AUDITED SUMMARISED CONSOLIDATED FINANCIAL RESULTS AND DIVIDEND ANNOUNCEMENT

for the year ended 30 June 2019

FNB
First National Bank

The Directors take pleasure in announcing the audited summarised consolidated financial results and dividend announcement of First National Bank of Botswana Limited and its subsidiaries (referred to as "the Bank" in this announcement) for the year ended 30 June 2019

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The audited summarised consolidated financial results have been prepared in terms of International Accounting Standard 34 ("IAS 34") - Interim Financial Reporting and applying the recognition and measurement criteria in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

In preparing the underlying audited consolidated financial statements from which these audited summarised consolidated financial results were extracted, all relevant and applicable International Financial Reporting Standards and interpretations issued by the International Financial Reporting Interpretations Committee effective for the twelve months ended 30 June 2019 have been applied.

The Bank's underlying audited summarised consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and in compliance with the Companies Act of Botswana (Companies Act, 2003), the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08) and the Banking Act (Cap 46:04). The principal accounting policies and the methods of computation are consistent in all material aspects with those adopted in the most recent consolidated financial statements, with the exception of the adoption of IFRS 9 (Financial Instruments) and IFRS 15 (Revenue) during the reporting period.

IFRS 9: Financial Instruments replaced IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 introduced a principle-based approach for classifying financial assets based on the entity's business model and introduced an expected credit loss model for impairment. The adoption of IFRS 9 impacted the Bank's results on the date of initial adoption and IFRS 9 had a significant impact on the Bank's accounting policies.

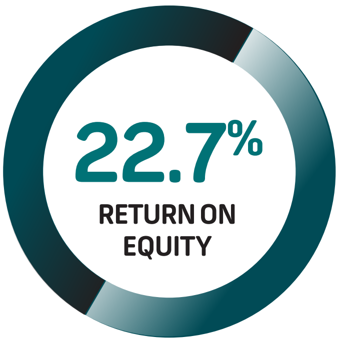
IFRS 15 contains a single model that is applied when accounting for contracts with customers. It replaces substantially all of the current revenue recognition guidance, except for contracts that are out of scope – e.g. leases and insurance. The adoption of IFRS 15 did not impact the Bank's results.

The Bank will implement IFRS 16 Leases on 1 July 2019. The adoption of IFRS 16 mainly impacts the Bank's operating leases (as defined under IAS 17 Leases) where the bank is the lessor. Under IFRS 16, lessees will need to recognise a right-of-use asset and a lease liability on balance sheet for all operating leases, resulting in a gross up of assets and liabilities amounting to P124m. There will be no impact on retained earnings. The Bank has made the policy choice to use the modified retrospective approach that does not require a restatement for prior years. However, this approach does require that the Bank prepare a transition reconciliation note that reconciles the amounts disclosed under IAS 17 to the amounts recognised on balance sheet under IFRS 16. The Bank has assessed the opening balance adjustment required and will make the relevant disclosures on an IFRS 16 basis for the year ending June 2020.

In the preparation of the audited summarised consolidated financial results, the Bank has applied sound business principles with key assumptions concerning any inherent uncertainties in recording various assets and liabilities. These assumptions were applied consistently to the audited summarised consolidated financial results for financial year ended 30 June 2019 and have been thoroughly assessed by management, to ensure the appropriateness thereof. The critical accounting estimates and areas of judgement are on the following elements of the consolidated financial statements:

- Impairment of goodwill;
- Application and interpretation of tax regulation;
- Impairment of financial assets;
- Provisions, contingent liabilities, and contingent assets;
- Fair value of financial instruments;
- Useful lives of property and equipment; and
- Fair value of cash settled share-based payment plans.

FINANCIAL HIGHLIGHTS



	Year ended 30 June 2019 Audited	Year ended 30 June 2018 Audited	%
Profit after tax (P'000)	732 536	648 055	13
Impairments (P'000)	264 912	274 168	(3)
Advances to customers (P'000)	15 939 047	15 478 937	3
Deposits from customers (P'000)	19 591 409	18 834 336	4
RATIOS			
Cost-to-income ratio (%)	49.6	50.4	(2)
Return on equity (%)	22.7	22.1	3
Return on average assets (%)	2.93	2.69	9
NPL's to Gross Advances (%)	6.7	7.0	(4)
Dividend per share (thebe)	16	14	14

AUDITED SUMMARISED CONSOLIDATED RESULTS – 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 results have been derived, and have expressed an unmodified audit opinion on the consolidated financial statements. The summarised consolidated financial results comprise the summarised consolidated statement of financial position at 30 June 2019, 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 then ended, 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 results of its operations for the year and the scope of the audit engagement, these summarised consolidated financial results should be read in conjunction with the audited consolidated financial statements from which the summarised consolidated financial results 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 reviewed or reported on by the Bank's auditors.

