	18 998
Stage 3	–	–	–	–
	439 325	934 961	426 649	404 508

Financial risk (FR) 91 – 100		Total	Total
On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
P'000	P'000	P'000	P'000
1 753	**400**	**5 571 332**	**380 863**
212 443	**–**	**315 473**	**1 608**
370 202	**3 089**	**370 202**	**3 089**
584 398	**3 489**	**6 257 007**	**385 560**
9 144	–	4 843 222	357 842
86 741	1 624	373 143	14 220
468 579	–	468 579	–
564 464	1 624	5 684 944	372 062

Financial risk (FR) 91 – 100		Total	Total
On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
P'000	P'000	P'000	P'000
–	**114**	**782 500**	**1 315 781**
20 689	**30**	**293 872**	**28 262**
88 017	**996**	**88 017**	**996**
108 706	**1 140**	**1 164 389**	**1 345 039**
3	45	721 442	1 311 062
5 434	46	149 969	28 498
142 959	8 093	142 959	8 093
148 396	8 184	1 014 370	1 347 653

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

Quality of credit assets *continued*

	Financial risk (FR) 1 – 25		Financial risk (FR) 26 – 90	
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
	P'000	P'000	P'000	P'000
Other				
2022				
Stage 1	**41 986**	**201 132**	**180 563**	**64 963**
Stage 2	**638**	**46**	**10 083**	**2 966**
Stage 3	**–**	**–**	**–**	**–**
	42 624	**201 178**	**190 646**	**67 929**
Other				
2021				
Stage 1	297	8 802	197 327	283 702
Stage 2	–	3 493	14 751	5 546
Stage 3	–	–	–	–
	297	12 295	212 078	289 248

	Financial risk (FR) 1 – 25		Financial risk (FR) 26 – 90	
	On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
	P'000	P'000	P'000	P'000
Financial guarantees				
2022				
Stage 1	**–**	**135 446**	**–**	**267 033**
Stage 2	**–**	**16 389**	**–**	**4 381**
Stage 3	**–**	**–**	**–**	**–**
	–	**151 835**	**–**	**271 414**
Financial guarantees				
2021				
Stage 1	–	76 656	–	357 666
Stage 2	–	3 324	–	13 936
Stage 3	–	–	–	–
	–	79 980	–	371 602

Financial risk (FR) 91 – 100		Total	Total
On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
P'000	P'000	P'000	P'000
–	**687**	**222 549**	**266 782**
9 681	**2 718**	**20 402**	**5 730**
14 513	**1 477**	**14 513**	**1 477**
24 194	**4 882**	**257 464**	**273 989**
–	27	197 624	292 531
–	665	14 751	9 704
8 603	912	8 603	912
8 603	1 604	220 978	303 147

Financial risk (FR) 91 – 100		Total	Total
On balance sheet	Off balance sheet	On balance sheet	Off balance sheet
P'000	P'000	P'000	P'000
–	**–**	**–**	**402 479**
–	**569**	**–**	**21 339**
–	**2 150**	**–**	**2 150**
–	**2 719**	**–**	**425 968**
–	–	–	434 322
–	24 062	–	41 322
–	8 372	–	8 372
–	32 434	–	484 016

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

Analysis of impaired advances

See Note 14 for analysis of impaired advances (stage 3) for financial assets measured at amortised cost in line with the manner in which the Group manages credit risk.

Quality of credit assets – non-advances

The following table shows the gross carrying amount of non-advances carried at amortised cost and the fair value of non- advances measured at fair value through profit or loss per external credit ratings.

	AAA to BB	BB+ TO B-	CCC
Group – 2022			
Investment securities at amortised cost			
Stage 1	**5 312 010**	**–**	**–**
Investment securities at fair value through profit or loss			
Stage 1	**42 585**	**–**	**–**
Total investment securities	**5 354 595**	**–**	**–**
Other assets			
Stage 1	**–**	**328 706**	**–**
Cash and cash equivalents			
Stage 1	**4 680 722**	**1 106 334**	**–**
Group – 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	–	–
Other assets			
Stage 1	–	406 658	–
Cash and cash equivalents			
Stage 1	5 014 707	10 000	–

39. Financial risk management *continued*

Credit risk mitigation and collateral held

Since taking and managing credit risk is core to its business, the Group aims to optimise the amount of credit risk it takes to achieve its return objectives. Mitigation of credit risk is an important component of this, beginning with the structuring and approval of facilities only for those clients and within those parameters that fall within risk appetite.

Although, in principle, credit assessment focuses on the counterparty's ability to repay the debt, credit mitigation instruments are used where appropriate to reduce the Group's lending risk, which result in security against the majority of exposures. These include financial or other collateral, netting agreements or guarantees. The collateral types are driven by portfolio, product or counterparty type.

Credit risk mitigation instruments:

- Property and instalment sale finance portfolios are secured by the underlying assets financed.
- Commercial credit exposures are secured by the assets of the counterparties and commercial property finance deals are secured by the underlying property and associated cash flows.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and sureties.
- For Retail customers, insurance against disability, life and retrenchment cover is prescribed, where applicable.
- Structured facilities in Corporate are secured as part of the structure through financial or other collateral, including guarantees and assets.
- Counterparty credit risk is mitigated through the use of netting agreements and financial collateral.
- Working capital facilities in Corporate are secured and unsecured.

Collateral held

The Group employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. Collateral is valued at inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For corporate and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness to ensure that proper title is retained. For mortgage portfolios, collateral is revalued on a regular basis via physical inspection which is performed at the beginning of the recovery process. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. 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.

Concentrations in credit risk mitigation types, such as property, are monitored and managed at a product and segment level, in line with the requirements of the Group credit risk/return framework.

