Audited summarised consolidated financial statements and dividend announcement

For the year ended 30 June 2021

First National Bank

The Directors take pleasure in presenting the audited summarised consolidated financial statements 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 year ended 30 June 2021.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The audited summarised consolidated financial statements contained in this analysis of the 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.

The bank's underlying audited consolidated financial statements from which the summarised consolidated financial statements have been extracted have been prepared in accordance with IFRS and all interpretations issued by the IFRS Interpretations Committee effective 1 July 2020, and 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 respects with those adopted in the previous year. 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.

In the preparation of the consolidated financial statements, the bank has applied sound business principles with key assumptions concerning any inherent uncertainties in recording various assets and liabilities. These assumptions were applied consistently to the audited summarised consolidated financial statements for the financial year ended 30 June 2021 and 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.

The Directors confirm that this information has been correctly extracted from the audited consolidated financial statements from which the audited summarised consolidated financial statements were derived.

The Directors have reviewed and approved, three-year forward-looking budgets that incorporate the expected impact of the COVID-19 pandemic. The Directors have further reviewed the bank's funding position and available sources of funding and conclude that these are adequate to support the bank'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.

SIGNIFICANT JUDGEMENTS AND ESTIMATES IMPACTED BY COVID-19

Due to the unprecedented nature of the COVID-19 pandemic, it is not possible to accurately predict the full extent, nor the duration, of its economic impact. Specific areas of judgement set out in the audited consolidated financial statements did not change. However, given the dynamic nature of the pandemic and the limited recent experience of the ensuing economic and financial impact, additional judgements have been applied within those identified areas. This has resulted in changes to the estimates and assumptions that have been applied in the measurement of the assets of FNBB for the current reporting period. Further, certain balances, processes and related disclosures have been impacted by COVID-19. In these instances, judgement has been applied and adjustments made on a conservative but reasonable basis, and where appropriate, disclosed.

The audited consolidated financial statements contain forward-looking indicators, including a detailed explanation of the scenarios considered in determining the bank's assumptions for the purposes of its expected credit loss (ECL). Noting the wide range of possible scenarios and macroeconomic outcomes as well as the relative uncertainty of the social and economic consequences of COVID-19, these scenarios represent reasonable forward-looking views as supported by the information available at the reporting date. 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 its ECL calculation, has been provided. Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of the economic consequences of COVID-19, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS – INDEPENDENT AUDITOR'S OPINION

Deloitte & Touche, First National Bank of Botswana Limited's independent auditors, have audited the consolidated financial statements of First National Bank of Botswana Limited from which the summarised consolidated financial statements have been derived, and have expressed an unmodified audit opinion on the consolidated financial statements.

The summarised consolidated financial statements comprise the summarised consolidated statement of financial position at 30 June 2021, summarised consolidated income statement, summarised consolidated statement of comprehensive income, summarised consolidated statement of changes in equity and summarised consolidated statement of cash flows for the year ended 30 June 2021, and related notes. The full set of financial statements and audit report thereon are available for inspection at First National Bank of Botswana Limited's registered office. The financial statements do not necessarily report on all the information contained in this announcement. For a better understanding of the bank's financial position and the statements of its operations for the year and the scope of the audit engagement, these audited summarised consolidated financial statements should be read in conjunction with the audited consolidated financial statements from which the summarised consolidated financial statements were derived and the audit report thereon. The audit of the summarised consolidated financial statements was conducted in accordance with International Standards on Auditing.

FORWARD-LOOKING STATEMENTS

Any reference to future financial performance included in this announcement has not been audited or reported on by the bank's auditors.

FINANCIAL HIGHLIGHTS (P'000)	Year ended 30 June 2021 Audited	Year ended 30 June 2020 Audited	% change
Profit after tax (P'000)	685,175	695,806	(2)
Advances to customers (P'000)	13,642,027	14,686,767	(7)
Deposits from customers (P'000)	21,396,057	23,171,897	(8)
Ratios			
Cost-to-income ratio (%)*	51.9	47.9	8
Return on equity (%)	18.2	20.1	(9)
Return on average assets (%)	2.3	2.5	(8)
NPLs to gross advances (%)	7.3	7.6	(4)
Credit Loss Ratio (%)	1.6	2.6	(39)
Earnings per share (thebe)	26.9	27.4	(2)

*The prior year cost-to-income ratio was restated from 49.3% to 47.9% due to a reclassification of P68 million relating to bank charges which was reclassified from operating expenses to non-interest revenue (fee and commission expenses).

ECONOMIC UPDATE

Global Economic Overview

A vaccine-inspired recovery

Global economic activity continues to broadly maintain a pattern of steady recovery from the COVID-19 economic shock, although not expected to reach pre-pandemic levels in the near future. The World Bank forecasts global growth to recover to 5.6% in 2021 before moderating to 4.3% in 2022. There remains the risk from delays in the vaccine roll-outs in many parts of the world and from new variants triggering further waves of infection, leading in turn to sporadic lockdowns and an uneven restoration of sectorial and regional activity. While the latter would weigh on growth in the near term, the global roll-out of vaccines should accelerate over the second half of 2022, with benefits being realised in emerging markets in the subsequent six to twelve months as populations are vaccinated in greater numbers.

The primary downside risk to global growth is the debt overhang, which could create drag on medium- and long-term growth prospects. Other significant themes include oil market volatility, US-China tensions and nationalistic politics, and policies globally across jurisdictions.

Inflation for developed markets is expected to rise at a faster pace in 2021 due to significant base effects and higher oil prices, but to remain below targeted levels in aggregate for a prolonged period due to largely negative output gaps. Emerging markets should, however, experience a moderate temporary spike in inflation over the next few quarters, driven by food, energy, and core goods prices as well as supply-side and logistical concerns. Inflation should stabilise in 2022 as global economies adjust to the “new normal”. We expect fiscal and monetary stimulus to be maintained well into 2022, which implies that budget deficits will remain wide while economies implement recovery and sustainability plans.

Quantitative easing stimulus adopted in what are already highly-indebted sovereigns will exacerbate the debt overhang, and distort money market rates across the globe for as long as monetary authorities continue to provide this support. However, indications are that the US Federal Reserve will tighten monetary policy ahead of its peers towards the end of 2021, by tapering off the supply of bonds in the open market, resulting in increasing bond prices and in lower yields, before embarking on gradual interest rate hikes.