ECONOMIC UPDATE

GLOBAL ECONOMIC OVERVIEW

A TALE OF TWO-HALVES

The resilience shown in real economic activity across the developed world and China in the first half of 2019 is beginning to fade as evidenced by the International Monetary Fund cutting its global growth forecast for 2019 to 3.2% (3.6% in 2018) being the lowest level since the financial crisis. Downside pressures continue to emanate from trade tensions between the USA and China, the increasing risk of a "no-deal" Brexit, and both mounting sovereign debt levels and increasing income inequality.

Eurozone growth is expected to remain subdued. US growth is forecasted to slow as the impact of fiscal stimulus dissipates and previous interest rate hikes weigh on demand. Any prospects for a recovery fuelled by China's fiscal stimulus feeding into emerging market economies, are being constrained by the prevailing trade tensions.

Developed market inflation, most notably in the USA, remains low. Accordingly, when combining this with risks to the growth outlook, the US Federal Reserve has signalled a policy of supporting the economy with low interest rates. The same conditions have also prompted other central banks in the developed markets to defer any plans for tightening of monetory policies, with a resultant increase in US Dollar strength.

REGIONAL ECONOMY

A DELICATE BALANCE TO MAINTAIN

Growth in sub-Saharan Africa (SSA) is expected to rise marginally from 3% in 2018 to 3.5% in 2019 (per IMF forecasts). This growth should be supported by higher investment spending which could partially offset relatively low industrial commodity prices. East Africa is seen as the major regional growth-driver with the prospects of FDI flowing into infrastructural developments for energy, oil and gas industries over the coming years.

Restraint on SSA growth is coming from the larger markets of South Africa and Nigeria whose own expansion rates remain well below their long-term averages. The Nigerian economy is expected to grow below 3% over the next two years. The South African economy contracted 3.2% quarter-on-quarter in the first quarter of 2019, and in the absence of business confidence, employment levels and consumer spending, is expected to grow no more than 1% in 2019, specifically with the drag of the large parastatals. With both Nigeria and South Africa having recently cut their repo rates, several other SSA economies are expected to follow suit, which in turn should encourage investment in sustainable opportunities and developmental projects.

BOTSWANA ECONOMY

HOLDING STEADY AMID ADVERSITY

We expect the domestic economy to register a growth of 3.9% and 3.7% in 2019 and 2020 respectively. Growth should be underpinned by the services sector contributing over 40% of the growth, led primarily by investments in transport and communications, trade and finance, and business services. Headwinds to growth emanate from a limited output and export-oriented growth, from the possibility of a loss of competitiveness if Botswana remains with a FATF grey-listing, as well as, from the lack of robust private sector investments for the economic diversification needed to reduce dependence on diamond revenues.

Despite evident diversification in the services-led sectors, mining remains the second highest contributor to growth at 17%, and is expected to contribute an average of 30% to fiscal revenue over the next three years. This continued reliance on mineral exports, and on diamonds in particular, poses a risk to the country's fiscus, especially during subdued global growth and plateauing commodity prices. The industrial sectors of manufacturing and agriculture continue to underperform with a combined contribution of around 7% to economic growth. Any unfavourable climatic conditions in the context of global warming will further weigh on agricultural output, and the opportunities for sustainable manufacturing remain as yet largely unidentified. It is important that policy reforms focus on the production side of the economy to drive sustainable economic development and inclusive growth as envisioned in the country's Vision 2036 and NDP 11 that focus on three key areas: (i) tackling poverty, (ii) inclusive growth and (iii) job creation.

Household expenditure makes up almost half of the country's GDP and is expected to increase slightly above GDP growth levels in the forecast horizon. While the recent Government salary adjustments will support growth, it may not be sufficient to fully compensate for pressures on household disposable income arising out of a lack of employment opportunities.

THE BANK RATE DEBATE

TO CUT OR NOT TO CUT?

Botswana's main trading partners are expected to cut rates by up to 50 basis points in the next 18 months. On a real policy differential perspective, this provides room for the Bank of Botswana to cut rates without pushing real rates outside of historical averages. Inflation remains under control at 3.0% over the first quarter of 2019, and we anticipate average inflation of 3.5% over the next three years. The ongoing consultations by Bank of Botswana on structural reforms should assist in the monetary transmission framework, being a development which will assist in financial stability and development of the local capital market.

We expect credit extension to be supported by an improvement in business confidence, while household credit remains constrained by pressures on discretionary income. We forecast overall credit extension remaining below 8% through to 2020.

The weighting of the Pula "basket" continues to reduce sensitivity to any volatility of the Rand. As a result, the Pula outlook remains reasonably stable albeit with rangebound volatility expected against major currencies (US dollar and Euro) over the short- to medium-term. This scenario may help in attracting capital inflows to support Botswana's diversification initiative.

FINANCIAL PERFORMANCE

During the financial year, focus was placed on improving credit discipline with concentrated efforts on the distressed debt portfolio. Additionally, priority was given to our customer-centric strategy through continued investment in infrastructure and digital customer solutions, to upgrade management of risk and liquidity, and to achieving prompt compliance with the continued introduction of new regulatory requirements.