Collateral is taken into account for capital calculation purposes through the determination of LGD. Collateral reduces LGD, and LGD levels are determined through statistical modelling techniques based on historical experience of the recovery processes

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

The table below represents an analysis of the maximum exposure to credit risk for financial assets at amortised cost and debt instruments at fair value through profit or loss, as well as a breakdown of collateral, both financial and non-financial held against the exposure, along with any other credit enhancements and netting arrangement.

	Gross 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 – 2022					
Term loans	**6 707 243**	**435 342**	**7 142 585**	**(27 404)**	**7 115 181**
Instalment sales	**1 709 983**	**–**	**1 709 983**	**(17 018)**	**1 692 965**
Property loans	**6 257 007**	**385 560**	**6 642 567**	**(139 189)**	**6 503 378**
Overdraft and managed accounts	**1 164 389**	**1 345 039**	**2 509 428**	**(4 037)**	**2 505 391**
Other	**257 464**	**273 989**	**531 453**	**(5 549)**	**525 904**
Total advances	**16 096 086**	**2 439 930**	**18 536 016**	**(193 197)**	**18 342 819**
Investment securities	**5 354 595**	**–**	**5 354 595**	**–**	**5 354 595**
Cash and cash equivalents	**6 198 095**	**–**	**6 198 095**	**–**	**6 198 095**
Other assets	**328 706**	**–**	**328 706**	**–**	**328 706**
Derivatives	**41 114**	**–**	**41 114**	**–**	**41 114**
Group – 2021					
Term loans	6 047 708	405 007	6 452 715	(80 263)	6 372 452
Instalment sales	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

39. Financial risk management *continued*

Collateral held against derivative positions

The table below sets out the cash collateral held against the net derivative position.

	2022	2021
	P'000	P'000
Cash collateral held	**361 169**	361 089

The table below reflects the collateral that the Group holds where it has the ability to sell or pledge in the absence of default by the owner of the collateral

	2022		2021	
	Fair value	Fair value of collateral sold or pledged in the absence of default	Fair value	Fair value of collateral sold or pledged in the absence of default
	P'000	P'000	P'000	P'000
Group and Company				
Collateral held in structured transactions				
Advances to customers	**472 861**	**–**	367 251	–

Investment securities exclude securities lending transactions where securities are obtained as collateral for securities lent. This is in line with industry practice.

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

Offsetting of financial assets and financial liabilities

The financial collateral included in the table above 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 collateral amount 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 collateral amount 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 financial instruments amount not subject to offset or MNA.

	Derivatives		Other advances/deposits	
	2022	2021	**2022**	2021
	P'000	P'000	**P'000**	P'000
Group				
Assets				
Offsetting not applied				
Financial instruments subject to MNA and similar agreements	**34 878**	25 056	**–**	–
Financial instruments not subject to set-off or MNA	**6 236**	10 251	**16 096 086**	14 863 978
Total statement of financial position	**41 114**	35 307	**16 096 086**	14 863 978
Liabilities				
Offsetting not applied				
Financial instruments subject to MNA and similar agreements	**9 521**	9 310	**–**	–
Financial instruments not subject to set-off or MNA	**19 111**	12 197	**22 236 474**	21 886 210
	28 632	21 507	**22 236 474**	21 886 210

Liquidity risk

Objective

Liquidity risk arises from all assets and liabilities with differing maturity profiles, currencies and behaviour. The Group's objective is to maintain and enhance its deposit market share by appropriately pricing and rewarding depositors from diverse and sustainable funding pools, thus creating a natural liquidity buffer. The Group seeks to optimise its funding profile within structural and regulatory constraints to enable the business to operate in an efficient and sustainable manner.

Compliance with the Basel III liquidity ratios influences the Group's funding strategy, particularly as it seeks to price appropriately for liquidity on a risk-adjusted basis. The Group continues to offer innovative and competitive products to further grow its deposit franchise whilst also optimising its institutional funding profile. These initiatives continue to improve the funding and liquidity profile of the Group.

39. Financial risk management *continued*

Liquidity risk *continued*

Assessment and management

The Group focuses on continually monitoring and analysing the potential impact of other risks and events on its funding and liquidity position to ensure business activities are preserved and funding stability is improved. This ensures the Group can operate through periods of stress when access to funding is constrained.

The Group's approach to liquidity risk management distinguishes between structural, daily and contingency liquidity risk management across all currencies, and various approaches are employed in the assessment and management of these on a daily, weekly and monthly basis as illustrated in the following table.

Structural liquidity risk	Daily liquidity risk	Contingency liquidity risk
Managing the risk that structural, long-term on- and off-balance sheet exposures cannot be funded timeously or at reasonable cost	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows	Maintaining several contingency funding sources to draw upon in times of economic stress

Regular and rigorous stress tests are conducted on the funding profile and liquidity position as part of the overall stress testing framework with a focus on:

- quantifying the potential exposure to future liquidity stresses;
- analysing the possible impact of economic and event risks on cash flows, liquidity, profitability and solvency position; and
- proactively evaluating the potential secondary and tertiary effects of other risks on the Group.

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

Liquidity risk *continued*

Undiscounted cash flows

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.

