



# Unaudited condensed consolidated financial statements and dividend announcement

For the six months ended  
31 December 2021





**The Directors take pleasure in presenting the unaudited condensed consolidated financial results (referred to as “the interim financial results” in this announcement) and dividend announcement of First National Bank of Botswana Limited and its subsidiaries (referred to as “FNBB” or “the bank” in this announcement) for the six months ended 31 December 2021.**

## **BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

The interim financial results have been prepared in accordance with the framework concepts and the recognition and measurement requirements of International Financial Reporting Standards (“IFRS”), including interpretations issued by the IFRS Interpretations Committee (“IFRIC”) and as a minimum contain the information required by International Accounting Standard 34 (“IAS 34”) - Interim Financial Reporting. Further, the interim financial results have been prepared in compliance with the Banking Act (Cap 46:04), the Companies Act of Botswana (Companies Act, 2003) and the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08). The principal accounting policies and the methods of computation are consistent in all material aspects with those adopted in the previous period.



The new or amended IFRS that became effective for the period under review had no impact on the bank's reported earnings, financial position, reserves, or accounting policies. The interim financial results have not been reviewed or audited by the bank's external auditors.

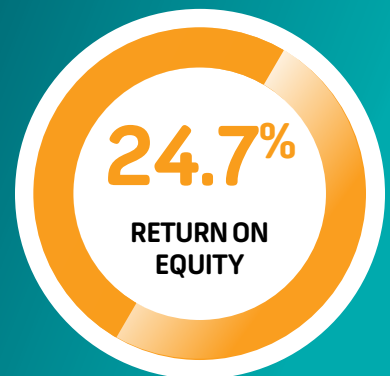
In the preparation of the condensed consolidated financial statements, the bank has applied sound business principles with key assumptions concerning any inherent uncertainties in recording various assets and liabilities. These have been thoroughly assessed by management to ensure the appropriateness thereof. The critical accounting estimates and areas of judgements are:

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

### SIGNIFICANT JUDGEMENTS AND ESTIMATES IMPACTED BY COVID-19

While the specific areas of judgement used at 31 December 2021 have not changed from those used as at 30 June 2021, the dynamic and evolving nature of Covid-19, combined with limited recent experience of the economic and financial impact of such a pandemic, resulted in additional judgement being applied.

Forward-looking information, including a detailed explanation of the scenarios and related probabilities considered in determining the bank's forward-looking assumptions for the purposes of expected credit loss (ECL) calculations have been provided. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty about the social and economic consequences of Covid-19, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.





## Financial Highlights

	Six months ended 31 December 2021	Six months ended 31 December 2020	% change
Profit after tax (P'000)	450 470	326 862	38
Advances to customers (P'000)	13 993 613	14 118 607	(1)
Deposits from customers (P'000)	20 372 057	21 238 765	(4)
<b>RATIOS</b>			
Cost-to-income ratio (%)*	47.7	47.6	—
Return on equity (%)	24.7	17.9	38
Return on average assets (%)	3.3	2.4	38
NPLs to gross advances (%)	5.8	7.7	(24)
Dividend per share (thebe)	10.0	6.0	67

\* The prior six months cost-to-income ratio was restated from 49.2% to 47.6% due to a reclassification of P35 million relating to bank charges which was reclassified from operating expenses to non-interest revenue (fee and commission expenses). The reclassification had no impact on the profit after tax.

## ECONOMIC UPDATE

### Global Economy

#### Growth moderation due to divergent growth profiles

The global economic recovery continues to mature with growth rates in some large economies beginning to slow down after the initial surge in activity experienced in the first part of the recovery. Covid-related restrictions remain as significant inhibiting factors in several major economies. However, progress in managing the virus suggest that these will not derail the recovery. With overall levels of activity normalising, supply-side factors in certain labour, goods and services markets are driving near-term inflation higher. According to the World Bank, global growth is expected to decelerate markedly from 5.5% in 2021 to 4.1% in 2022 and 3.2% in 2023.

Global fiscal and monetary policy settings are still extremely supportive, and it remains clear that governments and Central Banks plan to reduce policy support to regain a degree of policy flexibility. Persistent price pressure anticipated in 2022 increases the prospect of higher longer-term inflation, to which Central Banks are expected to respond by increasing policy rates. Accordingly, we have brought forward our expectation of a rate hike by the US Federal Bank in the second half of 2022. The complexity of these signals is stirring market volatility.

### Regional Economy

#### Growth to firm slightly

Growth in Sub-Saharan Africa (SSA) is expected to improve through to 2023 with current projections by the World Bank reflecting growth firming up to 3.6% and 3.8% in 2022 and 2023 respectively, supported by primary industry output. Furthermore, infrastructure-led growth is expected to be a key theme in 2022 as investments in energy and logistical services ramp up. Over the medium-term, we expect growth strategies across SSA to be geared towards supporting small-to-medium enterprises and improving employment prospects across various economies.

Fiscal and monetary policy is expected to start normalising. On the fiscal side, most economies have committed to smaller budget deficits into 2022, reigning in expenditure as revenue continues to improve. We expect Central Banks to continue raising interest rates gradually in line with global movements.

Inflation concerns were significant in 2021. We expect most countries to experience lower inflation averages over the course of 2022 as the pace of food and transport inflation decelerates from the relatively high base in these sectors in 2021. Additionally, the gradual increase in interest rates further suggests that demand-led inflation will be contained. Global supply chains remain under strain, and we caution that these may feed into various inflation profiles, rendering less likely a return to the low historical averages seen prior to the pandemic.

Most currencies are expected to depreciate mildly against the US Dollar in 2022, with the sharp declines experienced during the pandemic unlikely to recur. While we still expect currency depreciation into 2022, the pace of the decline is likely going to be muted. We further expect Central Banks to tap into the SDR allocations that they received from the IMF to bolster domestic liquidity in the event of FX shortages.

### Botswana Economy

#### Diversification remains key for sustainable growth

Due to the pandemic and its effect on local industries, and on mining in particular, Botswana recorded a severe contraction of 8.7% in 2020 according to rebased national accounts data from Statistics Botswana. Over the course of 2021, mining output recovered significantly following a resurgence of global diamond demand, resulting in an anticipated double-digit rebound in GDP growth. We expect growth to moderate to approximately 4% in 2022 as economic activity continues to normalise and base effects experienced over the last two years abate. Heading into 2022, the mining sector will be supported by the resumption and expansion of local copper mining activity over the medium-term.

Non-mining sector performance is expected to benefit from increased developmental spend over our forecast horizon. The improvement in government revenue over 2021 enables the delivery of key infrastructure projects, which should improve the local operating environment. Furthermore, as part of the diversification agenda, several measures have been planned to support the development of the agricultural sector from 2022 onwards. A revised programme to replace the Integrated Support Programme for Arable Agriculture, aimed at increasing productivity and improving food security, is expected to be implemented in the first half of 2022.

The country's Economic Recovery and Transformation Plan (ERTP) is expected to gain pace given the improved fiscal outlook as a result of higher mineral revenue over the medium-term. Botswana has secured funding from both the World Bank (\$250m) and African Development Bank (\$137m) to aid in the delivery of ERTP. These funds will be directed towards attracting private sector investments, contributing to the diversification of Botswana's exports, creating job opportunities within a trend towards a green economy, and fast-tracking infrastructure projects in support of the local construction industry.

## Botswana Economy (continued)

### Increased upside pressure on rates

CPI inflation is expected to remain above the upper end of the Central Bank's objective range (3% to 6%) through to the third quarter of 2022, having commenced the year at 10.6% year-on-year in January 2022. Over the course of 2021, the headline figure received significant upside pressure from the supply side in the form of higher VAT, elevated utilities and rental prices, as well as several fuel price increases resulting in a 6.7% average over the course of 2021. In 2022, we expect that the increases seen in administered prices in 2021 will stabilise. The moderation in price growth in 2022 may, however, be challenged by potential increases in local fuel prices, electricity tariffs and elevated food prices.