Statement of Financial Position

Growth in deposits of 4% was driven by increases in the call and current account portfolios. Statistics available as at May 2019 indicate a comparable twelve month market growth of 12%. The Bank's level of participation in the market was appropriately managed by growing the transactional base for short term funding and keeping term deposits relatively flat year on year to match advances growth achieved.

Gross customer advances growth of 5% year-on-year was slightly behind the twelve month market growth of 7% as at May 2019, and was largely driven by consumer term loans and asset-based finance, on the back of the Government wage increase. The Bank continues to manage its credit risk profile with high amortisation in higher-risk business advances being largely offset by the growth in the lower risk corporate advances.

NPLs remained relatively flat closing the year at P1.14bn, being a significant improvement on the P1.3bn disclosed in the December 2018 results and indicating some success from our focus on credit discipline and accelerated collection processes.

The Bank improved its efficient deployment of cash and short- term funds and increased its investment portfolio.

Income Statement

Both profit before tax and profit after tax rose by 13% due to efficient management of all the key income and expense drivers resulting in an improved return on equity of 22.7% (22.1% in 2018).

Gross interest income increased 7% against gross advances growth of 5%. Net interest income benefitted from a reclassification of interest in suspense between interest income and impairments in accordance with the implementation of IFRS 9. Interest earned on investments followed the increase in the investment portfolio. The benefits were partially offset by reduced average client rates driven by a change in the portfolio mix and compressed margins.

Notwithstanding the rollover effect of the liquidity pressures experienced in the prior year, the interest expense increased marginally by 3%, largely driven by a reduction in the reliance on professional funding and by strong growth in the call and current deposits.

The impairment charge for the year showed a reduction of 3% against the prior year, following prudent credit extension and focus on the management of distressed advances. The stage 1 and stage 2 impairment charge of P42m reduced by 68% compared to the P110m prior year portfolio impairment charge, largely due to the prior year charge including significant downward revisions to the key provisioning assumptions. The stage 3 impairment charge increased by 17% following reductions in the expected realisable value of the collateral supporting the Home Loans, WesBank and Commercial portfolios.

Non-interest revenue grew by 7% in the year. This follows a 7% increase in the customer base to 535,000 and a successful roll-out of new products such as the savings pocket. The improved connectivity in the point-of-sale machines and an increase in machines in use, combined with the swipe-and-win campaign resulted in an 18% growth in card and merchant commissions. Revenue from foreign exchange grew by 15%, partly from volatility in the South African Rand.

An improvement in the cost-to-income ratio reflects continued cost management initiatives, with several expenditure items remaining flat year-on-year. Increasing resources in the collections department together with the overall annual salary review resulted in staff costs rising 7%, whilst other costs were well maintained at a 4% increase.

LOOKING AHEAD

Given the current outlook for the Botswana economy wherein GDP is forecasted to register below 4%, inflation is expected to remain within the Bank of Botswana's target range and the possibility of a rate cut exists, we expect credit extension to be supported by an improvement in business confidence, while households may remain constrained by pressures on discretionary income.

While remaining positive, the growth profile faces downside risks emanating from a limited output and export-oriented growth, the likelihood of a dent on competitiveness as Botswana remains on the FATF grey-listing, as well as, an undiversified growth trajectory in the absence of robust private sector investments.

Notwithstanding growth in secured lending facilities being hindered by pressures in the commercial property sector involving retail and commercial offices, there are positive signs with targeted financing for certain sectors of the economy.

The Bank will continue improving the customer experience through investing both in back-office automation to improve efficiency, and in enhancing its digital channel capabilities to further reduce pressure on branches and ATMs. The Bank will continue to assist customers to migrate to digital banking solutions and will also continue to invest in the refurbishment and modernisation of the branch network.

Given the stress that is evident in the credit portfolios, the Bank will continue to adopt a cautious credit appetite and selectively extend credit. Investment in additional resources and processes in collections has shown early signs of positive traction and further investment is underway.

Achieving these goals is underpinned by the Bank's success in attracting, training and retaining the top talent in the market.

CAPITAL MANAGEMENT

The capital management philosophy of the Bank is to maintain sound capital ratios to ensure confidence in the solvency and the quality of its capital during both calm and turbulent periods in the economy and in the financial markets. The Bank, therefore, aims to maintain capital ratios aligned to its risk appetite and appropriate to safeguarding its operations and stakeholder interests.

Furthermore, the Bank's capital management strategy is to ensure an optimal level and composition of capital, effective allocation of financial resources, including capital and risk capacity, resulting in a sound return on equity and a sustainable dividend distribution to shareholders. The capital planning process for FNB Botswana is conducted on a forward-looking basis and considers the organic growth requirements, a safety margin for unexpected fluctuations in business plans and possible earnings volatility. Through this approach, compliance with both the internal and regulatory capital adequacy requirements are adhered to, shareholders' returns are safeguarded, and the Bank can maintain its ability to continue as a going concern even under severe stress conditions.