	Call	1 – 3 months	4 – 12 months
	P'000	P'000	P'000
2022			
On-balance sheet exposures			
Amounts due to other banks	**888 862**	**–**	**–**
Deposit and current accounts	**16 876 313**	**3 057 033**	**1 684 293**
Derivative financial instruments	**–**	**5 425**	**–**
Borrowings	**–**	**83 482**	**194 997**
Due to related companies	**24 775**	**–**	**–**
Off-balance sheet exposures			
Financial and other guarantees	**–**	**103 489**	**103 851**
Other contingencies and commitments	**–**	**–**	**–**
Facilities not drawn	**2 439 931**	**–**	**–**
2021			months
On-balance sheet exposures	P '000	P '000	P '000
Amounts due to other banks	490 153	–	–
Deposit and current accounts	17 009 017	2 382 734	1 706 836
Derivative financial instruments	–	2 875	1 877
Borrowings	–	6 954	111 645
Due to related companies	25 093	–	–
Creditors and accruals	–	414 291	69 071
Off-balance sheet exposures			
Financial and other guarantees	–	37 859	249 368
Other contingencies and commitments	–	5 906	–
Facilities not drawn	2 427 870	–	–

1 – 5 years	Over 5 years	Total
P'000	**P'000**	**P'000**
–	**–**	**888 862**
–	**39 546**	**21 657 185**
10 922	**–**	**16 347**
807 835	**493 384**	**1 579 698**
–	**–**	**24 775**
22 989	**181 864**	**412 193**
–	**13 775**	**13 775**
–	**–**	**2 439 931**

P '000	P '000	P '000
–	–	490 153
365 861	110 484	21 574 932
10 922	–	15 674
1 245 760	225 975	1 590 334
–	–	25 093
167 535	–	650 897
77 328	113 555	478 110
–	–	5 906
–	–	2 427 870

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

Liquidity risk *continued*

Discounted cash flows

The following table represents the Group's contractual discounted cash flows of total assets and liabilities. Relying solely on the contractual liquidity mismatch when assessing a bank's maturity analysis would overstate risk, since this represents a worst-case assessment of cash flows at maturity.

Discounted cash flow analysis – maturity analysis of total assets, liabilities and equity based on the present value of the expected payment

	Group – Term to maturity		
	Carrying amount	Demand up to 1 month	1 – 3 months
	P'000	P'000	P'000
2022			
Total assets	**27 653 467**	**7 029 210**	**1 120 477**
Total liabilities	**(24 737 160)**	**(20 179 103)**	**(1 084 506)**
Net liquidity gap	**2 916 307**	**(13 149 893)**	**35 971**
2021			
Total assets	28 312 146	9 537 199	945 299
Total liabilities	(25 661 220)	(19 052 754)	(1 189 662)
Net liquidity gap	2 650 926	(9 515 555)	(244 363)

* *The 2021 net liquidity gaps on the carrying amount, over 5 years and non-financial instruments columns have been restated to reflect only a mismatch between the total assets and total liabilities excluding equity. As a result, the carrying amount has been restated from Pnil to P2 650 926 000, over 5 years has been restated from P3 781 145 000 to P2 535 829 000 and nonfinancial instruments have been restated from P3 896 242 000 to Pnil.*

Group – Term to maturity		
3 – 12 months	1 – 5 years	Over 5 years
P'000	P'000	P'000
5 273 868	**9 134 588**	**5 095 324**
(1 823 145)	**(748 318)**	**(902 088)**
3 450 723	**8 386 270**	**4 193 236**
3 202 225	9 848 941	4 778 482
(1 850 482)	(1 325 669)	(2 242 653)
1 351 743	8 523 272	2 535 829

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

Collateral pledged

The Group pledges assets under the following terms and conditions:

- assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local forwards and options;
- Government bonds are pledged as collateral for any repurchase agreements with Bank of Botswana; and
- All other pledges are conducted under terms which are usual and customary to lending arrangements.

The assets have been pledged to secure the liabilities. These assets are not available in the normal course of business. Refer to note 15 investment securities for disclosures on reverse repurchase agreements.

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 (2021: 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.

39. Financial risk management *continued*

	Assets		Liabilities	
	30 June 2022	30 June 2021	**30 June 2022**	30 June 2021
	P'000	P'000	**P'000**	P'000
Group and Company				
Distribution by currency				
Botswana Pula	**23 410 801**	24 196 968	**21 049 850**	21 564 480
South African Rand	**399 557**	318 928	**564 318**	413 826
United States Dollar	**2 951 120**	2 927 130	**2 482 864**	2 231 040
British Pound	**85 094**	76 271	**91 187**	78 523
Euro	**139 074**	130 428	**132 802**	113 881
Others	**24 890**	19 573	**9 147**	23 457
	27 010 536	27 669 298	**24 330 168**	24 425 207

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 2022	30 June 2021
	P'000	P'000
Loss arising from a 10% decrease		
South African Rand	**16 476**	9 490
United States Dollar	**(46 826)**	(69 609)
	(30 350)	(60 119)
Gain arising from a 10% increase		
South African Rand	**(16 476)**	(9 490)
United States Dollar	**46 826**	69 609
	30 350	60 119

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

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

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
2022			
Total assets	**27 653 467**	**18 992 970**	**782 867**
Total liabilities and equity	**(27 653 467)**	**(19 530 338)**	**(1 068 620)**
Net interest sensitivity gap	**–**	**(537 368)**	**(285 753)**
2021			
Total assets	28 312 146	21 074 742	587 308
Total liabilities and equity	(28 312 146)	(19 115 271)	(1 181 879)
Net interest sensitivity gap	–	1 959 471	(594 571)

The table below presents the potential gains or losses that could arise if net interest income rises or falls by 200 basis points:

	30 June 2022	30 June 2021
	P'000	P'000
Group and Company		
200 basis points increase – gains	**23 277**	25 800
200 basis points decrease – losses	**(23 277)**	(25 800)

Group – Term to repricing

3 – 12 months	1 – 5 years	Over 5 years	Equity and non-financial assets/ liabilities
3 620 320	**1 216 505**	**1 054 505**	**1 986 300**
(1 819 502)	**(742 026)**	**(380 923)**	**(4 112 058)**
1 800 818	**474 479**	**673 582**	**(2 125 758)**
1 532 773	2 114 471	1 286 451	1 716 401
(1 298 614)	(1 316 799)	(481 560)	(4 918 023)
234 159	797 672	804 891	(3 201 622)