The Bank Rate remained unchanged in 2021 (at 3.75%) despite a significant upswing in inflation. The primary reason for the accommodative stance was to support economic recovery, on the basis that inflation was primarily supply-side driven. According to the Central Bank, with the exception of second-round effects, these factors would not normally attract a monetary policy response. The Central Bank aims to implement several reforms to the monetary policy framework, including the introduction of a new policy rate. Given the expectation of persistent upside pressure on inflation over 2022, coupled with the anticipation of a rate-rise cycle by other Central Banks globally, we expect upward pressure on rates locally.

### The BWP to remain resolute

The weights in the Pula basket currently stand at ZAR: 45% and SDR: 55%. These weights, last amended in 2017, have been maintained in 2022. The rate of crawl also remained unchanged and successfully supported the objective of maintaining a stable, real effective exchange rate. As a result, the Rand will continue to be the dominant factor in the Pula outlook, accounting for most of the volatility observed in the Pula against major crosses. We forecast a 12-month average marginal decrease in BWP value against USD and an increase in BWP value against ZAR over the same period.

### COVID-19

Throughout the period, the bank maintained strict protocols to maximise protection of employees, customers, vendors and other stakeholders from the spread of the virus. These measures were driven by the bank's crisis management team in accordance with a pre-established business continuity policy.

The crisis management team meets frequently to review on an on-going basis, FNBB's organisational responses and to implement response tactics, as appropriate to the continued and increasing pandemic.

Various initiatives aimed at maintaining service levels in the face of the pandemic were maintained. These included communicating to the public to maximise awareness of the pandemic, the encouragement to customers to use digital service channels, the establishment of remote working protocols, and the continued assessment of the IT readiness plan. The latter involved remote working enablement and ensuring uninterrupted customer service through digital channels. Additionally, the bank provided financial assistance to those businesses which were otherwise healthy but had been adversely affected by the pandemic. Primarily this entailed debt restructuring to alleviate cash flow constraints. The bank continues to protect the robustness of its balance sheet by providing conservatively against expected credit losses and maintaining strong capital buffers.

The Directors have throughout maintained detailed scrutiny of the processes and management of the COVID-19 pandemic and its effect on customers, staff members and the bank's operations. As evidenced by performance in the six months ended December 2021, the Directors are confident that the bank remains in a sound financial position in the face of this global pandemic. FNBB continues to operate efficiently and effectively whilst actively playing its part in supporting the people and the economy of Botswana through the pandemic.

## Financial Performance

### Statement of Financial Position

The balance sheet reduced by 5% year-on-year primarily due to the decline in deposits. Credit risk remains heightened despite the economic uncertainty having settled considerably. The bank continues to apply a prudent approach to lending to ensure responsible and manageable consumer exposure. This resulted in a decline in gross customer advances by 3%, against market gross advances increasing by 5%.

Retail advances experienced a moderate decline of 2% while the Botswana retail market increased by 6%. The decline was driven by competitive pressures, with the market seeming to relax its risk appetite by extending loan tenures, thus increasing total market debt.

The bank maintained its existing affordability criteria and a selective approach to retail exposure. The corporate segment experienced excellent growth of 10% year-on-year.

The commercial advances portfolio reduced 15% due to a cautious risk appetite as well as a reduction in the Non-Performing Loans (NPL) largely due to write-offs. The combined result of FNBB's commercial and corporate advances was a decline of 2% against market gross advances increasing by 3%. While actively looking for the opportunities arising out of the anticipated recovery pattern, the bank will continue to be cautious in maintaining the quality of its credit book.

The NPLs declined by 26% year-on-year from P1.2bn to P890m, resulting in an NPL/gross advances ratio of 5.8% as at 31 December 2021 (7.7% as at 31 December 2020). This reduction in NPLs was primarily due to a recoverability assessment of long-outstanding exposures and the consequent write-off of irrecoverable loans. The closing provision levels remain appropriate.

In the December 2021 results, deposits declined from P22.4bn to P21.6bn (4% decline), due largely to a reduction in corporate deposits following corporate outflows as trading levels normalised. The Retail segment experienced a flattening out of the deposit portfolio while the Business segment experienced moderate growth. The market priced up for fixed and notice deposits, in contrast to the flat Bank Rate in order to protect deposit franchises. FNBB remains well-funded with a loan-to-deposit ratio of 71% and has access and options to raise additional funding from the market.

Investment securities declined by 26% year-on-year following the reduction in deposits as well as a reduction in investable capital due to the special dividend paid during the six month period. Due to an amendment of the historic WesBank lease tax treatment, the deferred tax liability significantly reduced year-on-year.

### Income Statement

FNBB has experienced solid growth in the profit before tax over the six-month period. 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 24.7% (2020: 17.9%) has increased due to the previously conservative level of capital held in the prior period, as well as the 38% increase in profit after tax. FNBB has remained focused on partnering with clients as the economic recovery transpires, while ensuring the strengthening of

the balance sheet through both conservative provisioning and raised capital levels.

A decrease of 2% in interest income was driven in part by the full-period effect of the reduction in the Bank Rate in October 2020, as well as the decline in the advances book and a change in the advances portfolio mix. This was offset by a 22% increase in the cash and investment portfolio interest income due the sharp increase in the rates of government securities over the period.

Interest expense decreased by 8% following a 4% decrease in deposits and the Bank Rate reduction in October 2020. The deposit mix shifted from overnight deposits to term deposits as clients sought higher yields.

Impairments declined by 51% year-on-year driven by sharp decreases in portfolio impairments (stage 1 and stage 2), and offset by elevated Stage 3 impairments. The portfolio impairment decline followed the normalisation of impairments in December 2021 with the prior period taking account of the risk in the SME portfolio prevailing at the time. The Stage 3 impairments increase is attributed to significant Commercial write-offs over the current period as well as an increase in Retail defaults over the current period. The P102m reduction in impairments leads to a reduction in the credit loss ratio to 1.3% (2020: 2.5%).

Non-interest revenue increased by 19% year-on-year. This was driven primarily by a recovery in the foreign exchange business while service fees increasing marginally by 6% and card commission increasing by 10%, due to increased volumes. The 27% growth in the foreign exchange revenue came from a return to growth on the pre-pandemic trading volumes, with increased overall activity across all sectors and customer segments.

The growth in service fee and card commission was supported by increased volumes across the bank's digital and electronic channels, but most noticeably in merchant transactions. The bank continued 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 47.8% (2020: 47.6%) reflects FNBB's continued focus on balancing cost management initiatives with strategic investments.

Employee benefits costs increased by 6% year-on-year. The non-employee related costs increased by 13% year-on-year, largely through volume-driven costs associated with revenue, development costs, and the return to pre-pandemic business operations with increased travel and functions.

## Looking Ahead

While the evolution and duration of Covid-19 remains unknown, FNBB has throughout the period demonstrated that it is a strong proponent of good governance and corporate citizenship. This positions the bank as a sustainable organisation that can nimbly adjust its operating model to respond to unforeseen external challenges.

FNBB has appropriately and prudently deployed its financial resources throughout the pandemic. The capital and provisioning levels remain conservative, thus positioning the bank well for growth in the coming periods. The bank's investment into its platform solution continues, bringing with it efficiency and improved customer and employee experience through all interfaces. Growth is being witnessed in registrations across all digital platforms, with customers appreciating the ease of digital transactability, and the options to serve themselves in the form of convenient, value-added services. A forward-thinking approach to technology and innovation remains a priority for FNBB.

A large proportion of FNBB's workforce continues to work remotely, assisted by the bank's flexible working arrangements. However, the bank has recently and gradually introduced more face-to-face time for employees to foster innovation and collaboration. There has however, been no relaxation of the strict governance and risk protocols regarding digital and remote working practices.

The bank has also continued to optimise its operational processes through embedding technology and automation across the operations. Robotic process automation and optical character recognition are some of the tools deployed in these improvement cycles. The improved back office processes will translate further into an overall improvement in customer experience.

In line with trends in global business practice, FNBB maintains close scrutiny on the environmental impact of its operations and consistently seeks practical and commercially realistic ways to contribute to a greener society.

As demonstrated by the success of extending banking services to more remote locations through the CashPlus, it is fundamental to our objectives that we build a shared future of prosperity through enriching the lives of our customers, employees, and society in general. This represents the foundation to a sustainable future and to FNBB's enduring commitment to create long term value.