Regional Economy

Walking a tightrope

Growth in Sub-Saharan Africa (SSA) is expected to rebound in 2021 and revert to its long-term average by 2022. The World Bank predicts that SSA growth will register 2.8% in 2021 and 3.3% in 2022. Across most economies, growth should be led by strong exports as global demand improves.

Most countries across SSA will need to maintain expansionary fiscal policies to support their economies while revenues remain compressed, resulting in budget deficits outside of historical ranges. It is expected that expenditure will be driven towards supporting infrastructure projects as economies initiate their recovery plans. During 2020, many countries in SSA received ratings downgrades on the back of accumulated public debt. Furthermore, several countries have commenced debt suspension initiatives. Monetary policy across SSA will remain accommodative across various markets.

Foreign exchange markets in Africa will benefit from the expected relatively weaker dollar in 2021. The implication is that there will be less pressure on central banks to defend their respective currencies, which should lead to more stable FX reserves.

Botswana Economy

Glimmer of hope

Statistics Botswana has undertaken a project for rebasing of national accounts to 2016 (previously 2006) leading to reclassification of some industries and sub-industries. Consequently, several revisions have been made to Botswana's historical nominal GDP values between 2014 and 2020. The revised economic growth for 2020 is a contraction of 8.5% (previously estimated contraction 7.9% prior to the rebasing). The negative growth was mostly attributed to severe disruptions caused by the COVID-19 pandemic. All sectors of the economy reflected contractions, apart from agriculture and utilities. In 1Q21, GDP growth was registered at 0.7% year-on-year (compared to 1.2% in the prior year) due mainly to muted consumer activity and business capacity utilisation remaining low. We anticipate economic growth to rebound above the 6% levels in 2021, hinging mainly on the continued medium-term recovery in global diamond sales and increased production levels over the second half of 2021. While Botswana remains exposed to external disruption from the pandemic, the pace of local vaccinations against COVID-19 will largely determine the rate of recovery in normal business operations. The bank expects growth momentum to be maintained at positive average levels through to 2024.

To stimulate and support economic activity, the Government is rolling-out its Economic Recovery and Transformation Plan (ERTP), which is currently estimated at P14.5bn.

The plan aims to safeguard existing businesses from the disruption caused in 2020, as well as to spur growth in sectors that have traditionally had a low contribution to GDP. Key sectors have been identified with the potential to advance the diversification agenda and propel economic growth. These sectors include agriculture, manufacturing and tourism. Success of this plan will require improvement in national project management and implementation (with private-sector involvement).

To finance the ERTP and anticipated budget deficits through to the end of NDP11, Government has looked to the domestic market through increased bond auctions with Parliament having approved a P15bn extension in the bond programme. External funding options have also been explored mostly from the development funding institutions (DFI's). Some of the executed deals include a US$250m facility from the World Bank as well as a US$600m syndicated loan that is backed by MIGA (Multilateral Investment Guarantee Agency). Other external funding plans include US$400m from the IMF.

Bank rate to remain on hold

Headline inflation has been on an upward trajectory this year, reaching 8.2% year-on-year in June 2021 (12-month average of 3.2% to June 2021 compared to 2.4% at the same time last year). We anticipate inflation to peak at 9.6% by July 2021 and to continue to trend above the upper inflation objective of 6% before moderating slightly back within range. The upward movements in the headline figure will mostly be driven by increases in fuel supply prices, in VAT, as well as, in levies and tariffs on fuel, electricity and water. These will put pressure on disposable income levels and purchasing power. Additionally, unemployment levels are expected to rise at the end of the state of emergency, while real wage growth levels could remain subdued due to limited business activity.

This means that real interest rates (bank rate minus inflation) will trade on a negative drag in the short-term. The Bank of Botswana anticipates the inflationary pressures to be transitory and as such may not warrant tightening of monetary policy in the near future. Our view is that the central bank will continue with its accommodative stance by maintaining the Bank Rate at 3.75% throughout 2021.

Steadfast BWP in the wake of FX volatilities

Changes in Botswana's currency regime over the past few years, especially as they relate to reducing the Rand's weight in the Pula peg, have reduced the Pula's sensitivity to the high volatility of the Rand. As a result, the Pula outlook remains stable and rangebound volatility is expected to continue against major currencies (US Dollar and Euro). We forecast a 12-month average marginal increase in BWP value against USD and a drop in BWP value against ZAR over the same period.

COVID-19 INITIATIVES

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.

Continued initiatives include communication 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. These include remote working enablement and ensuring uninterrupted customer service through digital channels. The bank maintained financial assistance to its customers to get through the pandemic, with debt restructuring alleviating their cash flow and with reduced pricing on certain transactional services. The table that follows provides insight into the debt restructuring relief measures.

Total COVID-19 Relief Moratoriums entered into up until 30 June 2021*

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

**As at 30 June 2021 a substantial amount of the moratoriums had ended with approximately P10 million remaining.*

Subsequent to the completion of the agreed moratorium periods, to date, the loan repayment patterns have normalised, although FNBB continues to work closely with its clients over this difficult period. The situation remains carefully monitored and appropriate provisioning has been applied to the portfolio credit risk.

The Directors have throughout maintained detailed scrutiny of the processes and management of the COVID-19 pandemic and its effect on customers, staff members and the bank's operations. As evidenced by performance in the financial year ended June 2021, the Directors are confident that the bank remains in a sound financial position in the face of this global pandemic. FNBB will continue to operate efficiently and effectively whilst playing a major role in supporting the people and the economy of Botswana through both the pandemic and the recovery thereafter.

Statement of Financial Position

The balance sheet reduced by 6% year-on-year primarily due to the decline in gross advances to customers. Credit risk remains heightened amid the prevalent economic uncertainty. 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 7%, while market gross advances increased by 4%.

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

The NPLs declined by 11% year-on-year from P1.2bn to P1.09bn, resulting in a NPL/gross advances ratio of 7.3% as at 30 June 2021 (7.6% as at 30 June 2020). This reduction in NPLs was primarily due to a recoverability assessment of long-outstanding NPL loans resulting in the write-off of irrecoverable loans. The closing provision levels remain appropriate.