FNB Botswana continues to focus on maintaining a strong capital position in line with the set internal targets and regulatory minimums taking into consideration the entire spectrum of frameworks and policies that govern the Bank. The capital focus has been directed to the composition of the Bank's capital structure and efficiency of the risk-weighted assets. The Board reviews and approves macroeconomic scenarios twice a year for regulatory and business purposes. Amongst other purposes, this provides a key input into the Internal Capital Adequacy Process (ICAAP) that in turn informs our capital management.

For the financial year ended 30 June 2019, the Bank continued to operate above the regulatory minimum capital adequacy ratios. As at the end of the financial year, the total capital adequacy ratio was 17.42% and is above the regulatory minimum of 15.00%.

The Directors elect to continue with the prudent approach to capital management and on this basis, the Directors recommend a final dividend of 10 thebe per share, an increase from the 9 thebe per share final dividend declared in the prior financial year. The 11% increase in the final dividend is aligned to the profit after tax growth of the Bank.

EVENTS AFTER REPORTING DATE

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

SOCIAL RESPONSIBILITY

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

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

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

FNB Botswana has committed to contributing up to 1% of each year's profit after tax to the Foundation. Since its inception in 2001, the Bank has made grants of more than P50 million to the Foundation, which has been invested appropriately in qualifying beneficiaries.

CORPORATE GOVERNANCE

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

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

The Bank has embarked on the process of introducing integrated reporting. This will provide insights into how the Bank's strategy, governance and performance, in the context of its external environment, lead to the creation of value in the short, medium and long term. As a transitory measure, the Bank will incorporate environmental, social and governance reporting into its next reporting cycle.

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

DECLARATION OF DIVIDEND

Notice is hereby given that a final dividend of 10 thebe per share has been declared for the year ended 30 June 2019. The dividend will be paid on or about 16 October 2019 to shareholders registered at the close of business on 4 October 2019. The ex-dividend date will be on 2 October 2019.

In terms of the Income Tax Act (Cap 52.01) as amended, withholding tax at the rate of 7.5% will be deducted by the Bank from gross dividends. If a change of address or dividend instructions is to apply to this dividend, notification should reach the Transfer Secretaries by 11 October 2019.

For and on behalf of the Board.

J K Macaskill
Chairman

S L Bogatsu
Chief Executive Officer

Gaborone, 29 August 2019

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

SUMMARISED CONSOLIDATED **INCOME STATEMENT**

	Year ended 30 June 2019 Audited P'000	Year ended 30 June 2018 Audited P'000	% Change
Interest and similar income	1,617,445	1,507,520	7
Interest expense and similar charges	(359,916)	(335,721)	7
Net interest income before impairment of advances	1,257,529	1,171,799	7
Impairment of advances	(264,912)	(274,168)	(3)
Net interest income after impairment of advances	992,617	897,631	11
Non-interest income	1,142,315	1,069,648	7
Income from operations	2,134,932	1,967,279	9
Operating expenses	(597,052)	(574,492)	4
Employee benefit costs	(575,549)	(538,858)	7
Profit before indirect taxation	962,331	853,929	13
Indirect taxation	(16,984)	(15,720)	8
Profit before direct taxation	945,347	838,209	13
Direct taxation	(212,811)	(190,154)	12
Profit for the year	732,536	648,055	13
Basic and Diluted Earnings Per Share (thebe)	28.80	25.48	13
Average number of shares in issue during the period (thousands)	2,543,700	2,543,700	-

SUMMARISED CONSOLIDATED **STATEMENT OF COMPREHENSIVE INCOME**

	Year ended 30 June 2019 Audited P'000	Year ended 30 June 2018 Audited P'000	% Change
Profit for the year			
Other comprehensive income:	732,536	648,055	13
Items that will not be reclassified to profit or loss:			
Losses on property revaluation	(11,196)	-	100
Deferred income tax on property valuation	2,463	-	100
Total items that will not be reclassified to profit or loss	(8,733)	-	100
Items that may be reclassified to profit or loss:			
FVOCI debt reserve/available-for-sale financial assets			
Net fair value loss for the year	-	(1,153)	(100)
Other comprehensive income for the year net of taxation	(8,733)	(1,153)	657
Total comprehensive income for the year attributable to owners of the parent	723,803	646,902	12

RATIOS AND **MARKET INFORMATION**

	Year ended 30 June 2019 Audited P'000	Year ended 30 June 2018 Audited P'000	% Change
Dividend per share (thebe)	16	14	14
Dividend cover (times)	1.8	1.8	-
*Cost to income ratio (percent)	49.6	50.4	(2)
Return on equity (percent)	22.7	22.1	3
Return on average assets (percent)	2.93	2.69	9
Capital adequacy ratio (percent)	17.42	17.94	(3)
Closing share price (thebe)	275	222	24
Price earnings ratio	9.55	8.71	10