## Capital Management

FNBB maintains sound capital ratios so as to maintain confidence in the solvency and the quality of its capital during both calm and turbulent periods in the economy and in financial markets. FNBB's capital management strategy aims at maintaining an optimal level and composition of capital, and effective allocation of financial resources including capital and risk capacity. This in turn enables the bank to achieve both a sound return on equity and a sustainable dividend distribution to shareholders.

The capital planning process for FNBB is conducted on a forward-looking basis and considers, inter alia, the organic growth requirements together with 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 six months ended 31 December 2021, FNBB continued to operate above both the internal and regulatory minimum capital adequacy ratios.

Faced with significant uncertainty during the initial stages of the pandemic, the Directors opted at the time for a prudent approach to balancing an efficient capital position with the need to retain sufficient capital for unexpected fluctuations in earnings volatility. This resulted in a subdued dividend being declared for these prior periods. At the close of the June 2021 financial year, and by then equipped with greater understanding of the probable economic impact of the pandemic, the bank rebalanced its capital portfolio by way of a special dividend.

## Capital Management (continued)

The latter took full account of the outlook on risk weighted asset growth, expected earnings volatility levels, and capital efficiency. The bank's performance over the six-month period ended 31 December 2021 reflects a recovery to the target range of expected levels of return.

Accordingly, and after considering all the above issues, the Directors recommend an interim dividend of 10 thebe per share. As per Section 58 (3) of the Companies Act, the Directors confirm that after payment of the dividend, the bank will satisfy the solvency test. Since the solvency test was performed, there has been no significant change to the financial position of the bank.

## Events After Reporting Date

There were no significant events after the reporting period that require disclosure or adjustment to the interim financial results. The impact of events that occur after the reporting period will be accounted for in future reporting periods.

## Corporate Governance

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

1. Adequate and effective management of corporate governance and risk in accordance with current best practice.
2. Maintenance of appropriate internal controls including the reporting of material malfunctions.
3. The bank's continued ability to operate as a going concern; and
4. The bank's consideration of the environmental and social impact of conducting business.

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

## Ethics

Ethical behaviour demonstrates respect for important principles including honesty, integrity, fairness, equality, diversity, accountability, transparency, and individual rights. Our Code of Ethics is a promise to all our stakeholders that we will combine our entrepreneurial spirit with a commitment to responsible business practice. All bank employees, executives, non-executives, all other employees, representatives, agents and third parties doing business with FNBB must comply with the Code of Ethics when acting in an official capacity. The Code of Ethics forms the constitution, or the base reference point, for the business practices of all businesses in FNBB. It has been purposely developed in such a manner that it not only provides useful general guidance for values and guiding principles of conduct, but also allows room for interpretation in our various business environments.

## Social Responsibility

FNBB remains committed to its social responsibility to the community, which function it performs through the FNBB Foundation. The FNBB Foundation has independent Trustees who ensure that a wide spectrum of sustainable social welfare and development activities nationwide are prudently assessed and funded. FNBB has also adopted a series of policies to minimise its operational impact on the environment in line with global initiatives to counter the threat of climate change.

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

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

FNBB has committed to contributing up to 1% of each year's profit after tax to the Foundation. Since its inception in 2001, the bank has made grants of more than P71 million to the Foundation, which has been invested appropriately in qualifying beneficiaries.

## Declaration Of Dividend

Notice is hereby given that a dividend of 10 thebe per share has been declared for the six months ended 31 December 2021. The dividend will be paid on or about 30 March 2022 to shareholders registered at the close of business on 18 March 2022. The ex-dividend date will be on 16 March 2022.

In terms of the Income Tax Act (Cap 52:01) as amended, withholding tax at the rate of 10% will be deducted by the Bank from gross dividends. If a change of address or dividend instructions is to apply to this dividend, notification should reach the Transfer Secretaries by 25 March 2022.

Important Dates in relation to the dividend are as follows:

- |                       |               |
|-----------------------|---------------|
| 1. Announcement date: | 2 March 2022  |
| 2. Record date:       | 18 March 2022 |
| 3. Ex-Dividend date:  | 16 March 2022 |
| 4. Payment date:      | 30 March 2022 |

For and on behalf of the Board.



**B M Bonyongo**  
Chairman



**S L Bogatsu**  
Chief Executive Officer

Gaborone, 2 March 2022

### TRANSFER SECRETARIES

Central Securities Depository  
Company of Botswana,  
Plot 70667, 4th Floor, Fairscape Precinct,  
Fairgrounds  
Private Bag 00417, Gaborone



## Unaudited Condensed Consolidated Income Statement

	Six months ended 31 December 2021 P'000	Six months ended 31 December 2020 P'000 Reclassified	% Change
Interest income calculated using the effective interest rate	696 091	713 413	(2)
Interest expense and similar charges	(124 583)	(135 973)	(8)
<b>Net interest income before impairment of advances</b>	<b>571 508</b>	<b>577 440</b>	<b>(1)</b>
Impairment of advances	(96 727)	(199 381)	(51)
<b>Net interest income after impairment of advances</b>	<b>474 781</b>	<b>378 059</b>	<b>26</b>
Non-interest revenue*	718 680	603 893	19
<b>Income from operations</b>	<b>1 193 461</b>	<b>981 952</b>	<b>22</b>
Operating expenses*	(295 047)	(263 329)	12
Employee benefits costs	(310 784)	(292 860)	6
<b>Income before taxation</b>	<b>587 630</b>	<b>425 763</b>	<b>38</b>
Indirect taxation	(10 112)	(6 710)	51
<b>Profit before direct taxation</b>	<b>577 518</b>	<b>419 053</b>	<b>38</b>
Direct taxation	(127 048)	(92 192)	38
<b>Profit for the six-month period attributable to owners of the company</b>	<b>450 470</b>	<b>326 862</b>	<b>38</b>
Average number of shares in issue during the period (thousands)	2 543 700	2 543 700	—
Earnings per share (thebe) (based on weighted average number of shares outstanding)	17.71	12.85	38

### \* Classification error

During the current reporting period, the nature of various expenses incurred by the bank relating to transaction fees were reassessed. This resulted in expenses of P35 million relating to Visa and Mastercard charges being reclassified from operating expenses to fee and commission expenses (non-interest revenue), with prior period comparatives restated, so as to align with the treatment of other direct and incremental banking charges. It is the bank's policy to present expenses that are directly attributable or incremental to the bank earning fee and commission income, as fee and commission expenses and not operating expenses.

This change in presentation had no impact on the profit or loss and only affected the presentation of items within non-interest revenue and operating expenses. An impact assessment of this error and the correction thereof is contained in the "Segmental Reporting" section of this announcement.

The impact of the reclassification is as follows:

	As reported 31 December 2020 P'000	Reclassification 31 December 2020 P'000	Restated P'000
<b>Income statement</b>			
Non-interest revenue	638 919	(35 026)	603 893
Operating expenses	(298 355)	35 026	(263 329)
<b>Income before taxation</b>	<b>340 564</b>	<b>—</b>	<b>340 564</b>

## Unaudited Condensed Consolidated Statement of Other Comprehensive Income

	Six Months ended 31 December 2021 P'000	Six Months ended 31 December 2020 P'000	% Change
Profit for the six-month period	450 470	326 862	38
Other comprehensive income	—	—	—
<b>Total comprehensive income for the period attributable to owners of the parent</b>	<b>450 470</b>	<b>326 862</b>	<b>38</b>

## Ratios and Market Information

	Six Months ended 31 December 2021	Six Months ended 31 December 2020 Restated	% Change
Dividend per share (thebe)	10.0	6.0	67
Dividend cover (times)	1.8	2.1	(14)
Cost to income ratio (percent)*	47.7	47.6	—
Return on equity (percent)**	24.7	17.9	38
Return on average assets (percent)***	3.3	2.4	38
Capital Adequacy ratio (percent)	18.46	22.72	(19)
Closing share price (thebe)	250	220	14
Price earnings ratio	7.1	8.6	(17)
Earnings per share	17.7	12.9	38
Number of ordinary shares issued ('000)	2 543 700	2 543 700	—

\* Cost to income ratio is based on total non-interest expenditure including indirect taxation (Value Added Tax) and income excludes the impairment charge. The prior year ratio was restated from the 49.2% to 47.6% due to a reclassification of P35 million relating to bank charges which was reclassified from operating expenses to non-interest revenue (fee and commission expenses).