The June 2020 deposit portfolio experienced significant growth following the reduced spending commensurate with the lockdown restrictions as well as deferred capital expenditure cycles by corporates. In the June 2021 results, deposits declined from P23.2bn to P21.4bn (8% decline) driven by an increase in activity following the lifting of COVID-19 restrictions and the normalisation of the market liquidity. The market priced up for fixed and notice deposits, in contrast to the reducing Bank Rate, in order to protect deposit franchises.

FNBB remains well-funded with a loan-to-deposit ratio of 62% and has access and options to raise additional funding from the market.

Investment securities declined by 17% year-on-year following the normalisation of market liquidity to pre COVID-19 levels. The decline was driven by the drop in short term assets at the back of the decline in demand deposits.

Income Statement

FNBB has demonstrated a resilient performance amid COVID-19 uncertainty demonstrated by maintaining the profit before tax in spite of the significant reduction in the Bank Rate. This was underpinned by a normalisation of credit losses, as well as, a resilient non-interest revenue (NIR) base. Return on equity of 18.2% (2020: 20.1%) has declined due to the conservative level of capital held over the financial year, as well as the 2% reduction in profit after tax. The past year has presented itself as a real and severe economic test, and FNBB has shown that its income streams are resilient while a key focus has been on strengthening the balance sheet.

A decrease of 15% in interest income was driven by the reduction in the Bank Rate, the decline in the advances book, as well as by a change in the advances portfolio mix. This was further driven by the fall in the cash and investment portfolio interest income due to the reduction in risk free rates as well as lower yields across investment securities for a portion of the year.

Interest expense decreased 22% following an 8% decrease in deposits and the Bank Rate reduction. The deposit mix shifted from overnight deposits to term deposits as clients sought higher yields.

Impairments declined by 43% year-on-year driven by a 49% reduction in both Stage 1 and 2 impairments, as well as, a 40% reduction in Stage 3 impairments. The stage 1 and 2 impairment decline followed a reduction in the gross advances exposure, as well as, the normalisation of impairments in June 2021. The Stage 3 impairments decline is attributed to a reduction in defaults over the period, with the bank having partnered with clients to help their businesses through the pandemic. The P180m reduction in impairments results in a reduction in the credit loss ratio to 1.6% (2020: 2.6%).

Non-interest revenue remained flat with a 1% increase year-on-year. The increase was driven by service fee and card commission income growth of 7% offset by a 30% reduction in foreign exchange revenue. 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. Improved connectivity on our digital channels generated growth in both transactional volumes and values. The bank broadened its financial inclusion by continuing to expand its CashPlus channel and thereby bringing services to more remote locations while offering further convenience to our customers.

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

LOOKING AHEAD

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

FNBB continues to invest in a forward-thinking approach to technology and innovation. Growth has been 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 with minimum added exposure to COVID-19. Investment in infrastructure and especially in the bank's robust cyber security measures remain key objectives, so as to facilitate self-service initiatives which are both efficient and secure for customers.

Most of FNBB's workforce continues to work from home, in line with the anticipated long-term move to flexible working arrangements. This has supported sustainable business continuity that also prioritises employee welfare. The digital and remote working strategies are underpinned by strict governance and risk protocols.

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

FNBB remains a strong proponent of good governance and corporate citizenship, and with special relevance to the pandemic. Throughout the year, FNBB has partnered with its clients in providing them much-needed cash flow relief moratoriums through difficult trading conditions. While these moratoriums are now complete, the post-moratorium performance of the portfolio has on balance been excellent over the financial year.

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

CAPITAL MANAGEMENT

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. The bank aims to maintain capital ratios in line with risk appetite, thereby appropriately safeguarding its operations and stakeholder interests.

Furthermore, FNBB's capital management strategy is to ensure an optimal level and composition of capital, effective allocation of financial resources including capital and risk capacity, so as to achieve 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, 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.

The capital focus has been directed to the composition of the capital structure and efficiency of the risk-weighted assets. The Directors review and approve macroeconomic scenarios twice a year for regulatory and business purposes. The same process is a key input into the Internal Capital Adequacy Assessment Process (ICAAP) which in turn informs our capital management. For the financial year ended 30 June 2021, FNBB continued to operate above both the internal and regulatory minimum capital adequacy ratios.

During the initial stages of the pandemic, the Directors opted to follow a prudent approach to balancing an efficient capital position with the need to retain sufficient capital for unexpected fluctuations in earnings volatility. This approach resulted in a similar dividend being declared for these prior periods and allowed for high levels of capital to be maintained in the bank which in the face of the early uncertainties of the impact of COVID-19 on the bank's earnings was appropriate. At the close of the June 2021 financial year, FNBB is in a position to rebalance its capital portfolio after taking into account the outlook on risk weighted asset growth, expected earnings volatility levels, and capital efficiency. Accordingly, the Directors recommend a final ordinary dividend of 9 thebe per share and a once-off special dividend of 40 thebe per share, resulting in a total final ordinary dividend of 49 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 (As defined in Section 4 of the Companies Act). Since the solvency test was performed, there has been no significant change to the financial position of the bank.

EVENTS AFTER REPORTING DATE

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

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 iniatives 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 P64 million to the Foundation, which has been invested appropriately in qualifying beneficiaries.

DECLARATION OF DIVIDEND

Notice is hereby given that a final dividend of 49 thebe per share has been declared for the year ended 30 June 2021. The dividend will be paid on or about 8 October 2021 to shareholders registered at the close of business on 28 September 2021. The ex-dividend date is 24 September 2021.

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 1 October 2021.

For and on behalf of the Board.

B M Bonyongo
Chairman

L D Woodford
Acting Chief Executive Officer

Gaborone, 9 September 2021

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

SUMMARISED CONSOLIDATED INCOME STATEMENT (P'000)	Year ended 30 June 2021 Audited	Year ended 30 June 2020 Audited Re-classified	% change
Interest income calculated using the effective interest rate	1,408,692	1,649,128	(15)
Interest expense and similar charges	(241,506)	(310,893)	(22)
Net interest income before impairment of advances	**1,167,186**	**1,338,235**	**(13)**
Impairment of advances	(241,251)	(421,442)	(43)
Net interest income after impairment of advances	**925,935**	**916,793**	**1**
Non-interest revenue*	1,205,745	1 199 354	1
Income from operations	**2,131,680**	**2,116,147**	**1**
Operating expenses*	(566,095)	(576,194)	(2)
Employee benefits costs	(647,877)	(612,708)	6
Income before taxation	**917,708**	**927,245**	**(1)**
Indirect taxation	(16,853)	(26,394)	(36)
Profit before direct taxation	**900,855**	**900,851**	**-**
Direct taxation	(215,680)	(205,045)	5
Profit for the year attributable to owners of the company	**685,175**	**695,806**	**(2)**
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)	26,94	27,35	(2)

*In the prior year, P68million relating to bank charges were reclassified from operating expenses to non-interest revenue (fee and commission expenses), so as to better reflect the nature of the expense.