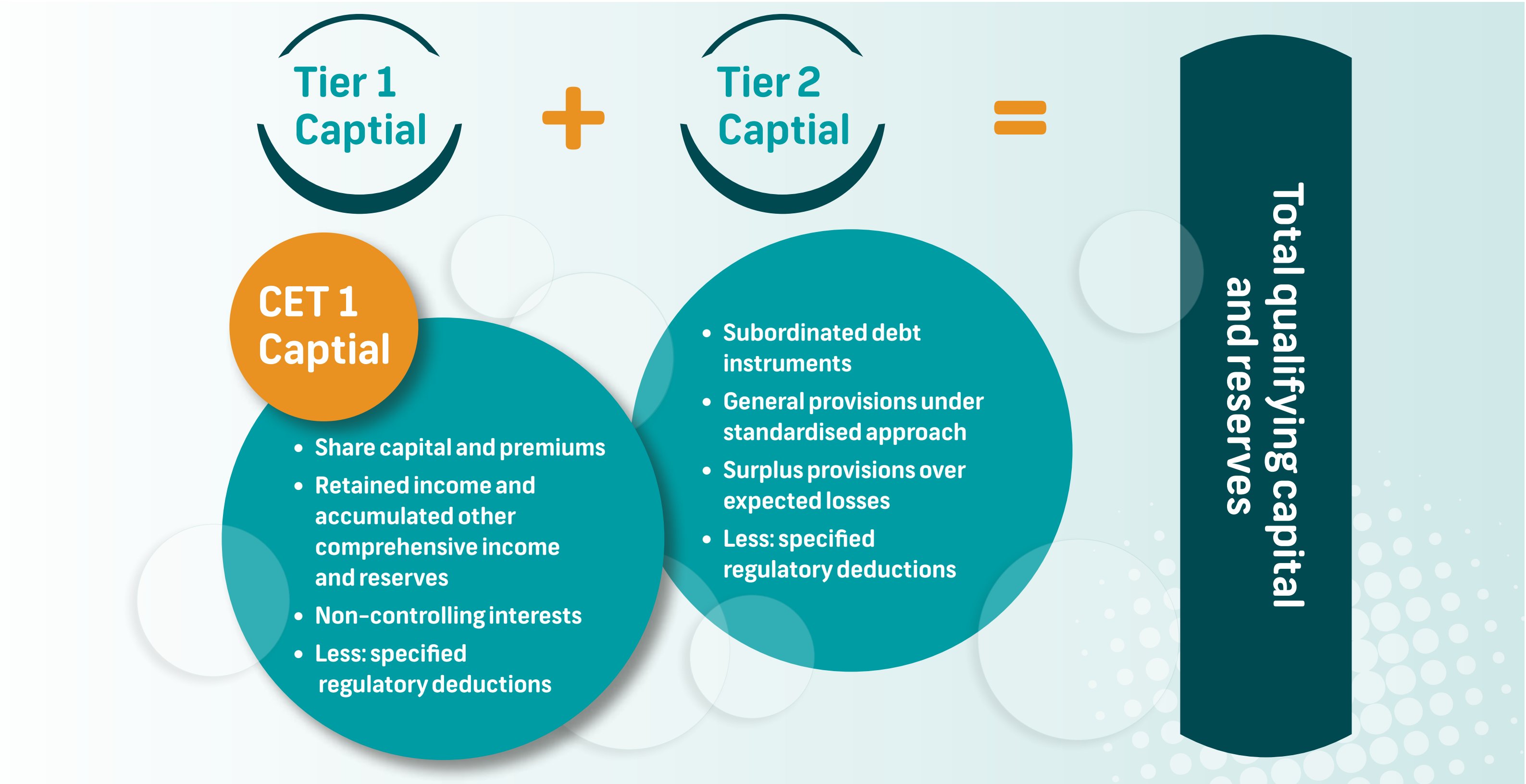
Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

Capital management

The following diagram defines the main components of qualifying capital and reserves.



The capital planning process ensures that the CET1, Tier 1 and total capital adequacy ratios remain within or above target ranges and regulatory minimums across economic and business cycles. Capital is managed on a forward-looking basis and the Group remains appropriately capitalised under a range of normal and severe stress scenarios. The Group aims to back all economic risks with loss-absorbing capital and remains well capitalised in the current environment. The Group continues to focus on maintaining strong capital and leverage ratios, with particular focus on the quality and mix of capital, as well as optimisation of the Group's risk weighted assets (RWA). The Group's aim is for capital ratios to remain strong and above the regulatory minimums and internal targets.

39. Financial risk management *continued*

Fair value financial instruments

Valuation methodology

The Group has established control frameworks and processes at an operating business level to independently validate its valuation techniques and inputs used to determine its fair value measurements. At an operating business level, valuation specialists are responsible for the selection, implementation as well as any changes to the valuation techniques used to determine fair value measurements. Valuation committees comprising representatives from key management have been established within each operating business and at an overall Group level. They are responsible for overseeing the valuation control process and considering the appropriateness of the valuation techniques applied in fair value measurement. The valuation models and methodologies are subject to independent review and approval at an operating business level by the required valuation specialists, valuation committees and relevant risk committees annually, or more frequently if considered appropriate.

Measurement of assets and liabilities at level 2 and level 3

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

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs
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.	Not applicable

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

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
Derivative financial instruments *continued*					
– 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. The 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
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.