* *Cost to income ratio is based on total non-interest expenditure including Indirect Taxation as a cost*

SUMMARISED CONSOLIDATED **STATEMENT OF FINANCIAL POSITION**

	At 30 June 2019 Audited P'000	At 30 June 2018 Audited P'000	% Change
ASSETS			
Cash and short term funds	4,411,739	4,356,895	1
Derivative financial instruments	49,606	55,181	(10)
Advances to banks	789,903	650,912	21
Advances to customers	15,939,047	15,478,937	3
Investment securities	4,135,220	3,360,091	23
Current taxation	106,768	65,267	64
Deferred taxation	7,054	-	100
Due from related parties	6,388	9,465	(33)
Accounts receivable	317,627	357,133	(11)
Property and equipment	481,307	507,584	(5)
Goodwill	26,963	26,963	-
Total assets	26,271,622	24,868,428	6
EQUITY AND LIABILITIES			
Liabilities			
Deposits from banks	581,243	730,109	(20)
Deposits from customers	19,591,409	18,834,336	4
Accrued interest payable	63,566	51,893	22
Derivative financial instruments	14,844	20,315	(27)
Due to related parties	32,898	73,861	(55)
Creditors and accruals	863,734	459,949	88
Employee benefit liabilities	85,894	82,800	4
Borrowings	1,502,642	1,288,927	17
Current taxation	-	7,699	(100)
Deferred taxation	200,623	200,779	-
Total liabilities	22,936,853	21,750,668	5
Capital and reserve attributable to ordinary equity holders			
Stated capital	51,088	51,088	-
Reserves	3,029,311	2,837,739	7
Dividend reserve	254,370	228,933	11
Total equity	3,334,769	3,117,760	7
Total equity and liabilities	26 271 622	24 868 428	6
Undrawn commitments to customers	2,247,847	2,141,858	5
Guarantees and letters of credit	661,218	921,076	(28)
Total contingencies and commitments	26,271,622	3,062,934	758
Capital commitments			
Capital expenditure approved by the Directors-not yet contracted for	121,344	120,084	1

Other contingent liabilities during the current year are adequately disclosed in the financial statements.

SUMMARISED CONSOLIDATED **STATEMENT OF CHANGES IN EQUITY**

	Stated capital P'000	Other non -distributable reserves P'000	Available-for-sale reserve P'000	Retained earnings P'000	Dividend reserve P'000	Total P'000
Balance at 01 July 2017 – as previously stated	51,088	44,322	-	2,503,633	153,822	2,752,865
Reclassification between reserves	-	30,000	-	(30,000)	-	-
Balance at 01 July 2017 - as restated	**51,088**	**74,322**	**-**	**2,473,633**	**153,822**	**2,752,865**
Profit for the year	-	-	-	648,055	-	648,055
Other comprehensive loss for the year	-	-	(1,153)	-	-	(1,153)
Dividends paid - 2017 final	-	-	-	-	(153,822)	(153,822)
Dividends paid - 2018 interim	-	-	-	(128,185)	-	(128,185)
Dividends proposed -2018 final	-	-	-	(228,933)	228,933	-
Transfer from revaluation reserve	-	(2,645)	-	2,645	-	-
Balance at 01 July 2018 - restated (before IFRS 9 adjustments)	**51,088**	**71,677**	**(1,153)**	**2,767,215**	**228,933**	**3,117,760**
Effects of IFRS 9 adjustments on advances	-	-	-	(126,392)	-	(126,392)
Effects of IFRS 9 implementation on FVOCI reserve/Available for sale reserve	-	-	1,153	-	-	1,153
Balance at 01 July 2018 - as restated	51,088	71,677	-	2,640,823	228,933	2,992,521
Profit for the year	-	-	-	732,536	-	732,536
Other comprehensive loss for the year	-	(8,733)		-	-	(8,733)
Dividends paid - 2018 final	-	-	-	-	(228,933)	(228,933)
Dividends paid - 2019 interim	-	-	-	(152,622)	-	(152,622)
Dividends proposed - 2019 final	-	-	-	(254,370)	254,370	-
Transfer from revaluation reserve	-	(1,514)	-	1,514	-	-
Balance at 30 June 2019 (Audited)	**51,088**	**61,430**	**-**	**2,967,881**	**254,370**	**3 334 769**

Prior Period Error:

The loss arising on the revaluation of a property was offset against the gains on other properties and recognised net in other non-distributable reserves as opposed to being recognised in the income statement when the fixed properties were revalued on 30 June 2016. This has been retrospectively adjusted, resulting in changes to the amounts previously recognised in other non-distributable reserves and the retained income; increasing other non-distributable reserves and reducing retained income by P30 million.