SUMMARISED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME (P'000)	Year ended 30 June 2021 Audited	Year ended 30 June 2020 Audited	% change
Profit for the year	685,175	695,806	(2)
Other comprehensive income	-	-	-
Total comprehensive income for the year attributable to owners of the parent	685,175	695,806	(2)

RATIOS AND MARKET INFORMATION	Year ended 30 June 2021 Audited	Year ended 30 June 2020 Audited	% change
Dividend per share (thebe)	55	15	267
Dividend cover (times)	0.5	1.8	(72)
Cost to income ratio (percent)*	51.9	47.9	8
Return on equity (percent)	18.2	20.1	(9)
Return on average assets (percent)	2.3	2.5	(8)
Capital Adequacy ratio (percent)	17.9	21.4	(16)
Closing share price (thebe)	220	240	(8)
Price earnings ratio	8.2	8.8	(7)
*Cost to income 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 49.3% to 47.9% due to a reclassification of P68 million relating to bank charges which was reclassified from operating expenses to non-interest revenue (fee and commission expenses).			

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (P'000)	Year ended 30 June 2021 Audited	Year ended 30 June 2020 Audited	% change
ASSETS			
Cash and short-term funds	5,470,758	4,697,599	16
Derivative financial instruments	35,307	76,872	(54)
Advances to banks	217,957	-	100
Advances to customers	13,642,027	14,686,767	(7)
Investment securities	7,889,039	9,509,211	(17)
Current taxation	85,239	86,324	(1)
Due from related companies	7,552	11,684	(35)
Other assets	406,658	479,314	(15)
Property and equipment	570,910	601,044	(5)
Deferred taxation	-	3,706	(100)
Goodwill	26,963	26,963	0
Total assets	**28,352,410**	**30,179,484**	**(6)**
EQUITY AND LIABILITIES			
Liabilities			
Derivative financial instruments	21,507	36,708	(41)
Accrued interest payable	21,360	28,079	(24)
Due to related parties	25,093	21,322	18
Creditors and accruals	680,565	723,587	(6)
Deposit from banks	490,153	545,002	(10)
Deposit from customers	21,396,057	23,171,897	(8)
Employee benefits liabilities	93,887	81,504	15
Borrowings	1,527,200	1,765,858	(14)
Deferred taxation	169,385	207,381	(18)
Total liabilities	**24,425,207**	**26,581,338**	**(8)**
Capital and reserve attributable to ordinary equity holders			
Stated capital	51,088	51,088	0
Reserves	2,629,702	3,343,562	(21)
Dividend reserve	1,246,413	203,496	513
Total equity	**3,927,203**	**3,598,146**	**9**
Total equity and liabilities	**28,352,410**	**30,179,484**	**(6)**
Undrawn commitments to customers	2,427,870	2,233,457	**9**
Guarantees and letters of credit	484,016	386,300	**25**

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (P'000)	Stated capital	Other non -distributable reserves	Dividend reserve	Retained earnings	Total
Balance at 01 July 2019	51,088	61,430	254,370	2,967,881	3,334,769
Profit for the year	-	-	-	695,806	695,806
Transfer from revaluation reserve - revaluation portion of depreciation	-	(1,564)	-	1,564	-
Dividends paid - 2019 final	-	-	(254,370)	-	(254,370)
Dividends paid - 2020 interim	-	-	-	(178,059)	(178,059)
Dividends proposed - 2020 final	-	-	203,496	(203,496)	-
Balance at 30 June 2020 (Audited)	**51,088**	**59,866**	**203,496**	**3,283,696**	**3,598,146**
Transfer from revaluation reserve - revaluation portion of depreciation	-	(1,564)	-	1,564	-
Profit for the year	**-**	**-**	**-**	**685,175**	**685,175**
Dividends paid - 2020 final	-	-	(203,496)	-	(203,496)
Dividends paid - 2021 interim	-	-	-	(152,622)	(152,622)
Dividends proposed - 2021 final	-	-	228,933	(228,933)	-
Dividends proposed special - 2021 final	-	-	1,017,480	(1,017,480)	-
Balance at 30 June 2021 (Audited)	**51,088**	**58,302**	**1,246,413**	**2,571,400**	**3,927,203**

SUMMARISED CONSOLIDATED STATEMENT OF CASHFLOWS (P'000)	Year ended 30 June 2021 Audited	Year ended 30 June 2020 Audited	% change
Net cash (used in)/generated from operating activities	**(411,941)**	**4,927,662**	**(108)**
Cash generated by operations	1,451,241	1,221,685	19
Taxation paid	(260,765)	(174,495)	49
Change in funds from operating activities	(1,602,417)	3,880,472	(141)
Net cash utilised in investing activities	**(40,639)**	**(44,457)**	**(9)**
Net cash utilised in financing activities	**(684,471)**	**(262,616)**	**159**
Net (decrease) increase in cash and cash equivalents	**(1,137,051)**	**4,620,589**	**(125)**
Effect of exchange rate movement on cash balances	(188,144)	164,640	(214)
Cash and cash equivalents at the beginning of the year	10,795,275	6,010,046	80
Cash and cash equivalents at the end of the year	9,470,080	10,795,275	(12)
Comprising:			
Cash and short-term funds	5,470,758	4,697,599	16
Investment in Bank of Botswana Certificates	3,999,322	6,097,676	(34)

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.