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

\*\*\* Return on average assets is annualised

## Unaudited Summarised Consolidated Statement of Financial Position

	Unaudited At 31 December 2021 P'000	Unaudited At 31 December 2020 P'000	% Change	Audited At 30 June 2021 P'000
<b>ASSETS</b>				
Cash and short-term funds	5 331 846	4 743 236	12	5 470 758
Derivative financial instruments	36 829	68 236	(46)	35 307
Advances to banks	239 966	287 953	(17)	217 957
Advances to customers	13 993 613	14 118 607	(1)	13 642 027
Investment securities	5 548 463	7 452 918	(26)	7 889 039
Current taxation	66 501	169 434	(61)	85 239
Due from related companies	13 877	10 562	31	7 552
Other assets	613 515	413 162	48	406 658
Property and equipment	550 711	580 322	(5)	570 910
Goodwill	26 963	26 963	—	26 963
Deferred taxation	828	3 706	(78)	—
<b>Total assets</b>	<b>26 423 112</b>	<b>27 875 099</b>	<b>(5)</b>	<b>28 352 410</b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>				
<b>Liabilities</b>				
Derivative financial instruments	19 270	32 488	(41)	21 507
Accrued interest payable	11 392	10 094	13	21 360
Due to related parties	20 645	17 394	19	25 093
Creditors and accruals	675 757	573 711	18	680 565
Deposits from banks	594 471	511 752	16	490 153
Deposits from customers	20 372 057	21 238 765	(4)	21 396 057
Employee benefits liabilities	59 828	53 358	12	93 887
Borrowings	1 538 432	1 508 643	2	1 527 200
Deferred taxation	—	207 382	(100)	169 385
<b>Total liabilities</b>	<b>23 291 852</b>	<b>24 153 587</b>	<b>(4)</b>	<b>24 425 207</b>
<b>Capital and reserves attributable to ordinary equity holders</b>				
Stated capital	51 088	51 088	—	51 088
Reserves	2 825 802	3 517 802	(20)	2 629 702
Dividend reserve	254 370	152 622	67	1 246 413
<b>Total equity</b>	<b>3 131 260</b>	<b>3 721 512</b>	<b>(16)</b>	<b>3 927 203</b>
<b>Total equity and liabilities</b>	<b>26 423 112</b>	<b>27 875 099</b>	<b>(5)</b>	<b>28 352 410</b>
<b>Contingencies and commitments (off balance sheet items)</b>				
Undrawn commitments to customers	2 559 418	2 062 674	24	2 427 870
Guarantees and letters of credit	500 491	466 209	7	484 016
<b>Total contingencies and commitments</b>	<b>3 059 909</b>	<b>2 528 883</b>	<b>21</b>	<b>2 911 886</b>

## Unaudited Condensed Consolidated Statement of Changes In Equity

	Retained earnings P'000	Dividend reserve P'000	Total P'000
<b>Balance at 1 July 2021</b>	<b>2 571 400</b>	<b>1 246 413</b>	<b>3 927 203</b>
Profit for the period	450 470	—	450 470
Dividend paid - 2021 final	—	(1 246 413)	(1 246 413)
Dividend proposed - 2022 interim	(254 370)	254 370	—
<b>Balance at 31 December 2021</b>	<b>2 767 500</b>	<b>254 370</b>	<b>3 131 260</b>
<b>Balance at 1 July 2020</b>	<b>3 283 696</b>	<b>203 496</b>	<b>3 598 146</b>
Profit for the period	326 862	—	326 862
Dividend paid - 2020 final	—	(203 496)	(203 496)
Dividend proposed - 2021 interim	(152 622)	152 622	—
<b>Balance at 31 December 2020</b>	<b>3 457 936</b>	<b>152 622</b>	<b>3 721 512</b>

## Unaudited Condensed Consolidated Statement of Cashflows

	Six Months ended 31 December 2021 P'000	Six Months ended 31 December 2020 P'000	% Change
<b>Net cash (used in)/generated from operating activities</b>	<b>(916 490)</b>	<b>2 480 701</b>	<b>(137)</b>
<i>Cash generated by operations</i>	879 656	1 043 023	(16)
<i>Taxation paid</i>	(405 850)	(255 610)	59
Change in funds from operating activities	(1 390 296)	1 693 288	(182)
<b>Net cash utilised in investing activities</b>	<b>(22 560)</b>	<b>(13 081)</b>	<b>72</b>
<b>Net cash utilised in financing activities</b>	<b>(1 371 920)</b>	<b>(428 998)</b>	<b>220</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(2 310 970)</b>	<b>2 038 622</b>	<b>(213)</b>
Cash and cash equivalents at the beginning of the year	8 842 673	6 804 051	30
Cash and cash equivalents at the end of the year	6 531 703	8 842 673	(26)
<b>Comprising:</b>			
Cash and short-term funds	5 331 846	4 743 235	12
Investment in Bank of Botswana Certificates	1 199 857	4 099 438	(71)

## Segmental Reporting

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

The bank has four main business segments:

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

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

## Unaudited Condensed Segmental Reporting

Six months ended 31 December 2021

	Retail P'000	Commercial P'000	Corporate P'000	Treasury P'000	Total P'000
<b>Income Statement</b>					
Interest and similar income	273 338	59 250	24 278	339 225	696 091
Non-interest income	304 705	231 708	179 033	3 234	718 680
<b>Total segment revenue</b>	<b>578 043</b>	<b>290 958</b>	<b>203 311</b>	<b>342 459</b>	<b>1 414 771</b>
Interest expense and similar expenses	53 662	66 146	40 753	(285 144)	(124 583)
<b>Segment operating income before impairments</b>	<b>631 705</b>	<b>357 104</b>	<b>244 064</b>	<b>57 315</b>	<b>1 290 188</b>
Impairment of advances	(98 025)	(272)	1 570	—	(96 727)
<b>Net interest income after impairment of advances</b>	<b>533 680</b>	<b>356 832</b>	<b>245 634</b>	<b>57 315</b>	<b>1 193 461</b>
Total expenditure	(276 931)	(241 606)	(88 636)	1 342	(605 831)
<b>Profit before indirect taxation</b>	<b>256 749</b>	<b>115 226</b>	<b>156 998</b>	<b>58 657</b>	<b>587 630</b>
Indirect taxation	(8 847)	9	(1 010)	(264)	(10 112)
<b>Profit before direct taxation</b>	<b>247 902</b>	<b>115 235</b>	<b>155 988</b>	<b>58 393</b>	<b>577 518</b>
Direct taxation					(127 054)
<b>Profit for the period</b>					<b>450 464</b>
<b>Statement of financial position:</b>					
<b>Gross Advances to customers</b>	<b>9 620 755</b>	<b>2 954 805</b>	<b>2 565 064</b>	—	<b>15 140 624</b>
Loss allowance	(595 487)	(520 295)	(31 230)	—	(1 147 011)
<b>Net advances</b>	<b>9 025 269</b>	<b>2 434 510</b>	<b>2 533 834</b>	—	<b>13 993 613</b>
<b>Deposits</b>	<b>5 409 837</b>	<b>8 214 771</b>	<b>5 508 880</b>	<b>1 833 041</b>	<b>20 966 528</b>