SUMMARISED CONSOLIDATED **STATEMENT OF CASH FLOW**

	Year ended 30 June 2019 Audited P'000	Year ended 30 June 2018 Audited P'000	% Change
Cash flows from operating activities			
Cash generated by operations	1,300,301	1,182,503	10
Taxation paid	(266,755)	(247,076)	8
	1,033,546	935,427	10
Change in funds from operating activities	(244,937)	(1,433,087)	(83)
Net cash generated from/(utilised in) operating activities	788,609	(497,660)	(258)
Net cash utilised in investing activities	(54,539)	(56,965)	(4)
Net cash utilised in financing activities	(179,408)	(57,933)	210
Net increase/(decrease) in cash and cash equivalents	554,662	(612,558)	(191)
Cash and cash equivalents at the beginning of the year	5,455,384	6,067,942	(10)
Cash and cash equivalents at the end of the year	6,010,046	5,455,384	10
Cash and short-term funds	4,411,739	4,356,895	1
Investment in Bank of Botswana Certificates	1,598,307	1,098,489	46
	6,010,046	5,455,384	10

SEGMENTAL **REPORTING**

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

- FNB Retail segment - comprising advances and deposits and the revenue flowing from individual customers;
- FNB Business segment - comprising advances and deposits and the revenue flowing from business customers;
- RMB Corporate segment - comprising advances and deposits and the revenue flowing from corporate customers;
- WesBank - comprising vehicle and asset financing; and
- 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**

30 JUNE 2019 (P'000)

	Retail	Business	RMB	WesBank	Treasury	Total
Interest income	536,905	102,639	31,730	103,715	842,456	1,617,445
Non- interest income	471,275	407,762	257,807	24,411	(18,940)	1,142,315
Total segment revenue	1,008,180	510,401	289,537	128,126	823,516	2,759,760
Interest expenditure	92,474	186,517	146,692	4,931	(790,530)	(359,916)
Segment operating income before impairments	1,100,654	696,918	436,229	133,057	32,986	2,399,844
Impairment of advances	(120,337)	(102,524)	(7,891)	(34,636)	476	(264,912)
Net income after impairment of advances	980,317	594,394	428,338	98,421	33,462	2,134,932
Total other expenditure						(1,172,601)
Profit before indirect taxation						962,331
Indirect taxation						(16,984)
Profit before direct taxation						945,347
Direct taxation						(212,811)
Profit for the year						732,536
Gross Advances to customers	9,501,885	3,252,785	1,866,649	2,363,300	-	16,984,619
Deposits from customers	4,734,194	6,548,469	7,383,251	-	925,495	19,591,409

SUMMARISED **SEGMENTAL REPORTING**

30 JUNE 2018 (P'000)

	Retail	Business	RMB	WesBank	Treasury	Total
Interest income	519,172	111,766	23,581	110,745	742,256	1,507,520
Non- interest income	448,924	368,696	226,215	17,623	8,190	1,069,648
Total segment revenue	968,096	480,462	249,796	128,368	750,446	2,577,168
Interest expenditure	67,950	167,540	121,623	(2,160)	(690,674)	(335,721)
Segment operating income before impairments	1,036,046	648,002	371,419	126,208	59,772	2,241,447
Impairment of advances	(117,688)	(115,836)	(9,153)	(30,917)	(574)	(274,168)
Net income after impairment of advances	918,358	532,166	362,266	95,291	59,198	1,967,279
Total other expenditure						(1,113,350)
Profit before indirect taxation						853,929
Indirect taxation						(15,720)
Profit before direct taxation						838,209
Direct taxation						(190,154)
Profit for the year						648,055
Gross Advances to customers	8,916,912	3,489,517	1,718,125	2,168,942	-	16,293,496
Deposits from customers	3,906,559	5,694,373	6,679,559	-	2,553,845	18,834,336

FAIR VALUE **FINANCIAL INSTRUMENTS**

Fair value hierarchy and measurements

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

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

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

Valuations based on observable inputs include:

Level 1

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

Level 2

Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data. This category includes loans and advances to customers, equities listed in an inactive market, debt instruments, private equity investments, 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 tables that follow outline the valuation techniques for financial instruments measured at fair value which are included in level 2 and 3 of the fair value hierarchy:

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Option Contracts	Level 2	Option pricing model	The Black Scholes model is used	Strike price of the option; market related discount rate; forward rate and cap and floor volatility	Not applicable
Swaps	Level 2	Discounted cash flows	The future cashflows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The set date of each swaplet is determined in terms of legal documents pertaining to the swap.	Market interest rates and curves	Not applicable
Forward Contracts	Level 2	Discounted cash flows	The future cashflows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cashflows are obtained by subtracting the strike price of the forward contract from the market projected forward value.	Market interest rates and curves	Not applicable
Treasury Bills	Level 2	Bank of Botswana quoted prices	Bank of Botswana quoted prices	Market interest rates and curves	Not applicable
Other Deposits	Level 2 and 3	Discounted cash flows	The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.	Market interest rates and curves	Credit inputs

FAIR VALUE **FINANCIAL INSTRUMENTS** [CONTINUED]

Financial Instruments Disclosure

The following represents the fair values of financial instruments carried at amortised cost on the consolidated summarised statements of financial position.

