Unaudited Summarised Consolidated Financial Results and Dividend Announcement

for the six months ended
31 December 2019

FNB
First National Bank

The Directors take pleasure in announcing the Unaudited Summarised Consolidated Financial Results (referred to as "the interim financial results" in this announcement) and Dividend Announcement of First National Bank of Botswana Limited and its subsidiaries (referred to as "the Bank" in this announcement) for the six months ended 31 December 2019.

Basis of presentation and accounting policies

The interim financial results have been prepared in accordance with:

- International Accounting Standards, *IAS 34 Interim Financial Reporting (IAS 34);*
- Framework concepts and the recognition and measurement requirements of International Financial Reporting Standards (IFRS);
- Interpretations issued by the IFRS Interpretation Committee (IFRS-IC);
- Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council;
- Requirements of 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 accounting policies and methods of computation applied in the preparation of the interim financial results are in terms of IFRS and are consistent with those applied for the year ended 30 June 2019, except for the adoption of the IFRSs that became effective in the current financial year.

The interim financial results are prepared in accordance with the going concern principle under the historical cost basis as modified by the fair value accounting of certain assets and liabilities where required or permitted by IFRS.

The Bank implemented IFRS 16 Leases on 1 July 2019, which replaces IAS 17 Leases and various related interpretations. The adoption of IFRS 16 mainly impacted the Bank's operating leases (as defined under IAS 17 Leases). Under IFRS 16, lessees will need to recognise a right-of-use asset and a lease liability on balance sheet for all operating leases other than short-term lease and leases of low value items. This resulted in a gross up of assets and liabilities amounting to P124m. There was no impact on retained earnings. The Bank had made the policy choice to use the modified retrospective approach that does not require a restatement for prior years.

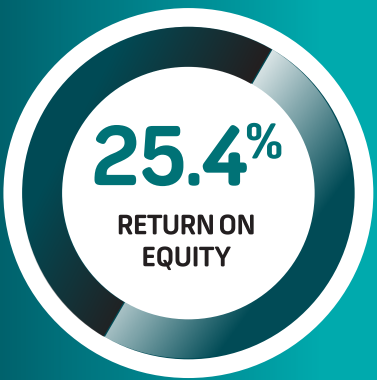
However, this approach does require that the Bank prepare a transition reconciliation note that reconciles the amounts disclosed under IAS 17 to the amounts recognised on balance sheet under IFRS 16. The Bank has assessed the opening balance adjustment required and the relevant disclosures on an IFRS 16 basis for the six months ended December 2019 are on pages 19 - 22.

No other new or amended IFRS's that became effective for the six months ended 31 December 2019 had no impact on the Bank's reported earnings, financial position, reserves or accounting policies. The Bank has successfully implemented IFRS 9 and both periods are presented on this basis.

In the preparation of the interim 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 interim financial results for the six months ended 31 December 2019 and have been thoroughly assessed by management, to ensure the appropriateness thereof. The critical accounting estimates and areas of judgement relate to the following elements of the interim financial results:

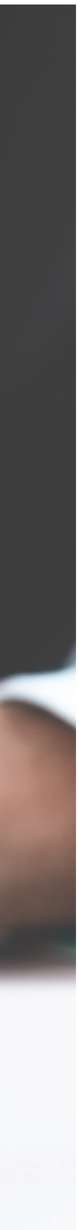
- Impairment of goodwill;
- Application and interpretation of tax regulation;
- Impairment of financial assets;
- Provisions, contingent liabilities and contingent assets;
- Fair value of financial instruments;
- Useful lives of property and equipment; and
- Fair value of cash settled share-based payment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

Financial Highlights



	Year ended 31 December 2019 Unaudited	Year ended 31 December 2018 Unaudited	%
Profit after tax (P'000)	425 032	377 972	12
Advances to customers (P'000)	15 907 665	15 480 850	3
Deposits from customers (P'000)	20 122 675	18 265 584	10
RATIOS			
Cost-to-income ratio (%)	47.0	48.0	(2)
Return on equity (%)	25.4	24.6	3
Return on average assets (%)	3.3	3.1	6
NPL's to gross advances (%)	6.9	7.6	(10)
Dividend per share (thebe)	7.0	6.0	17

Economic Update



Global Economy

Slower pace to economic recovery

The IMF projects modest global growth from an estimated 2.9% in 2019 to 3.3% in 2020 and 3.4% in 2021. Cautiously positive sentiments emanate from accommodative monetary policy, reduced concerns regarding both the US-China trade negotiations, and Brexit. However, both the latter issues remain unresolved and represent a risk to growth. The approaching US elections add to the overall uncertainty. Inflation remains well-contained in most major economies, but a degree of uncertainty hangs over the global economic prospects.

Regional Economy

Growth will remain range-bound

Growth in Sub-Saharan Africa (SSA) is expected to strengthen slightly to 3.5% in 2020-21 from 3.3% estimated for 2019. The high public and corporate debt levels coupled with higher cost of debt continues to weigh on several economies in the region. Growth is expected to remain strongest in non-resource intensive countries. The downside risks to the region's growth will mostly stem from weak external environment which is linked to a fragile global economy. Most economies - including South Africa which cut rates by 25bp in January 2020 – will likely employ the monetary policy to assist growth and we anticipate several countries in SSA to follow suit and cut rates in 2020.