SUMMARISED SEGMENTAL REPORTING	Retail	Commercial	Corporate	Treasury	Total
30 JUNE 2021 (P'000)- (AUDITED)					
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 expense and similar expenses	103,734	144,963	118,697	(608,900)	(241,506)
Segment operating income before impairments	**1,266,264**	**687,450**	**406,013**	**13,204**	**2,372,931**
Impairment of advances	(83,417)	(154,243)	(3,591)	-	(241,251)
Net interest income after impairment of advances	**1,182,847**	**533,207**	**402,422**	**13,204**	**2,131,680**
Total expenditure	(568,649)	(471,191)	(171,782)	(2,350)	(1,213,972)
Profit before indirect taxation	**614,198**	**62,016**	**230,640**	**10,854**	**917,708**
Indirect taxation	(16,405)	1,474	(1,545)	(377)	(16,853)
Profit before direct taxation	**597,793**	**63,490**	**229,095**	**10,477**	**900,855**
Direct taxation					(215,680)
Profit for the year					**685,175**

Statement of financial position:					
Gross Advances to customers	**9,665,634**	**3,040,377**	**2,157,967**	**-**	**14,863,978**
Loss allowance	(545,741)	(643,425)	(32,785)	-	(1,221,951)
Net advances	**9,119,893**	**2,396,952**	**2,125,182**	**-**	**13,642,027**
Deposits from customers	**5,625,754**	**7,381,530**	**7,379,983**	**1,008,790**	**21,396,057**

SUMMARISED SEGMENTAL REPORTING	Retail*	Commercial	Corporate	Treasury*	Total
30 JUNE 2020 (P'000)- (AUDITED)					
Interest and similar income	616,594	149,901	34,495	848,138	1,649,128
Non- interest income	537,746	403,865	251,494	6,249	1,199,354
Total segment revenue	**1,154,340**	**553,766**	**285,989**	**854,387**	**2,848,482**
Interest expense and similar expenses	120,681	183,622	162,004	(777,200)	(310,893)
Segment operating income before impairments	**1,275,021**	**737,388**	**447,993**	**77,187**	**2,537,589**
Impairment of advances	(222,636)	(200,572)	1,766	-	(421,442)
Net interest income after impairment of advances	**1,052,385**	**536,816**	**449,759**	**77,187**	**2,116,147**
Total expenditure	(553,352)	(480,111)	(155,861)	421	(1,188,903)
Profit before indirect taxation	**499,033**	**56,705**	**293,898**	**77,608**	**927,244**
Indirect taxation	(27,431)	2,874	(1,423)	(414)	(26,394)
Profit before direct taxation	**471,602**	**59,579**	**292,475**	**77,194**	**900,850**
Direct taxation					(205,045)
Profit for the year					**695,805**

Statement of financial position:					
Gross Advances to customers	**10,428,237**	**3,770,945**	**1,817,296**	**-**	**16,016,478**
Loss allowance	(572,910)	(727,607)	(29,194)	-	(1,329,711)
Net advances	**9,855,327**	**3,043,338**	**1,788,102**	**-**	**14,686,767**
Deposits from customers	**5,071,766**	**6,987,896**	**9,709,297**	**1,402,938**	**23,171,897**

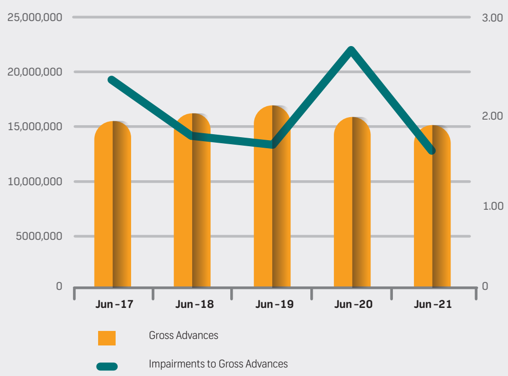
Restatement-2020 (P'000)	Retail	Commercial	Wesbank	Total
Income statement				
Interest Income	61,906	44,514	(106,420)	-
Non-Interest Income	3,804	1,268	(5,072)	-
Interest expenditure	(158)	(825)	983	-
Impairment charge	(20,344)	(6,100)	26,444	-
Total Other expenditure	(32,584)	(31,306)	63,890	-
Indirect Taxation	(958)	(2,874)	3,832	-
Statement of financial statement:				
Gross Advances to customers	1,400,067	796,771	(2,196,838)	-
Loss allowance	(47,772)	(69,935)	117,707	-

The WesBank segment has been dissolved and is now managed within the Retail and Commercial segments respectively. Therefore, effective 1 July 2020, WesBank is no longer a reportable segment and is now reported as a product within Retail and Commercial.

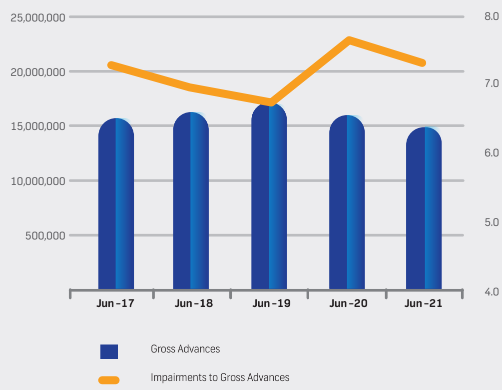
*Restatement of prior year Retail and Treasury deposits. In the prior year P1 422 492 000 in Retail deposits were erroneously classified under Treasury. Following the restatement, the Retail deposits are now disclosed as P5 071 766 000 as opposed to P3 649 274 000 and Treasury as P1 402 938 000 as opposed to P2 825 430 000.

Financial Graphs

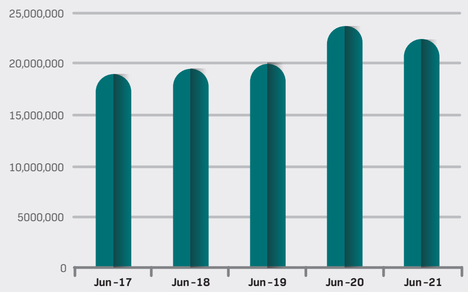
Gross Advances vs Impairments to Gross Advances