2019	Level 1 P'000	Level 2 P'000	Level 3 P'000	Fair Value P'000	Carrying amount P'000
ASSETS					
Advances	-	1,273,635	14,972,807	16,246,442	15,845,272
Accounts receivable	-	-	317,627	317,627	317,627
Total financial assets at amortised cost	**-**	**1,273,635**	**15,290,434**	**16,564,069**	**16,162,899**
Deposits	-	19,601,492	32,898	19,634,390	19,624,307
Long term borrowings	-	1,365,651	-	1,365,651	1,363,089
Accounts payable	-	863,734	-	863,734	863,734
Total financial liabilities at amortised cost	**-**	**21,830,877**	**32,898**	**21,863,775**	**21,851,130**

2018	Level 1 P'000	Level 2 P'000	Level 3 P'000	Fair Value P'000	Carrying amount P'000
ASSETS					
Advances	-	1,451,521	13,665,690	15,117,211	15,160,206
Accounts receivable	-	-	357,133	357,133	357,133
Total financial assets at amortised cost	**-**	**1,451,521**	**14,022,823**	**15,474,344**	**15,517,339**
Deposits	-	19,017,542	-	19,017,542	18,834,336
Long term borrowings	-	1,003,621	-	1,003,621	997,542
Accounts payable	-	459,949	-	459,949	459,949
Total financial liabilities at amortised cost	**-**	**20,481,112**	**-**	**20,481,112**	**20,291,827**

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

2019	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
ASSETS				
Financial assets at fair value through profit and loss	-	184,367	-	184,367
Non-financial assets	-	309,365	-	309,365
Total assets	**-**	**493,732**	**-**	**493,732**
Financial liabilities held for trading	-	14,844	-	14,844
Mandatory at fair value through profit or loss	-	-	139,553	139,553
Total liabilities	**-**	**14,844**	**139,553**	**154,397**

2018	Level 1	Level 2	Level 3	Total P'000
ASSETS				
Financial assets held for trading	-	149,926	-	149,926
Available for sale financial assets	-	1,098,489	-	1,098,489
Non-financial assets	-	331,848	-	331,848
Total assets	**-**	**1,580,263**	**-**	**1,580,263**
Financial liabilities held for trading	-	20,315	-	20,315
Mandatory at fair value through profit or loss	-	-	127,985	127,985
Total liabilities	**-**	**20,315**	**127,985**	**148,300**

Effect of changes in significant unobservable assumptions of level 3 Instruments to reasonably possible alternatives

The table below illustrates the sensitivity of the significant inputs when changed to reasonably possible alternative inputs

Asset / Liability	Significant unobservable inputs	Reasonably possible changes to significant unobservable inputs	Fair value measurement sensitivity to unobservable inputs
Deposits	Credit risk of the cash collateral leg of credit linked notes	Credit migration matrix	The deposits included in level 3 of the hierarchy, represents the collateral leg of the credit linked notes. The most significant unobservable input in determining the fair value of the linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.

Reconciliation of level 3 fair value measurements

Designated at fair value through profit or loss (liabilities)

DEPOSITS	2019 P'000	2018 P'000
Balance at the beginning of the year	127,985	117,086
- Amounts recognised in profit or loss for the year	11,548	10,899
Balance at the end of the year	**139,533**	**127,985**

RELATED **PARTY BALANCES**

	Year ended 30 June 2019 Audited P'000	Year ended 30 June 2018 Audited P'000
Related party balances		
Due from related parties:		
FirstRand Limited – South Africa	2,324,756	1,977,724
First National Bank Holdings (Botswana) Limited	6,388	9,465
	2,331,144	1,987,189
Less money at call and short notice:		
FirstRand Limited – South Africa - call balances	(48,831)	-
FirstRand Limited – South Africa - nostro balances	(2,275,925)	(1,977,724)
	6,388	9,465
Due to related companies -current liabilities:		
FirstRand Limited – South Africa	32,898	73,861
	32,898	73,861

Included in the call and term deposits is a balance of P8 313 000 (2018: P89 942 000) relating to First National Bank Holdings (Botswana) Limited.
Included in this amount is a balance due to FirstRand Bank Limited of P10 589 000 (2018: P 47 000), First National Bank Zambia P- (2018: P 448 000), and First National Bank Swaziland P47 000 (2018: P 41 000), First National Bank Tanzania P25 000 (2018: P 27 000) and First National Bank South Africa P348 530 000 (2018: P 397 919 000).