## Unaudited Condensed Segmental Reporting

Six months ended 31 December 2020

	Retail P'000	Commercial P'000	Corporate P'000	Treasury P'000	Total P'000
<b>Income Statement</b>					
Interest and similar income	285 866	63 849	20 676	343 022	713 413
Non-interest income**	298 669	211 271	122 280	(28 327)*	603 893
<b>Total segment revenue</b>	<b>584 535</b>	<b>275 120</b>	<b>142 956</b>	<b>314 695</b>	<b>1 317 306</b>
Interest expense and similar expenses	56 814	75 116	61 789	(329 692)	(135 973)
<b>Segment operating income before impairments</b>	<b>641 349</b>	<b>350 236</b>	<b>204 745</b>	<b>(14 997)</b>	<b>1 181 333</b>
Impairment of advances	(64 242)	(133 255)	(1 884)	—	(199 381)
<b>Net interest income after impairment of advances</b>	<b>577 107</b>	<b>216 981</b>	<b>202 861</b>	<b>(14 997)</b>	<b>981 952</b>
Total expenditure**	(250 869)	(226 946)	(77 150)	(1 224)	(556 189)
<b>Profit before indirect taxation</b>	<b>326 238</b>	<b>(9 965)</b>	<b>125 711</b>	<b>(16 221)</b>	<b>425 763</b>
Indirect taxation	(6 610)	738	(713)	(125)	(6 710)
<b>Profit before direct taxation</b>	<b>319 628</b>	<b>(9 227)</b>	<b>124 998</b>	<b>(16 346)</b>	<b>419 053</b>
Direct taxation					(92 192)
<b>Profit for the period</b>					<b>326 862</b>
<b>Statement of financial position:</b>					
<b>Gross Advances to customers</b>	<b>9 818 476</b>	<b>3 467 792</b>	<b>2 322 938</b>	—	<b>15 609 206</b>
Loss allowance	(602 128)	(857 394)	(31 078)	—	(1 490 600)
<b>Net advances</b>	<b>9 216 348</b>	<b>2 610 399</b>	<b>2 291 860</b>	—	<b>14 118 607</b>
<b>Deposits</b>	<b>5 380 705</b>	<b>7 898 821</b>	<b>6 220 819</b>	<b>2 250 172</b>	<b>21 750 517</b>

\* The Treasury non-interest income loss in this period relates to fair value losses on financial instruments related to funding.

### \*\* Classification error

During the current reporting period, the nature of various expenses incurred by the bank relating to transaction fees were reassessed. This resulted in expenses of P35 million relating to Visa and Mastercard charges being reclassified from operating expenses to fee and commission expenses, (non-interest income) with prior period comparatives restated, so as to align with the treatment of other direct and incremental banking charges. It is the bank's policy to present expenses that are directly attributable or incremental to the bank earning fee and commission income, as fee and commission expenses and not operating expenses.

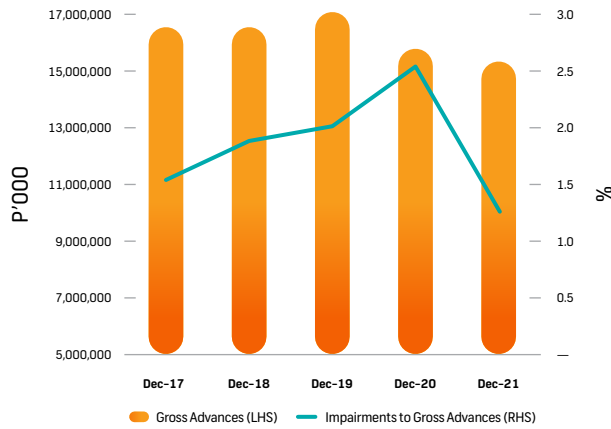
This change in presentation had no impact on the profit or loss of the respective segments and only affected the presentation of items within non-interest revenue and operating expenses.

The impact of the reclassification is as follows:

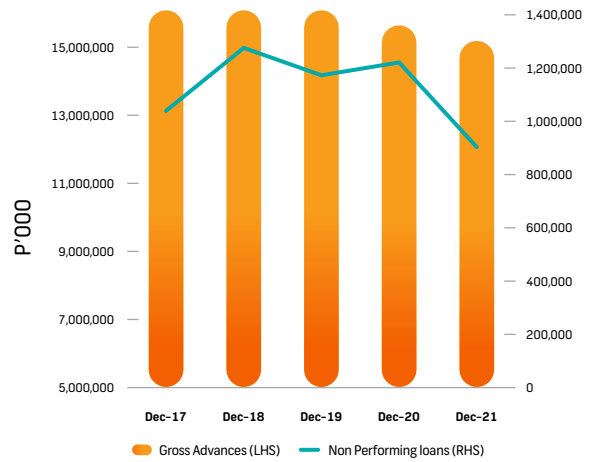
	Retail P'000	Commercial P'000	Corporate P'000	Treasury P'000	Total P'000
<b>Income statement</b>					
<b>As reported - 31 December 2020</b>					
Non-interest revenue	324 144	217 143	125 959	(28 327)	638 919
Operating expenses	(276 344)	(232 818)	(80 829)	(1 224)	(591 215)
<b>Total</b>	<b>47 800</b>	<b>(15 675)</b>	<b>45 130</b>	<b>(29 551)</b>	<b>47 704</b>
<b>Reclassification</b>					
Non-interest revenue	(25 475)	(5 872)	(3 679)	—	(35 026)
Operating expenses	25 475	5 872	3 679	—	35 026
<b>Total</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Restated - 31 December 2020</b>					
Non-interest revenue	298 669	211 271	122 280	(28 327)	603 893
Operating expenses	(250 869)	(226 946)	(77 150)	(1 224)	(556 189)
<b>Total</b>	<b>47 800</b>	<b>(15 675)</b>	<b>45 130</b>	<b>(29 551)</b>	<b>47 704</b>

# Financial Graphs

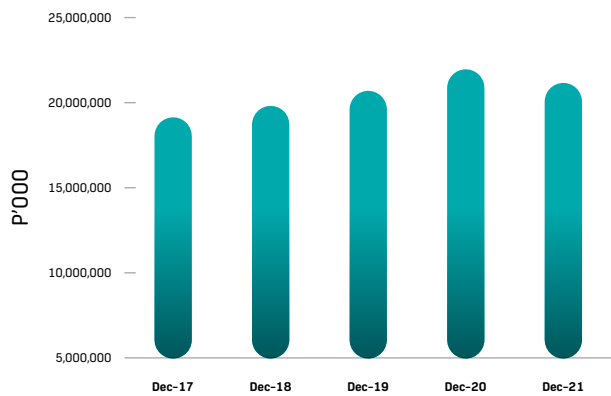
## Gross Advances vs Impairments to Gross Advances



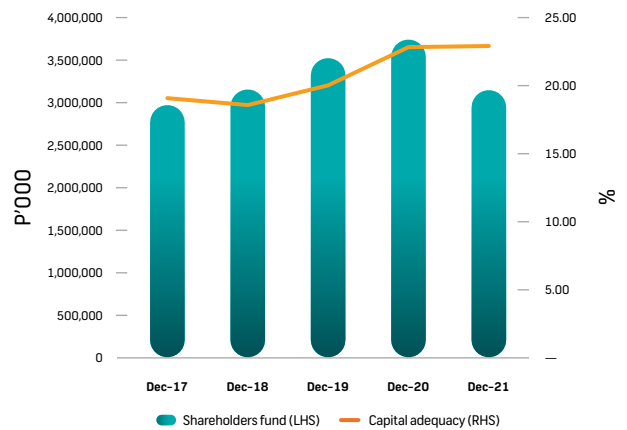
## Gross Advances vs NPLs



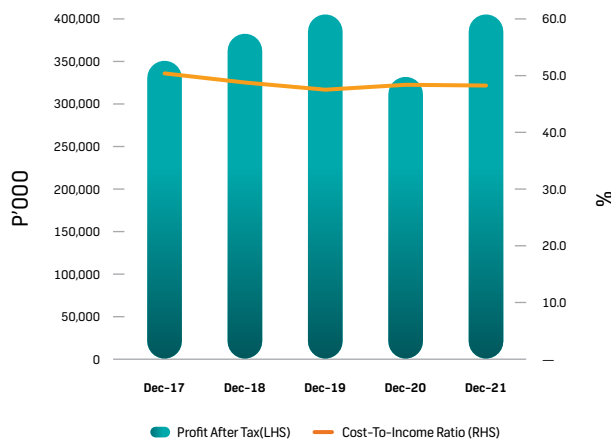
## Deposits



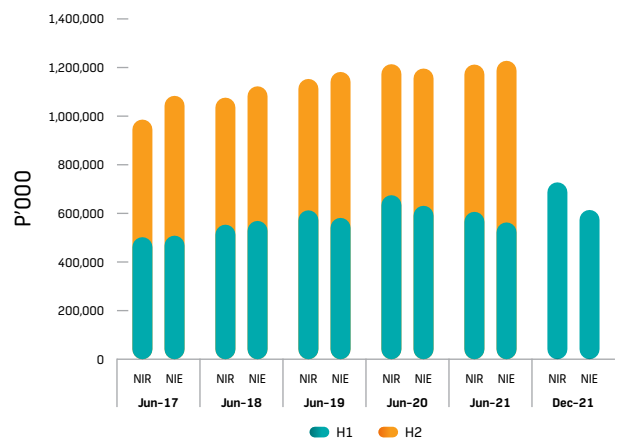
## Shareholders' Funds vs Capital Adequacy



## Profit After Tax vs Cost-To-Income Ratio



## Non-Interest Revenue vs Non-Interest Expenses



## Impact of Adopting Revised Accounting Standards

There were no new International Financial Reporting Standards ("IFRS") that were effective for the first time in the current financial year to be considered. Similarly there were no revisions of existing standards that required consideration.