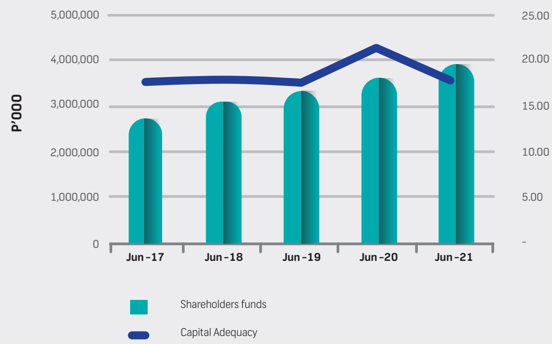
Gross Advances vs NPLs



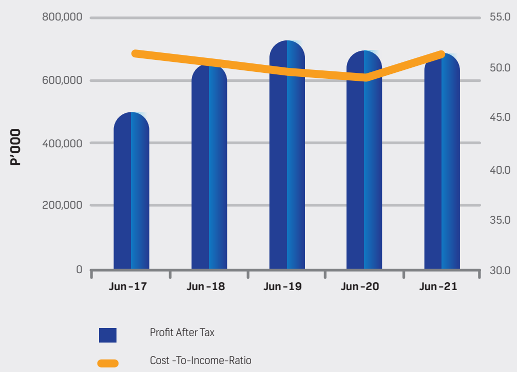
Deposits



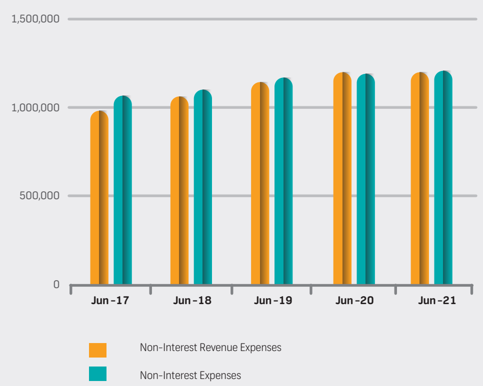
Shareholders' Funds vs Capital Adequacy



Profit After Tax vs Cost-To-Income Ratio



Non-Interest Revenue vs Non-Interest Expenses



IMPACT OF ADOPTING REVISED ACCOUNTING STANDARDS

The implications of the new/revised International Financial Reporting Standards ("IFRS") that were effective for the first time in the current financial year were considered. These include:

- Conceptual Framework,
- IFRS 3 *Business Combinations*- Amendments to clarify the definition of a business
- *IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors* - Amendments regarding the definition of material
- Interest Rate Benchmark Reform - (Amendments to IFRS 9, IAS 39 and IFRS 7) Phase 1 and Phase 2
- COVID-19 Related Rent Concessions beyond 30 June 2021- Amendment to IFRS 16.

The adoption of these IFRSs' did not have an impact on the reported results of the bank.

ADVANCES

Advances classified per loan type - 2021 (P'000)-(Audited)	**Amortised cost**	**Loss allowance**	**Total**
Term loans	6,047,708	(486,979)	**5,560,729**
Vehicle and asset financing	1,895,978	(128,664)	**1,767,314**
Property loans	5,684,944	(376,947)	**5,307,997**
Overdraft and managed account	1,014,370	(211,223)	**803,147**
Other	220,978	(18,138)	**202,840**
Total	**14,863,978**	**(1,221,951)**	**13,642,027**

Advances classified per loan type - 2020(P'000)-(Audited)	**Amortised cost**	**Loss allowance***	**Total**
Term loans	6,588,473	(665,126)	**5,923,347**
Vehicle and asset financing	2,136,973	(117,707)	**2,019,266**
Property loans	5,959,005	(276,627)	**5,682,378**
Overdraft and managed account	1,125,061	(255,750)	**869,311**
Other	206,966	(14,501)	**192,465**
Total	**16,016,478**	**(1,329,711)**	**14,686,767**

* In the prior year an ECL amount of P45 059 000 was misclassified between property loans and other advances. These prior year amounts were restated to reflect the correct amounts as follows: Property loans: P276 627 000 as opposed to P231 568 000, Term loans: P665 126 000 as opposed to P725 871 000, Overdrafts and managed accounts: P255 750 000 as opposed to P240 064 000.

	Gross advances				Loss allowance			
Group and Company (P'000)-(Audited)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Amortised cost	**13,585,181**	**1,208,852**	**1,222,445**	**16,016,478**	**201,960**	**241,070**	**886,681**	**1,329,711**
Amount as at 01 July 2020	13,585,181	1,208,852	1,222,445	**16,016,478**	201,960	241,070	886,681	**1,329,711**
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	-
Opening balance after transfers	**13,000,136**	**1,644,627**	**1,371,715**	**16,016,478**	**138,388**	**156,951**	**1,034,372**	**1,329,711**
Current period provision created/(released)	(598,704)	(266,726)	168,988	**(696 442)**	34,534	137,210	116,556	**288,300**
Attributable to change in measurement period	-	(63,582)	-	**(63,582)**	-	22,078	-	**22,078**
Attributable to change in risk parameters	-	-	-	**-**	9,362	85,467	115,495	**210,324**
Total new book exposure								
Change in exposure due to new business in the current year	(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**
Amount as at 30 June 2021	**12,401,432**	**1,377,901**	**1,084,645**	**14,863,978**	**172,922**	**294,161**	**754,868**	**1,221,951**

	Gross advances				Loss allowance			
Group and Company (P'000)-(Audited)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Amortised cost	**14,786,534**	**1,052,351**	**1,145,734**	**16,984,619**	**210,310**	**195,438**	**639,824**	**1,045,572**
Amount as at 01 July 2019	**14,786,534**	**1,052,351**	**1,145,734**	**16,984,619**	**210,310**	**195,438**	**639,824**	**1,045,572**
Stage 2 to stage 1	292,915	(292,915)	-	**-**	34,667	(34,667)	-	**-**
Stage 1 to stage 2	(977,406)	977,406	-	**-**	(27,522)	27,522		**-**
Stage 1 to stage 3	(55,600)	-	55,600	**-**	(512)	-	512	**-**
Stage 2 to stage 3	-	(38,984)	38,984	**-**	-	(6,900)	6,900	**-**
Opening balance after transfers	**14,046,443**	**1,697,858**	**1,240,318**	**16,984,619**	**216,943**	**181,393**	**647,236**	**1,045,572**
Current period provision created/(released)	(461,262)	(489,006)	222,973	**(727,295)**	(14,983)	59,678	365,913	**410,608**
Attributable to change in measurement period		12,291	**-**	**12,291**	**-**	**(4,366)**	**-**	**(4,366)**
Attributable to change in risk parameters	236,390	(754,140)	186,319	**(331,431)**	78,654	(213,456)	355,180	**220,378**
Total new book exposure								
Change in exposure due to new business in the current year	(697,652)	252,843	36,654	**(408,155)**	(93,637)	268,768	10,733	**185,864**
Bad debts written off	-	-	(240,846)	**240,846)**	-	-	(155,964)	**(155,964)**
Net interest suspended/ released	-	-	-	**-**	-	-	29,495	**29,495**
Amount as at 30 June 2020	**13,585,181**	**1,208,852**	**1,222,445**	**16,016,478**	**201,960**	**241,071**	**886,680**	**1,329,711**