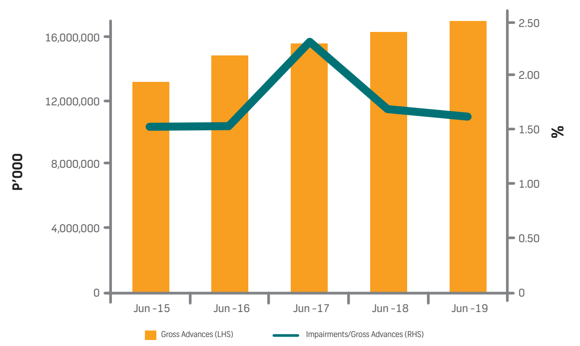
	Year ended 30 June 2019 Audited P'000	Year ended 30 June 2018 Audited P'000
Related party transactions		
Interest Income		
FirstRand Limited – South Africa	68,759	32,504
Interest expenditure		
FirstRand Limited – South Africa	14,530	5,804
Operating expenses		
Service Fees - FirstRand Limited	192,554	195,611
Transactions with key management personnel:		
Compensation paid to key management personnel:		
Share-based payments	3,204	2,572
Short term employee benefits	15,255	17,733
Total short term benefits	**18,459**	**20,305**
Post employment benefits		
Pension	746	590
Advances:		
Personal loans	2,526	1,152
Overdrafts	73	99
Credit card	406	253
Instalment finance	3,771	2,504
Property loans	16,404	12,517
Total advances	**22,180**	**16,525**

RELATED **PARTIES**

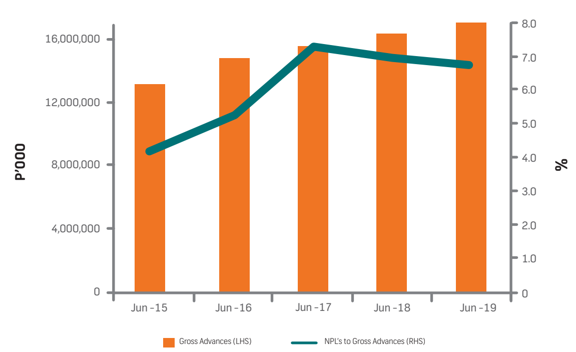
Relationships:	
Ultimate holding company	FirstRand Limited
Holding company	First National Bank Holdings (Botswana) Limited
Subsidiaries	Financial Services Company of Botswana Limited, First Funding (Proprietary) Limited Premium Credit Botswana (Proprietary) Limited, First National Insurance Agency (Proprietary) Limited
Common management	FirstRand Limited – South Africa
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

FINANCIAL **GRAPHS**

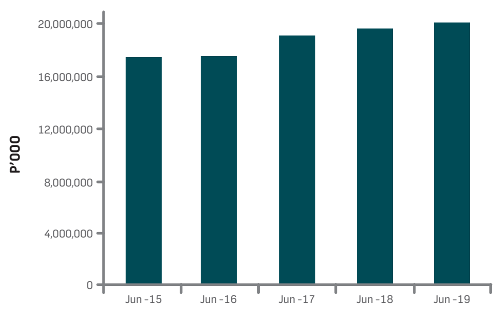
Gross Advances vs Impairments to Gross Advances



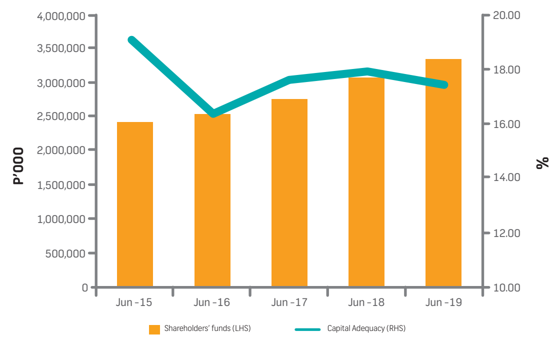
Gross Advances vs NPLs to Gross Advances



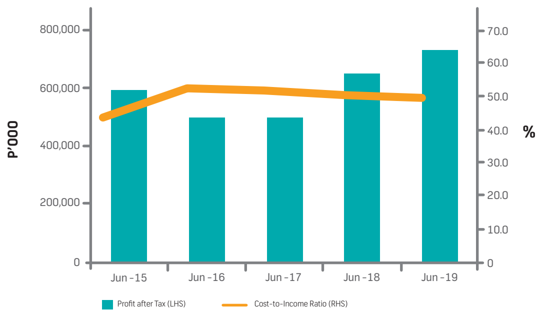
Deposits



Shareholders' Funds vs Capital Adequacy



Profit After Tax vs Cost-To-Income Ratio



Non-Interest Revenue vs Non-Interest Expenses

DIRECTORS:

John K. Macaskill (Chairman-Independent Non-Executive Director) (SA), Sifelani Thapelo (Deputy Chairman-Independent Non-Executive Director), Steven L. Bogatsu (CEO-Executive Director), Jabulani R. Khethe (Non-Executive Director) (SA), Michael W. Ward (Independent Non-Executive Director), Dorcas Kgosietsile (Independent Non-Executive Director), Nelson D. Mokgethi (Independent Non-Executive Director), Mr Balisi Bonyongo - (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).

Log on to **www.fnbbotswana.co.bw** to access our latest and historic financial reports.

MARKETING & **COMMUNICATIONS**

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