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

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
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 in puts, 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
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	Not applicable
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	Not applicable

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

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 – 2022					
Assets					
Advances					
Home loans	–	–	5 919 063	5 919 063	5 919 063
Other advances	–	–	240 078	240 078	240 078
Term loans	–	–	6 454 771	6 454 771	6 321 676
Overdraft	–	–	988 785	988 785	988 785
Instalment sales	–	–	1 616 804	1 616 804	1 611 861
Total advances at amortised cost	–	–	15 219 501	15 219 501	15 081 463
Investment securities	5 135 504	–	–	5 135 504	5 312 010
Other assets	–	–	328 706	328 706	328 706
Due from related parties	–	–	6 563	6 563	6 563
Total financial assets at amortised cost	5 135 504	–	15 554 770	20 690 274	20 728 742
Liabilities					
Deposits and current accounts					
Current and managed accounts	–	10 370 141	–	10 370 141	10 370 141
Balances from customers (term)	–	4 583 207	–	4 583 207	4 470 697
Other deposits (call and savings)	–	6 506 774	–	6 506 774	6 506 774
Total deposits and current accounts	–	21 460 122	–	21 460 122	21 347 612
Long-term borrowings	–	1 184 053	–	1 184 053	1 154 987
Accrued interest payable	–	21 739	–	21 739	21 739
Creditors and accruals	–	584 531	–	584 531	584 531
Due from related parties	–	–	24 775	24 775	24 775
Total financial liabilities at amortised cost	–	23 250 445	24 775	23 275 220	23 133 644

39. Financial risk management *continued*

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 – 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
Instalment sales	–	–	1 772 841	1 772 841	1 805 758
Total advances at amortised cost	–	–	13 735 592	13 735 592	13 779 513
Investment securities*	7 640 487	–	–	7 640 487	7 793 383
Other assets	–	–	406 658	406 658	406 658
Due from related parties	–	–	7 552	7 552	7 552
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
Total deposits and current accounts	–	21 416 664	–	21 416 664	21 396 057
Long-term borrowings	–	1 367 570	–	1 367 570	1 361 195
Accrued interest payable	–	21 360	–	21 360	21 360
Creditors and accruals	–	680 558	–	680 558	680 558
Due from related parties	–	–	25 093	25 093	25 093
Total financial liabilities at amortised cost	–	23 486 152	25 093	23 511 245	23 484 263

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

39. Financial risk management *continued*

Assets and liabilities measured at fair value

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Group – 2022				
Mandatory fair value through profit and loss				
– Investment securities	–	42 585	–	42 585
– Derivative financial instruments	–	41 114	–	41 114
Non-financial assets				
Total assets	–	83 699	–	83 699
Financial liabilities held for trading				
– Derivative financial instruments	–	28 632	–	28 632
Mandatory at fair value through profit or loss				
– Zero coupon deposit	–	174 467	–	174 467
Total liabilities	–	203 099	–	203 099
Group – 2021				
Mandatory fair value through profit and loss				
– Investment securities	–	95 656	–	95 656
– Derivative financial instruments	–	35 307	–	35 307
Non-financial assets				
Total assets	–	130 963	–	130 963
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

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	Profit on the 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%.

39. Financial risk management *continued*

	2022			2021		
	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	**328 706**	**379 224**	**310 274**	406 658	447 324	365 992
Advances	**15 219 501**	**16 741 451**	**13 697 551**	13 707 258	15 077 984	12 365 532
Total financial assets measured at fair value in level 3	**15 548 207**	**17 120 675**	**14 007 825**	14 113 916	15 525 308	12 731 524
Liabilities						
Due to related parties	**24 775**	**22 298**	**27 253**	25 093	22 583	27 602

40. Segmental reporting

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 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 Operating Decision Maker for management reporting purposes when assessing performance and allocating resources. This presentation is in line with the management approach of presenting segment information.

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

40. Segmental reporting *continued*

	Retail P'000	Commercial P'000	Corporate P'000	Treasury P'000	Total P'000
Group – 2022					
Income statement					
Interest and similar income	549 786	126 369	65 234	690 894	1 432 283
Non-interest income	608 400	447 804	326 376	8 075	1 390 655
Total segment revenue	1 158 186	574 173	391 610	698 969	2 822 938
Interest and similar expenses	103 423	131 636	85 335	(588 849)	(268 455)
Segment operating income before impairments	1 261 609	705 809	476 945	110 120	2 554 483
Impairment of advances	(126 472)	76 657	(482)	–	(50 297)
Net interest income after impairment of advances	1 135 137	782 466	476 463	110 120	2 504 186
Total expenditure	(573 062)	(514 375)	(193 427)	1 637	(1 279 228)
Profit before indirect taxation	562 075	268 091	283 036	111 757	1 224 958
Indirect taxation	(22 944)	120	(2 689)	(534)	(26 047)
Profit before direct taxation	539 131	268 211	280 347	111 223	1 198 911
Direct taxation					(272 168)
Profit for the year					926 743
Statement of financial position:					
Gross advances to customers	10 081 991	2 990 898	3 023 197	–	16 096 086
Loss allowance	(567 999)	(413 340)	(33 284)	–	(1 014 623)
Net advances	9 513 992	2 577 558	2 989 913	–	15 081 463
Deposits from customers	5 617 729	8 342 605	5 942 301	1 444 977	21 347 612

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 – 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)	(471 190)	(171 782)	(2 350)	(1 213 971)
Profit before indirect taxation	614 198	62 017	230 640	10 854	917 709
Indirect taxation	(16 405)	1 474	(1 545)	(377)	(16 853)
Profit before direct taxation	597 793	63 491	229 095	10 477	900 856
Direct taxation					(215 680)
Profit for the year					685 176
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

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

41. New Standards and Interpretations

41.1 Standards and interpretations not yet effective

The Group has elected not to early adopt the following standards and interpretations, which have been published and are mandatory for the Group's accounting periods beginning on or after 01 July 2022 or later periods:

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

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

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

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

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12

The amendment adds an additional requirement for transactions which will not give rise to the recognition of a deferred tax asset or liability on initial recognition. Previously, deferred tax would not be recognised on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting profit or loss. The additional requirement provides that the transaction, at the time of the transaction must not give rise to equal taxable and deductible temporary differences.