## Advances To Customers

	Amortised Cost	Loss Allowance	Total
<b>Unaudited – Advances classified per loan type as at 31 December 2021 (P'000)</b>			
Term loans	6 100 305	(473 175)	5 627 130
Vehicle and asset financing	1 778 841	(116 187)	1 662 654
Property loans	5 963 953	(361 814)	5 602 139
Overdrafts and managed accounts	1 064 275	(178 854)	885 421
Other	233 250	(16 981)	216 269
<b>Total</b>	<b>15 140 624</b>	<b>(1 147 011)</b>	<b>13 993 613</b>
<b>Unaudited – Advances classified per loan type as at 31 December 2020 (P'000)</b>			
Term loans	5 831 996	(608 565)	5 223 431
Vehicle and asset financing	2 064 171	(133 050)	1 931 120
Property loans	5 936 259	(404 503)	5 531 756
Overdrafts and managed accounts	1 290 099	(338 511)	951 588
Other	486 682	(5 970)	480 712
<b>Total</b>	<b>15 609 206</b>	<b>(1 490 600)</b>	<b>14 118 607</b>
<b>Audited – Advances classified per loan type as at 30 June 2021 (P'000)</b>			
Term loans	6 047 708	(486 979)	5 560 729
Vehicle and asset financing	1 895 978	(128 664)	1 767 314
Property loans	5 684 944	(376 947)	5 307 997
Overdrafts and managed accounts	1 014 370	(211 223)	803 147
Other	220 978	(18 138)	202 840
<b>Total</b>	<b>14 863 978</b>	<b>(1 221 951)</b>	<b>13 642 027</b>

Unaudited – P'000	Gross Advances				Loss Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Amortised Cost</b>								
<b>Amount as at 01 July 2021</b>	<b>12 401 432</b>	<b>1 377 901</b>	<b>1 084 645</b>	<b>14 863 978</b>	<b>172 922</b>	<b>294 161</b>	<b>754 868</b>	<b>1 221 951</b>
Stage 2 to Stage 1	298 101	(298 101)	—	—	10 627	(10 627)	—	—
Stage 3 to Stage 1	3 989	—	(3 989)	—	2 219	—	(2 219)	—
Stage 3 to Stage 2	—	66 512	(66 512)	—	—	21 162	(21 162)	—
Stage 1 to Stage 2	(271 365)	271 365	—	—	(2 208)	2 208	—	—
Stage 1 to Stage 3	(32 485)	—	32 485	—	(351)	—	351	—
Stage 2 to Stage 3	—	(61 990)	61 990	—	—	(10 536)	10 536	—
<b>Opening balance after transfers</b>	<b>12 399 672</b>	<b>1 355 687</b>	<b>1 108 619</b>	<b>14 863 978</b>	<b>183 209</b>	<b>296 368</b>	<b>742 374</b>	<b>1 221 951</b>
<b>Current period provision created/(released)</b>	<b>389 192</b>	<b>102 241</b>	<b>17 065</b>	<b>508 498</b>	<b>3 399</b>	<b>20 161</b>	<b>107 551</b>	<b>131 111</b>
Attributable to change measurement period (12 month to lifetime)	—	14 349	—	14 349	—	2 198	—	2 198
Attributable to change in risk parameters	—	—	—	—	(16 443)	(18 765)	103 879	68 671
<b>Total new book exposure</b>								
Change in exposure due to new business in the current year/repayment	389 192	87 892	17 065	494 149	19 842	36 728	3 672	60 242
Bad debts written off	—	—	(231 852)	(231 852)	—	—	(231 852)	(231 852)
Net interest suspended/(released)	—	—	—	—	—	—	25 801	25 801
<b>Amount as at 31 December 2021</b>	<b>12 788 864</b>	<b>1 457 928</b>	<b>893 832</b>	<b>15 140 624</b>	<b>186 608</b>	<b>316 529</b>	<b>643 874</b>	<b>1 147 011</b>



Unaudited – P'000	Gross Advances				Loss Allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
<b>Amortised Cost</b>								
<b>Amount as at 01 July 2020</b>	<b>13 585 181</b>	<b>1 208 852</b>	<b>1 222 445</b>	<b>16 016 478</b>	<b>201 960</b>	<b>241 071</b>	<b>886 680</b>	<b>1 329 711</b>
Stage 2 to Stage 1	255 476	(255 476)	—	—	22 875	(22 875)	—	—
Stage 3 to Stage 1	—	—	—	—	—	—	—	—
Stage 3 to Stage 2	—	—	—	—	—	—	—	—
Stage 1 to Stage 2	(515 634)	515 634	—	—	(85 118)	85 118	—	—
Stage 1 to Stage 3	(13 785)	—	13 785	—	(293)	—	293	—
Stage 2 to Stage 3	—	(24 416)	24 416	—	—	(2 884)	2 884	—
<b>Opening balance after transfers</b>	<b>13 311 238</b>	<b>1 444 594</b>	<b>1 260 646</b>	<b>16 016 478</b>	<b>139 424</b>	<b>300 430</b>	<b>889 857</b>	<b>1 329 711</b>
<b>Current period provision</b>	<b>(249 099)</b>	<b>(104 989)</b>	<b>37 846</b>	<b>(316 242)</b>	<b>60 714</b>	<b>77 871</b>	<b>81 837</b>	<b>220 422</b>
created/(released)								
Attributable to change measurement period (12 month to lifetime)	—	—	—	—	673	(7 117)	—	(6 444)
Attributable to change in risk parameters	—	—	—	—	44 548	72 537	80 679	197 764
<b>Total new book exposure</b>								
Change in exposure due to new business in the current year/repayment	(249 099)	(104 989)	37 846	(316 242)	15 493	12 451	1 158	29 102
Bad debts written off	—	—	(91 029)	(91 029)	—	—	(91 029)	(91 029)
Net interest suspended/(released)	—	—	—	—	—	—	31 496	31 496
<b>Amount as at 31 December 2020</b>	<b>13 062 139</b>	<b>1 339 605</b>	<b>1 207 463</b>	<b>15 609 207</b>	<b>200 138</b>	<b>378 301</b>	<b>912 161</b>	<b>1 490 600</b>
<b>Amortised Cost</b>								
<b>Amount as at 01 July 2020</b>	<b>13 585 181</b>	<b>1 208 852</b>	<b>1 222 445</b>	<b>16 016 478</b>	<b>201 960</b>	<b>241 071</b>	<b>886 680</b>	<b>1 329 711</b>
Stage 2 to Stage 1	242 819	(242 819)	—	—	30 210	(30 210)	—	—
Stage 3 to Stage 1	62 115	—	(62 115)	—	13 370	—	(13 370)	—
Stage 3 to Stage 2	—	53 369	(53 369)	—	—	7 131	(7 131)	—
Stage 1 to Stage 2	(729 825)	729 825	—	—	(9 886)	9 886	—	—
Stage 1 to Stage 3	(160 154)	—	160 154	—	(97 266)	—	97 266	—
Stage 2 to Stage 3	—	(104 600)	104 600	—	—	(70 926)	70 926	—
<b>Opening balance after transfers</b>	<b>13 000 136</b>	<b>1 644 627</b>	<b>1 371 715</b>	<b>16 016 478</b>	<b>138 388</b>	<b>156 951</b>	<b>1 034 372</b>	<b>1 329 711</b>
<b>Current period provision</b>	<b>(598 704)</b>	<b>(266 726)</b>	<b>168 988</b>	<b>(696 442)</b>	<b>34 534</b>	<b>137 210</b>	<b>116 556</b>	<b>288 300</b>
created/(released)								
Attributable to change measurement period (12 month to lifetime)	—	(63 582)	—	(63 582)	—	22 078	—	22 078
Attributable to change in risk parameters	—	—	—	—	9 362	85 467	115 495	210 324
<b>Total new book exposure</b>								
Change in exposure due to new business in the current year/repayment	(598 704)	(203 144)	168 988	(632 860)	25 172	29 665	1 061	55 898
Bad debts written off	—	—	(456 058)	(456 058)	—	—	(456 058)	(456 058)
Net interest suspended/(released)	—	—	—	—	—	—	59 998	59 998
<b>Amount as at 30 June 2021</b>	<b>12 401 432</b>	<b>1 377 901</b>	<b>1 084 645</b>	<b>14 863 978</b>	<b>172 922</b>	<b>294 161</b>	<b>754 868</b>	<b>1 221 951</b>