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

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

IMPAIRMENT OF ADVANCES

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

Impairment of financial assets: Staging of Financial Assets

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

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

SICR triggers are portfolio specific and are calibrated over time to determine what level of deterioration is reflective of a significant increase in credit risk with reference to historic default rates within that portfolio. The bank uses a relative movement in probability of default (PD) between reporting date and origination date to determine if there was a significant increase in credit risk. Corporate, Commercial and Small to Medium sized Enterprise portfolio (SME) assessments include deal and client specific factors and are calibrated over time to determine what level of deterioration which is reflective of a significant increase in the 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 June 2021 ECL computation

The FLI component of ECL is limited to a single factor of GDP. The modelling process is consistent with the prior year.

The economic scenarios applied are described as follows:

Upside: Botswana successfully executes its Covid-19 vaccination program, leading to an end of the State of Emergency and, allowing the economy to resume most activities sooner. The government successfully rolls out its Economic Recovery & Transformation Plan, leading to increased activity in sectors such as agriculture, manufacturing and construction, which have traditionally had a low contribution to Botswana's economy. Global commodity prices rise significantly which boosts diamond product and exports. Public sector stakeholders successfully implement the NDP11 framework which unlocks private investment in key sectors. Improved power and water supply facilitate greater economic activity. Tax revenues increase while the tax base also expands. Bank lending to households and businesses improves gradually given low interest rates. The USD depreciates as a search for yield in emerging markets returns. Real wage increase as a result of lower inflation and higher productivity. Private and public sector investment increases on the back of greater policy certainty.

Baseline: Growth momentum through to 2023 is expected to average 4.7% led by the non-mining private sector. Due to the pandemic, the trade, transport and communications, finance and business services sectors experienced severe contractions in 2020, crystalising the need for further diversification into other sectors such as agriculture and manufacturing to support growth and provide employment. Downside risks from continued implementation challenges regarding planned efforts to promote local production. Mounting fiscal pressure could also limit Botswana's ability to meet its infrastructure spending needs.

Downside: The vaccine efforts fail to materialise resulting in subsequent waves of Covid-19 infections across 2021 and 2022. Diamond production slumps due to escalating input costs, weak global demand and delays in the implementation of the Cut 3 and Cut 9 projects. Government finances come under pressure as SACU revenues fall. Credit agencies downgrade Botswana and the pension fund's offshore investment limits are increased. The ZAR depreciates sharply against the USD in response to a marked fall in the appetite for emerging market assets.

	FLIs: Applied in ECL Models		
Scenario - 2021	**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%**	**68%**	**17%**

	FLIs: Applied in ECL Models		
Scenario - 2020	**Upside**	**Baseline**	**Downside**
2021	(0.30%)	(2.10%)	(6.91%)
2022	4.90%	3.30%	0.25%
2023	5.60%	3.50%	0.85%
Weighting	**15%**	**66%**	**19%**

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		
Scenario	**Downside**	**Baseline**	**Upside**
2021	7.95	5.10	2.25
2022	6.95	4.10	2.30
2023	6.30	3.70	2.20
Weighting	15%	68%	17%
Sensitivity weighting	10%	68%	22%
Total impact on ECL (P'000)	**2,627**		

	FLIs: Applied in ECL Models		
Scenario	**Downside**	**Baseline**	**Upside**
2021	(0.30)	(2.10)	(6.91)
2022	4.00	3.30	0.25
2023	5.60	3.50	0.85
Weighting	15%	66%	19%
Sensitivity weighting	10%	66%	24%
Total impact on ECL (P'000)	**68**		

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.

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Derivative Financial Instruments					
Option Contracts	**Level 2**	**Option pricing model and industry standard**	The Black Scholes model is used. The models calculate fair value based on input parameters such as share prices, dividends, volatilities, interest rates, equity repo curves, and for multi-asset products, correlations. Unobservable model inputs are determined by reference to liquid market innstruments and by applying extrapolation techniques to match the appropriate risk profile.	Strike price of the option; market related discount rate; spot or forwardrate, the volatility of the underlying dividends and share prices.	Discounted cashflow and industry standard models.
Swaps	**Level 2**	**Discounted cash flow and industry standard models**	The future cashflows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. There set date of each swaplet is determined in terms of legal documents pertaining to the swap. The industry standard models calculate fair value based on input parameters such as share price, dividends, volatilities, interest rates, equity repo curves and for multi asset products, correlations. Unobservable model inputs are determined by reference to liquid market instruments and by applying extrapolation techniques to match the appropriate risk profile.	Market interest rates, and curves, volatilities, dividends, and share prices.	Not applicable
Forward Contracts	**Level 2**	**Discounted cash flow**	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

Instrument	Fair value hierarchy level	Valuation technique	Descriptipon of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Loans and advances to customers					
Corporate investment banking book held at fair value	**Level 3**	**Discounted cash flows**	The future cashflows are discounted using a market related interest rate. To calculate the fair value of loan book the 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.	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.
Investments 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

Instrument	Fair value hierarchy level	Valuation technique	Descriptipon of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Investments Securities and other investments					
Negotiable certificates of deposit	**Level 2**	**Discounted cash flows**	The future cashflows are discounted using a market related interest rate. Input 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
Deposits					
Other Deposits	**Level 2**	**Discounted cash flow**	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
Other liabilities and Tier 2 liabilities	**Level 2**	**Discounted cash flows**	The future cash flows are discounted using a market related interest rate.	Market interest rates	Not applicable
Financial assets and liabilities not measured at fair value but for which fair value is disclosed	**Level 2**	**Discounted cash flows**	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs. Where the value of the liability is linked to the performance of an underlying and the underlying is observable, these liabilities are classified as level 2.	Market interest rate curves or performance of underlying	Credit Inputs
Property and Equipment					
Freehold and leasehold land and buildings	**Level 2**	**Market value**	The valuation is based on the net income approach by applying rental for comparable properties divided by the capitalisation rate.	Market rentals per square metre.	Capitalisation Rates