The effective date of the amendment is for years beginning on or after 01 January 2023.

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

Disclosure of accounting policies: Amendments to IAS 1 and IFRS Practice Statement 2.

IAS 1 was amended to require that only material accounting policy information shall be disclosed in the consolidated and separate financial statements. The amendment will not result in changes to measurement or recognition of financial statement items, but management will undergo a review of accounting policies to ensure that only material accounting policy information is disclosed.

The effective date of the amendment is for years beginning on or after 01 January 2023.

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

Definition of accounting estimates: Amendments to IAS 8

The definition of accounting estimates was amended so that accounting estimates are now defined as "monetary amounts in consolidated and separate financial statements that are subject to measurement uncertainty."

The effective date of the amendment is for years beginning on or after 01 January 2023.

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

41. New Standards and Interpretations *continued*

41.1 Standards and interpretations not yet effective *continued*

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.

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.

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 amendment is for years beginning on or after 01 January 2022.

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

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 amendment is for years beginning on or after 01 January 2022.

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

Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2022

41. New Standards and Interpretations *continued*

41.1 Standards and interpretations not yet effective *continued*

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 amendment is for years beginning on or after 01 January 2022.

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 amendment is for years beginning on or after 01 January 2022.

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

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 amendment is for years beginning on or after 01 January 2022.

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 amendment is for years beginning on or after 01 January 2022.

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

42. Events after the reporting period

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 various macro factors both 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.

Value Added Statements

	Note(s)	Group 2022	Group 2021	Company 2022	Company 2021
		P'000	P'000	P'000	P'000
Income earned by providing banking services		**2 822 938**	2 614 437	**2 822 530**	2 801 952
Cost of services		**(1 573 730)**	(1 472 331)	**(1 580 186)**	(1 472 900)
Value added banking services		**1 249 208**	1 142 106	**1 242 344**	1 329 052
Non-operating and other income and expenditure		**661 980**	692 944	**663 688**	687 479
Value added		**1 911 188**	1 835 050	**1 906 032**	2 016 531
Value allocated					
To employess					
Salaries, wages and other benefits		**637 448**	652 172	**637 448**	652 172
To providers of capital					
Dividends to shareholders		**661 362**	1 399 035	**661 362**	1 399 035
To Government					
Taxation		**298 215**	232 533	**303 388**	229 431
To expansion and growth					
Retained eranings		**265 381**	(713 858)	**253 344**	(523 903)
Depreciation- Owned		**48 782**	49 490	**50 490**	47 127
		1 911 188	1 619 372	**1 906 032**	1 803 862
Employees		**33%**	40%	**33%**	36%
Providers of capital		**35%**	86%	**35%**	78%
Government		**16%**	14%	**16%**	13%
Expansion growth		**16%**	(41%)	**16%**	(26%)
		100%	100%	**100%**	100%

Ten-year Consolidated income statements

INCOME STATEMENT	30 June 2022	30 June 2021	30 June 2020	30 June 2019
	P'000	P'000	P'000	P'000
Interest and similar income	**1 432 283**	1 408 692	1 649 128	1 617 445
Interest expense and similar charges	**(268 455)**	(241 506)	(310 893)	(359 916)
Net interest income before impairment of advances	**1 163 828**	1 167 186	1 338 235	1 257 529
Impairments losses on loans and advances	**(50 297)**	(241 251)	(421 442)	(264 912)
Net interest income after impairment of advances	**1 113 531**	925 935	916 793	992 617
Non interest income	**1 390 655**	1 205 745	1 199 354	1 142 315
Income from operations	**2 504 186**	2 131 680	2 116 147	2 134 932
Operating expenses	**(1 279 228)**	(1 213 972)	(1 188 902)	(1 172 601)
Income before taxation	**1 224 958**	917 708	927 245	962 331
Taxation	**(298 215)**	(232 533)	(231 439)	(229 795)
Income after taxation	**926 743**	685 175	695 806	732 536
Dividends paid and proposed	**(406 992)**	(1 246 413)	(203 496)	(406 992)
Retained income for the year	**519 751**	(561 238)	492 310	325 544

	30 June 2018	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	P'000
	1 507 520	1 429 248	1 308 394	1 288 434	1 244 817	1 210 031	1 111 862
	(335 721)	(265 128)	(363 565)	(415 321)	(290 200)	(312 629)	(342 799)
	1 171 799	1 164 120	944 829	873 113	954 617	897 402	769 063
	(274 168)	(361 219)	(228 570)	(201 068)	(122 510)	(120 673)	(132 714)
	897 631	802 901	716 259	672 045	832 107	776 729	636 349
	1 069 648	978 155	926 949	862 386	794 557	743 042	629 108
	1 967 279	1 781 056	1 643 208	1 534 431	1 626 664	1 519 771	1 265 457
	(1 129 070)	(1 100 733)	(984 196)	(777 928)	(704 425)	(614 373)	(535 496)
	838 209	680 323	659 012	756 503	922 239	905 398	729 961
	(190 154)	(179 804)	(155 121)	(165 020)	(202 578)	(204 446)	(161 168)
	648 055	500 519	503 891	591 483	719 661	700 952	568 793
	(357 118)	(282 007)	(282 007)	(410 192)	(384 555)	(333 281)	(179 458)
	290 937	218 512	221 884	181 291	335 106	367 671	389 335