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

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

## Impairment of Advances

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

#### Impairment of financial assets: Staging of Financial Assets

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

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

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

#### Approach to Incorporate Forward-Looking Indicators (FLI)

Forward-looking macro-economic indicators (FLI) have been incorporated into expected loss estimates through the application of quantitative modelling and expert judgement-based adjustments applied to PDs. The techniques applied estimate the impact of forecasted FLIs on ECL using regression techniques.

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

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

The baseline, downside and upside scenarios are used in the ECL calculations.

#### Economic Scenarios Applied in December 2021 ECL computation

The FLI component of ECL is limited to a single factor of GDP. The modelling process is consistent with prior year. 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 product and exports. Public sector stakeholders successfully implement the NDP11 framework which unlocks private investment in key sectors. Improved power and water supply facilitate greater economic activity. Tax revenues increase while the tax base also expands. Bank lending to households and businesses improves gradually given low interest rates. Real wages increase as a result of reduced inflation and higher productivity.

**Baseline:** Growth reflected a positive trend in the first half of 2021 primarily led by improved diamond mining activities as global demand rebounded. This scenario hinges on the continued recovery of this sector resulting in higher production levels heading into 2022.

**Downside:** Slow global vaccine roll-out continues and elevates risk of Covid-19 viral mutations and reduce vaccine efficacy. Global supply chains remain hampered creating higher inflation and global shortages. 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. The ZAR depreciates sharply against the USD in response to a marked fall in the appetite for emerging market assets.

#### FLIs: Applied in ECL Models as at 31 December 2021

GDP Per Annum	Upside	Baseline	Downside
2022	6.00%	3.70%	2.00%
2023	7.00%	4.30%	0.75%
2024	7.50%	3.90%	0.20%
Weighting	19%	66%	15%

#### FLIs: Applied in ECL Models as at 31 December 2020

GDP Per Annum	Upside	Baseline	Downside
2021	-0.30%	-2.10%	-5.25%
2022	4.90%	3.30%	0.25%
2023	5.60%	3.50%	0.85%
Weighting	13.70%	65%	21.30%

#### FLIs: Applied in ECL Models as at 30 June 2021

GDP Per Annum	Upside	Baseline	Downside
2022	7.95%	5.10%	2.25%
2023	6.95%	4.10%	2.30%
2024	6.30%	3.70%	2.20%
Weighting	15.00%	68%	17.00%

## Fair Value Financial Instruments

### Fair value hierarchy and measurements

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

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

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

### Valuations based on observable inputs include:

#### Level 1

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

#### Level 2

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

#### Level 3

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

The below table provides insight into valuation inputs and techniques of level 2 and level 3 fair value instruments.

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
<b>Derivative Financial Instruments</b>					
<b>Option Contracts</b>	<b>Level 2</b>	<b>Option pricing model and industry standard</b>	The Black Scholes model is used. The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves, and for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and by applying extrapolation techniques to match the appropriate risk profile.	Strike price of the option; market related discount rate; spot or forward rate, the volatility of the underlying dividends and share prices.	Discounted cashflow and industry standard models.

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
<b>Derivative Financial Instruments</b>					
<b>Swaps</b>	<b>Level 2</b>	<b>Discounted cash flow and industry standard models</b>	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
<b>Forward Contracts</b>	<b>Level 2</b>	<b>Discounted cash flow</b>	The future cashflows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cashflows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Spot prices of underlying instruments, market interest rate curves, and dividend yield	Not applicable
<b>Loans and advances to customers</b>					
<b>Corporate investment banking book held at fair value</b>	<b>Level 3</b>	<b>Discounted cash flows</b>	The future cashflows are discounted using a market related interest rate. To calculate the fair value of loan book the bank 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.	Markets interest rates and curves	Credit inputs market related interest rates.

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
<b>Loans and advances to customers</b>					
<b>Other loans and advances</b>	<b>Level 2 and 3</b>	<b>Discounted cash flows</b>	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.
<b>Investments Securities and other investments</b>					
<b>Equities/bonds listed in an inactive market</b>	<b>Level 2</b>	<b>Discounted cash flows</b>	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
<b>Unlisted bonds</b>	<b>Level 2</b>	<b>Discounted cash flows</b>	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
<b>Negotiable certificates of deposit</b>	<b>Level 2</b>	<b>Discounted cash flows</b>	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
<b>Treasury Bills</b>	<b>Level 2</b>	<b>Bank of Botswana quoted prices</b>	Bank of Botswana quoted prices.	Market interest rates and curves	Not applicable

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
<b>Deposits</b>					
<b>Other Deposits</b>	<b>Level 2</b>	<b>Discounted cash flow</b>	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates	Credit Inputs
<b>Other liabilities and Tier 2 liabilities</b>	<b>Level 2</b>	<b>Discounted cash flows</b>	The future cash flows are discounted using a market related interest rate.	Market interest	Not applicable
<b>Financial assets and liabilities not measured at fair value but for which fair value is disclosed</b>	<b>Level 2</b>	<b>Discounted cash flows</b>	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs. Where the value of the liability is linked to the performance of an underlying and the underlying is observable, these liabilities are classified as level 2.	Market interest rate curves or performance of underlying	Credit Inputs
<b>Property and Equipment</b>					
<b>Freehold and leasehold land and buildings</b>	<b>Level 2</b>	<b>Market value</b>	The valuation is based on the net income approach by applying rental for comparable properties divided by the capitalisation rate.	Market rentals per square metre.	Capitalisation Rates

## Fair Value of Financial Instruments

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

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Fair Value P'000	Amortised Cost P'000
<b>Unaudited at 31 December 2021</b>					
Advances	—	—	14 043 247	14 043 247	13 993 613
Investment securities	5 145 480	181 088	—	5 326 568	5 504 835
Other assets	—	—	613 515	613 515	613 515
<b>Total financial assets amortised cost</b>	<b>5 145 480</b>	<b>181 088</b>	<b>14 656 762</b>	<b>19 983 330</b>	<b>20 111 963</b>
Deposits	—	20 376 285	—	20 376 285	20 372 057
Long term borrowings	—	1 393 623	—	1 393 623	1 366 759
Account payable	—	675 757	—	675 757	675 757
<b>Total financial assets amortised cost</b>	<b>—</b>	<b>22 445 665</b>	<b>—</b>	<b>22 445 665</b>	<b>22 414 573</b>
<b>Unaudited at 31 December 2020</b>					
Advances**	—	—	14 257 497	14 257 497	14 118 607
Investment securities*	7 227 000	—	—	7 227 000	7 318 081
Other assets	—	—	413 162	413 162	413 162
<b>Total financial assets amortised cost</b>	<b>7 227 000</b>	<b>—</b>	<b>14 670 659</b>	<b>21 897 659</b>	<b>21 849 850</b>
Deposits	—	21 260 893	—	21 260 893	21 238 765
Long term borrowings	—	1 215 458	—	1 215 458	1 191 680
Accrued interest payable	—	10 095	—	10 095	10 095
Creditors and accruals	—	573 711	—	573 711	573 711
<b>Total financial liabilities at amortised cost</b>	<b>—</b>	<b>23 060 157</b>	<b>—</b>	<b>23 060 157</b>	<b>23 014 251</b>

Amortised cost for advances refers to gross carrying amount less impairments.