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following represents the fair values of financial instruments carried at amortised cost in the consolidated summarised statements of financial position (P'000)-(Audited)					
2021	**Level 1**	**Level 2**	**Level 3**	**Fair Value**	**Amortised cost****
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
Total financial assets at amortised cost	**7,640,487**	**-**	**14,149,802**	**21,790,289**	**21,987,106**
Deposits	-	21,416,664	25,093	21,441,757	21,421,150
Long term borrowings	-	1,367,570	-	1,367,570	1,361,195
Accrued interest payable	-	21,360	-	21,360	21,360
Creditors and accruals	-	680,568	-	680,568	680,568
Total financial liabilities at amortised cost	**-**	**23,486,162**	**25,093**	**23,511,255**	**23,484,273**
2020	**Level 1**	**Level 2**	**Level 3**	**Fair Value**	**Amortised cost****
Advances	-	-	14,897,285	14,897,285	14,805,729
Investment securities*	9,119,987	-	-	9,119,987	9,346,057
Other assets	-	-	479,314	479,314	479,314
Total financial assets at amortised cost	**9,119,987**	**-**	**15,376,599**	**24,496,586**	**24,631,100**
Deposits	-	23,171,897	21,322	23,193,219	23,199,171
Long term borrowings	-	1,615,983	-	1,615,983	1,614,201
Accrued interest payable	-	28,079	-	28,079	28,079
Creditors and accruals	-	72 586	-	723,586	723,586
Total financial liabilities at amortised cost	**-**	**25,539,545**	**21,322**	**25,560,867**	**25,565,037**

*The prior year carrying amount at amortised cost for investment securities on this disclosure note was erroneously disclosed as P9 509 211 000 as opposed to P9 346 177 000. In addition, the fair value of investment securities was erroneously disclosed in the prior year as P9 509 211 000 as opposed to P9 119 987 000. These prior year amounts have been restated to reflect the correct amounts.

**Amortised cost for advances refers to gross carrying less non-performing loans.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

2021	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit and loss				
Investments securities	-	95,656	-	95,656
Derivative financial instruments	-	35,307	-	35,307
Non-financial assets				
Freehold and leasehold land and buildings	-	313,644	-	313,644
Total financial assets at fair value	**-**	**444,607**	**-**	**444,607**
Financial liabilities held for trading				
Derivative financial instruments	-	21,507	-	21,507
Mandatory at fair value through profit or loss				
Zero coupon deposit	-	166,005	-	166,005
Total financial liabilities at fair value	**-**	**187,512**	**-**	**187,512**

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

Reconciliation of level 3 fair value measurements

Group - Deposits P '000	2021	2020
Balance at the beginning of the year	151,637	139,533
Amounts recognised in profit or loss for the year	14,368	12,104
Transfer out of level 3 to Level 2	(166,005)	-
Balance at the end of the year	**-**	**151,637**

In the current year, a zero coupon deposit was transferred from level 3 to level 2. In the prior year the fair value was based on internal matrices, in current year the valuation is based on an observable government bond curve.

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.

FAIR VALUE OF FINANCIAL INSTRUMENTS [Continued]

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%.

	2021			2020		
	Reasonably possible alternative fair value			Reasonably possible alternative fair value		
	Fair Value	Using more positive assumptions	Using more negative assumptions	Fair Value	Using more positive assumptions	Using more negative assumptions
Assets						
Other assets	406,658	447,324	365,992	479,314	527,245	431,383
Advances	13,707,258	15,077,984	12,365,532	14,897,285	16,387,014	13,542,986
Total financial assets measured at fair value in level 3	**14,113,916**	**15,525,308**	**12,731,524**	**15,376,599**	**16,914,259**	**13,974,369**
Liabilities						
Due to related parties	25,093	22,583	27,602	21,322	19,189	23,454

RELATED PARTY BALANCES (P'000)

	Year ended 30 June 2021 Audited	Year ended 30 June 2020 Audited
Due from related parties:		
FirstRand Limited - South Africa	2,846,885	853,005
First National Bank Holdings (Botswana) Limited	6,363	11,684
	2,853,248	**864,689**
Less money at call and short notice:		
FirstRand Limited – call balances	(18,059)	(13,592)
FirstRand Limited – nostro balances	(2,827,637)	(839,413)
Net	**7,552**	**11,684**
Due to related companies -current liabilities:		
FirstRand Limited	25,093	21,322
	25,093	**21,322**

Related party transactions (P'000)	Year ended 30 June 2021 Audited	Year ended 30 June 2020 Audited
Interest Income		
FirstRand Limited – South Africa	13,433	37,479
Interest expenditure		
FirstRand Limited – South Africa	15,155	17,558
Operating expenses		
Service Fees - FirstRand Limited	215,540	209,440
Compensation paid to key management personnel:		
Share-based payments	89	4,374
Short term employee benefits	16,812	17,289
Total short term benefits	**16,901**	**21,663**
Post-employment benefits: Pension	810	779
Advances:		
Personal loans	544	1,054
Credit card	259	401
Instalment finance	2,412	2,193
Property loans	16,266	13,737
Total advances	**19,441**	**17,385**

Interest rates are in line with normal rates charged to customers or staff rates in line with company policy. For all the above facilities, normal credit checks are performed. Personal loans 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 collaterised 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 (P'000)	Asset		Liability	
	Notional	Fair value	Notional	Fair value
2021				
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**
2020				
Trading derivatives	-	-	131 377	1 343
Interest rate swaps	461,383	71,510	-	-
Currency options	13,372	477	280,723	2,807
Currency swaps	-	-	17,500	1
	474,755	**71,987**	**429,600**	**4,151**

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 Premium Credit Botswana Proprietary Limited First National Insurance Agency Proprietary Limited
Common management	FirstRand Limited – South Africa First National Bank Insurance Brokers Limited
Key management	Non-executive Directors Chief Executive Officer Chief Risk Officer Chief Operating Officer Chief Financial Officer Director of Human Resources Treasurer Director of Credit

DIRECTORS:

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

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MARKETING & COMMUNICATIONS

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