Ten-year Consolidated statements of financial position *continued*

STATEMENT OF FINANCIAL POSITION	30 June 2022	30 June 2021	30 June 2020	30 June 2019
	P'000	P'000	P'000	P'000
ASSETS				
Cash and short term funds	**6 198 095**	5 470 758	4 697 599	4 411 739
Derivative financial instruments	**41 114**	35 307	76 872	49 606
Advances to banks	**–**	217 957	–	789 903
Advances to customers	**15 081 463**	13 642 027	14 686 767	15 939 047
Investment securities	**5 354 595**	7 889 039	9 509 211	4 135 220
Current taxation	**82 299**	85 239	86 324	106 768
Deferred taxation	**–**	–	3 706	7 054
Due from related companies	**6 563**	7 552	11 684	6 388
Other assets*	**328 706**	406 658	479 314	317 627
Non-current assets held for sale	**–**	–	–	–
Investment in associated company	**–**	–	–	–
Property and equipment	**533 669**	530 646	560 785	481 307
Goodwill	**26 963**	26 963	26 963	26 963
Total assets	**27 653 467**	28 312 146	30 139 225	26 271 622
LIABILITIES				
Deposits from banks	**888 862**	490 153	545 002	581 243
Deposits from customers	**21 347 612**	21 396 057	23 171 897	19 591 409
Accrued interest payable	**21 739**	21 360	28 079	63 566
Derivative financial instruments	**28 632**	21 507	36 708	14 844
Current taxation	**–**	–	–	–
Due to related companies	**24 775**	25 093	21 322	32 898
Creditors and accruals	**584 531**	680 558	723 587	863 734
Employee liabilities	**98 227**	93 887	81 504	85 894
Borrowings	**1 329 454**	1 527 200	1 765 858	1 502 642
Deferred taxation	**6 336**	158 992	196 988	200 623
Total liabilities	**24 330 168**	24 414 807	26 570 945	22 936 853
EQUITY				
Stated capital	**51 088**	51 088	51 088	51 088
Reserves	**2 865 219**	2 599 838	3 313 696	3 029 311
Dividend reserve	**406 992**	1 246 413	203 496	254 370
Total ordinary equity holder's funds	**3 323 299**	3 897 339	3 568 280	3 334 769
Total equity and liabilities	**27 653 467**	28 312 146	30 139 225	26 271 622

30 June 2018	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	P'000
4 356 895	4 396 885	3 651 793	4 371 324	2 721 384	2 288 285	2 557 842
55 181	64 028	76 646	26 716	24 922	10 138	7 861
650 912	–	324 960	640 000	461 921	51 975	–
15 478 937	14 997 373	14 386 819	12 846 481	12 131 415	10 369 937	8 420 553
3 360 091	3 313 694	2 447 230	2 256 337	1 536 828	2 290 494	2 699 551
65 267	8 641	99 966	46 832	12 895	2 117	–
–	–	–	–	–	–	–
9 465	9 448	6 324	6 319	6 272	6 138	7 839
357 133	288 831	376 245	211 080	196 112	251 474	170 800
–	–	–	–	–	7 101	5 511
–	–	–	–	–	–	–
507 584	505 496	495 692	540 393	520 694	502 086	317 559
26 963	26 963	26 963	26 963	26 963	26 963	26 963
24 868 428	23 611 359	21 892 638	20 972 445	17 639 406	15 806 708	14 214 479
730 109	1 397 685	300 166	199 334	12 157	53 903	166 900
18 834 336	17 567 471	17 063 756	17 233 721	14 328 142	12 932 767	11 448 851
51 893	46 061	30 553	88 895	39 027	34 767	45 179
20 315	28 065	42 631	13 796	18 079	16 964	32 912
7 699	1 208	898	650	3 870	–	461
73 861	36 175	124 726	11 673	30 499	19 597	57 883
459 949	443 530	429 680	360 109	274 596	225 215	275 972
82 800	71 606	68 127	61 949	60 588	62 076	52 252
1 288 927	1 059 127	1 094 239	395 376	489 495	422 791	519 047
200 779	207 566	203 509	160 956	118 973	110 360	82 296
21 750 668	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	51 088
2 837 739	2 547 955	2 329 443	2 112 891	1 930 885	1 620 810	1 276 542
228 933	153 822	153 822	282 007	282 007	256 370	205 096
3 117 760	2 752 865	2 534 353	2 445 986	2 263 980	1 928 268	1 532 726
24 868 428	23 611 359	21 892 638	20 972 445	17 639 406	15 806 708	14 214 479

11 Glossary

AC	Audit Committee
AGM	Annual General Meeting
ALCCO	Asset, Liability and Capital Committee
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ADT	Automated deposit teller machines
ATM	Automatic teller machine
Banking Act	Botswana Banking Act of 1995 (Cap 46:04)
BCRC	Board Credit Risk Committee
Board	Board of Directors
BOW	Bank on wheels
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)
CRA	Culture risk assessment
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
FICA	Financial Intelligence Act
Fintech	Financial technology
FNB App	FNB Banking Application
FNBB/FNB Botswana/the bank	First National Bank of Botswana Limited
FOA	FirstRand Organisational Assessment
Foundation	FNBB Foundation
GDP	Gross Domestic Product
Group	Group FirstRand Limited and its subsidiaries
HPC	High-performance culture
HR	Human Resources
IFRS	International Financial Reporting Standards
IT	Information Technology
King IV	King Report on Corporate Governance™ for South Africa
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
S&P	S&P Global Ratings
SARB	South African Reserve Bank
SMME	Small, medium, and micro-enterprise
TCFD	Task Force on Climate-related Financial Disclosures
the/this report/Integrated Report	2022 Integrated Report
the/this year/2022	1 July 2021 to 30 June 2022