\* The prior year fair value of investment securities was erroneously disclosed as P7 318 081 000 as opposed to P7 227 000 000. This prior year amount has been restated to reflect the correct amount.

\*\* The prior year amortised cost advances was erroneously disclosed as P14 310 727 000 as opposed to P14 118 607 000. This prior year amount has been restated to reflect the correct amount.

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Fair Value P'000	Amortised Cost P'000
<b>Audited at 30 June 2021</b>					
Advances	—	—	13 743 144	13 743 144	13 787 065
Investment securities	7 640 487	—	—	7 640 487	7 793 383
Other assets	—	—	406 658	406 658	406 658
<b>Total financial assets at amortised cost</b>	<b>7 640 487</b>	<b>—</b>	<b>14 149 802</b>	<b>21 790 289</b>	<b>21 987 106</b>
Deposits	—	21 416 664	—	21 416 664	21 421 150
Long term borrowings	—	1 367 570	—	1 367 570	1 361 195
Accrued interest payable	—	21 360	—	21 360	21 360
Creditors and accruals	—	680 568	—	680 568	680 568
<b>Total financial liabilities at amortised cost</b>	<b>—</b>	<b>23 486 162</b>	<b>—</b>	<b>23 486 162</b>	<b>23 484 273</b>

## Fair Value of Financial Instruments (continued)

The following represents the fair values of financial instruments carried at fair value on the summarised consolidated statement of financial position (P'000)

	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
<b>Unaudited at 31 December 2021</b>				
<b>Financial assets at fair value through profit and loss</b>				
Investment securities	—	43 628	—	43 628
Derivative financial instruments	—	36 829	—	36 829
<b>Non-financial assets</b>				
Freehold and leasehold land and buildings	—	312 563	—	312 563
<b>Total financial assets at fair value</b>	<b>—</b>	<b>393 020</b>	<b>—</b>	<b>393 020</b>
<b>Financial liabilities held for trading</b>				
Derivative financial instruments	—	19 270	—	19 270
<b>Mandatory at fair value through profit or loss</b>				
Zero coupon deposit	—	171 673	—	171 673
<b>Total financial liabilities at fair value</b>	<b>—</b>	<b>190 943</b>	<b>—</b>	<b>190 943</b>
<b>Unaudited at 31 December 2020</b>				
<b>Financial assets at fair value through profit and loss</b>				
Investment securities	—	178 655	—	178 655
Derivative financial instruments	—	68 236	—	68 236
<b>Non-financial assets</b>				
Freehold and leasehold land and buildings*	—	294 187	—	294 187
<b>Total financial assets at fair value</b>	<b>—</b>	<b>541 078</b>	<b>—</b>	<b>541 078</b>
<b>Financial liabilities held for trading</b>				
Derivative financial instruments	—	32 488	—	32 488
<b>Mandatory at fair value through profit or loss</b>				
Zero coupon deposit	—	171 306	—	171 306
<b>Total financial liabilities at fair value</b>	<b>—</b>	<b>203 794</b>	<b>—</b>	<b>203 794</b>
* Restatement of prior year levels of the fair value hierarchy: Freehold and leasehold land and buildings were corrected from level 3 to level 2.				
<b>Audited at 30 June 2021</b>				
<b>Financial assets at fair value through profit and loss</b>				
Investment securities	—	95 656	—	95 656
Derivative financial instruments	—	35 307	—	35 307
<b>Non-financial assets</b>				
Freehold and leasehold land and buildings	—	314 644	—	314 644
<b>Total financial assets at fair value</b>	<b>—</b>	<b>445 607</b>	<b>—</b>	<b>445 607</b>
<b>Financial liabilities held for trading</b>				
Derivative financial instruments	—	21 507	—	21 507
<b>Mandatory at fair value through profit or loss</b>				
Zero coupon deposit	—	166 005	—	166 005
<b>Total financial liabilities at fair value</b>	<b>—</b>	<b>187 512</b>	<b>—</b>	<b>187 512</b>



## Related Party Balances

	Year ended 31 December 2021 (P'000)	Year ended 31 December 2020 (Restated) (P'000)
<b>Due from related parties:</b>		
FirstRand Limited – South Africa	2 866 379	1 975 832
First National Bank Holdings (Botswana) Limited	9 523	10 562
	<b>2 875 902</b>	<b>1 986 394</b>
<b>Less money at call and short notice:</b>		
<i>FirstRand Limited – call balances</i>	(56 712)	(31 313)
<i>FirstRand Limited – nostro balances*</i>	(2 805 313)	(1 944 519)
<b>Net</b>	<b>13 877</b>	<b>10 562</b>
<b>Due to related companies – current liabilities:</b>		
FirstRand Limited	20 645	17 394
	<b>20 645</b>	<b>17 394</b>

\* The prior year nostro balances with FirstRand Bank Limited were erroneously disclosed as P1 975 832 000 as opposed to P1 944 519 000. This prior year amount has been restated to reflect the correct amount.

## Related Party Transactions

	Year ended 31 December 2021 (P'000)	Year ended 31 December 2020 (P'000)
<b>Interest Income</b>		
FirstRand Limited – South Africa	12 602	5 406
<b>Interest expenditure</b>		
FirstRand Limited – South Africa	7 459	10 438
<b>Operating expenses</b>		
Service Fees – FirstRand Limited	126 851	98 858
<b>Compensation paid to key management personnel:</b>		
Share-based payments	1 896	—
Short term employee benefits	12 073	8 767
<b>Total short term benefits</b>	<b>13 969</b>	<b>8 767</b>
Post-employment benefits: Pension	419	461
<b>Advances:</b>		
Personal loans	500	647
Overdrafts	—	29
Credit card	321	279
Instalment finance	958	2 577
Property loans	14 548	14 435
<b>Total advances</b>	<b>16 327</b>	<b>17 966</b>

Interest rates are in line with normal rates charged to customers or staff rates in line with company policy. For all the above facilities, normal credit checks are performed. Personal loans are repayable between 5 - 6 years. Property loans and instalment finance loans are repayable monthly over 20 years, and 6 years respectively. Property loans are collateralised by properties with a total fair value of P28 360 000 (2020: P26 520 000). Personal loans, overdrafts and credit card balances are unsecured.

## Related party (FirstRand Bank Limited) derivatives

	Asset		Liability	
	Notional P'000	Fair Value P'000	Notional P'000	Fair Value P'000
<b>Unaudited at 31 December 2021</b>				
Trading derivatives	117 752	281	57 916	313
Interest rate swaps	324 748	22 014	34 420	6 330
Currency options	10 265	44	—	—
Currency swaps	373 615	5 937	1 845	44
	<b>826 380</b>	<b>28 276</b>	<b>94 181</b>	<b>6 687</b>
<b>Unaudited at 31 December 2020</b>				
Trading derivatives	153 758	708	216 162	3 639
Interest rate swaps	359 168	61 804	—	—
Currency options	—	—	15 282	158
	<b>512 926</b>	<b>62 512</b>	<b>231 444</b>	<b>3 797</b>

## Related parties

### The following are the related parties of the bank:

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

#### **DIRECTORS:**

Balisi Bonyongo (Chairperson-Independent Non-Executive Director), John K. Macaskill (Independent Non-Executive Director)(SA), Steven L. Bogatsu (CEO – Executive Director), Jabulani R. Khethe (Independent Non-Executive Director)(SA), Michael W. Ward (Independent Non-Executive Director), Doreen Ncube (Independent Non-Executive Director), Ephraim D. M. Letebele (Independent Non-Executive Director), Naseem Banu Lahri (Independent Non-Executive Director), Massimo Max Marinelli (Independent Non-Executive Director), Asad Petkar (Independent Non-Executive Director)

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#### **MARKETING & COMMUNICATIONS**

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