12 Shareholder information

Shareholder's diary

Dividend and results announcement	15 September 2022
Publication of abridged Annual Financial Statements	15 September 2022
Payment of final dividend	13 October 2022
Annual General Meeting	3 November 2022
Publication of half-year interim report and dividend announcement	February 2023
Payment of interim dividend	March 2023
Next financial year end	30 June 2023

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	3 918	79.39%	3 478 858	0.1%
5 001 – 10 000	353	7.15%	2 920 798	0.1%
10 001 – 50 000	408	8.27%	9 865 294	0.4%
50 001 – 100 000	95	1.93%	7 525 347	0.3%
100 001 – 500 000	88	1.78%	17 675 380	0.7%
500 001 – 1 000 000	18	0.36%	12 966 137	0.5%
> 1 000 000	55	1.11%	2 489 268 186	97.9%
Total	**4 935**	100.00%	**2 543 700 000**	100.00%

Top 10 shareholders

FNB Holdings Botswana Limited	1 780 590 000	70.00%
BPOPF – Active members and deferred pensioners	210 950 269	8.29%
FNBB Nominees Vunani BPOPF	156 090 550	6.14%
Motor Vehicle Accident Fund	41 053 910	1.61%
Stanbic Nominees Botswana Re Investec Debswana Pension Fund	27 757 144	1.09%
Botswana Public Officers Pension Fund with Profit Portfolio-MCP	23 787 906	0.94%
SBBL O/A BIFM Market Linked Fund	20 853 800	0.82%
SCBN (Pty) Ltd Re: BPOPF Local Equities Active Portfolio Co Allan Gray Botswana	20 623 252	0.81%
SBBL O/A BIFM Professional Local Equity Fund	20 548 364	0.81%
FNB Botswana Nominees (Pty) Ltd Re: IAM BBDCSPF	15 222 262	0.60%
Total top 10	**2 317 417 457**	
Others	226 282 543	8.9%
All total shares	**2 543 700 000**	100%

Director interests

The direct and indirect shareholding held by directors is as follows:

Shareholder	Number of shares
Luke Woodford	8 693
Doreen Ncube	7 930
Bonyongo Family Trust	6 389
Michael William 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 at Avani Gaborone Resort at 13h00 on Thursday, 3 November 2022, 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 2022 together with directors' and auditor's reports thereon be adopted.
3. Ordinary resolution 2:

   RESOLVED THAT dividends of 10 Thebe per ordinary share declared for the interim period, and 16 Thebe per ordinary share for the year ended 30 June 2022 be approved as recommended by the directors and the distribution be ratified thereof.
4. Ordinary resolutions 3, 4, 5 and 6:

   RESOLVED THAT the following directors of the Company retire by rotation in terms of the Company's Constitution and are eligible to offer themselves for re-election:

   - **Mr Balisi Mohumi Bonyongo** (Independent Non-Executive Director) (Resolution 3)
   - **Mr Jabulani Richard Khethe** (Independent Non-Executive Director) (Resolution 4)
   - **Mr Michael William Ward** (Independent Non-Executive Director) (Resolution 5)
   - **Ms Naseem Banu Lahri** (Independent Non-Executive Director) (Resolution 6)

   Mr Bonyongo, Mr Khethe, Mr Ward and Ms Lahri, being eligible and available, offer themselves for re-election and shall be re-elected by way of separate resolutions.

   Biographical information of the directors to be re-elected is set on pages 68 to 71 in the Integrated Report. The Board recommends the re-election of these directors.
5. Ordinary Resolution 7:

   To ratify the appointment of the following as Directors of the Company:

   i. Mr Luke Duncan Woodford

   ii. Mr Frans Louis Jordaan

6. Ordinary resolution 8:

RESOLVED THAT the annual fees of the Non-Executive Directors as reflected below, be approved:	Proposed 2023 fee (BWP)
First National Bank of Botswana Limited Board	
Member	118 588
Chairperson	237 177
Audit Committee	
Member	81 318
Chairperson	162 636
Risk, Capital Management and Compliance Committee	
Member	67 765
Chairperson	135 530
Remuneration Committee	
Member	19 059
Chairperson	28 588
Directors' Affairs and Governance Committee	
Member	38 118
Chairperson	57 177
Board Credit Risk Committee	
Member	304 942
Chairperson	381 177
Policies and Frameworks Committee	
Member	54 212
Chairperson	54 212
Strategy	29 647
Training	50 824

Additional information in respect of Ordinary Resolution 8

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 P4235 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 9:

   RESOLVED THAT, as recommended by the Audit Committee of the Company, Deloitte & Touche be re-appointed as auditors of the Company and the directors be authorised to determine the remuneration thereof.

   Additional information in respect of Ordinary Resolution 9

   The remuneration of the Company's auditors is determined by the Audit Committee as per the Audit Committee Charter.

8. Ordinary Resolution 10:

   RESOLVED THAT, the auditor's remuneration of P9 267 000 paid for the prior year's audit be and is hereby ratified.

9. To transact any other business which may be 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 Tuesday, 1 November 2022.

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 THURSDAY, 13 OCTOBER 2022.

For use at the Annual General Meeting (AGM) of shareholders of the Company to be held virtually at 13h00 on Thursday, 3 November 2022.

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.i.			
7. Ordinary Resolution 7.ii.			
8. Ordinary Resolution 8			
9. Ordinary Resolution 9			
10. Ordinary Resolution 10			

Signed at ______________________________ on ______________________________ 2022

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 2022.
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.

Our purpose is to be a trusted partner committed to building a SHARED FUTURE of prosperity.

First National Bank of Botswana Limited

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Registered Bank • Registration Number BW00000790476 • S.W.I.F.T. • FIRNBWGX

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