Botswana Economy

Turning a chapter – embarking on a transformation agenda in the new decade

Domestic growth is expected to have slowed to below 4% in 2019 owing to a reduction in diamond production and weaker global and local demand. Within the secondary sector of the economy, construction and manufacturing industries posted positive growth rates. The construction industry continues to be bolstered by Government's continued investment in Botswana's infrastructure needs. Poor rainfall experienced over the course of 2019, along with declining global diamond demand continued to present headwinds to the primary sectors and overall growth in the country. Arrears on loans to the banking sector continue to be evident on households and businesses and is expected to mildly increase in the short-term. However, muted inflation should provide some benefit to real incomes and create a little space for both fiscal and monetary policy easing. The need for diversification remains a concern for growth momentum, given the economy's dependence on mining and tertiary sectors, with limited expansion to manufacturing and agriculture industries.

We anticipate economic growth to average 3.8% in the next three years, with Botswana's non-mining private sector leading growth prospects. Our growth outlook faces possible downside risks from continued implementation challenges regarding planned efforts to promote local production. Mounting fiscal pressures, resulting from undiversified government revenue streams and increasing operational expenditures, could also limit Botswana's ability to meet its infrastructural spending needs. Employment growth will also have to be accelerated to achieve broad-based and inclusive growth.

As inflation remains stubbornly low, can the bank rate go down any further?

Headline inflation averaged 2.8% in 2019 (3.2% in 2018), having breached the Bank of Botswana's lower inflation objective during most of 2019. The downward pressures on inflation continue to emanate from the supply side (as utility prices have been on a downward trend since 2018), while the volatile items of food and transport indices remaining fairly stable. Weak demand prospects for household consumption, due to persistent employment creation challenges, may also continue to have a negative carry on inflation, resulting in muted demand-pull pressures on the headline figure. It is our view that inflation will remain contained, averaging 3.2% in 2020 and 3.5% in 2021

Given the low inflation rate environment, the Bank of Botswana's monetary policy committee cut the bank rate by 25bp (from 5.0% to 4.75%) in August 2019. The decision followed rate cuts by Botswana's trading partners, including South Africa, Namibia and the US, among others, which had cut rates by 25bp at the time of the meeting. Given the benign outlook on inflation as well as real effective exchange rates, we believe the Bank of Botswana will likely cut the policy rate by up to 50bp (from 4.75% to 4.25%) in 2020. Motivation to cut rates further is derived from the ongoing moderation of inflationary pressures, along with anticipated further cuts in Botswana's trading partners.

Pula exchange rate regime

On December 2019, the Ministry of Finance and Economic Development announced that the pula basket weightings will remain unchanged at 45% ZAR and 55% SDR, but has adjusted the crawl to -1.51% p.a. (depreciation) from 0.30% p.a. (appreciation).

Financial Performance

During the past six months, the Bank continued to place focus on improving credit discipline with concentrated efforts on the distressed debt portfolio. Furthermore, priority was given to our customer-centric strategy through continued investment in infrastructure and digital customer solutions, with the roll-out of new products such as Cash Plus together with Contactless POS devices and cards. Effective liquidity management has resulted in an improved liquidity position and a commensurate reduction in the cost of funds.

Statement of Financial Position

The Bank's funding increased year-on-year by 5%, with customer deposits increasing by 10%. This is largely attributable to a 12% increase in demand deposits in line with the Bank's strategy to enhance its transactional offering base, and a 3% decline in fixed and notice deposits. The Bank further reduced reliance on institutional funding facilitated by the growth in retail and wholesale deposits which was in turn assisted by higher market liquidity. During the review period, the Bank increased the funding pool by issuing Tier II Capital amounting to BWP196m.

Gross customer advances growth of 3% year-on-year was predominately driven by Retail lending although offset by further reductions in the Business portfolio due to the intentional reduction of key high-risk accounts. Non-Performing Loans (NPLs) reduced year-on-year to P1.17bn, being an improvement on the P1.26bn disclosed in the December 2018 results, although marginally higher than June 2019 (P1.14bn). The investment portfolio increased by 15% with additional funds available from the strong deposit growth being invested to enhance yields.

Income Statement

Profit after tax rose by 12% due to the strong growth in income and resulting in an improved return on equity of 25.4% (24.6% in 2018).

Interest income increased by 5% against a gross advances growth of 3%. The increase in average client rates was driven by a change in the portfolio mix towards Retail as the Commercial portfolio continued to experience attrition. Set against the significant liquidity pressures seen in the prior period, the easing of liquidity in the current period and the success of the Bank in increasing transactional balances across all segments, saw the interest expense reduce significantly by 17%.

The impairment charge for the period indicated an increase of 10% against the prior year, following continued default pressure in the Retail portfolio and further impacted by an extension of the collateral realisation period in the provisioning models. The impairment charge was further increased by the rise in Retail personal loans which in turn now carry a higher expected credit loss provisions at initial origination. Management of the Commercial portfolio experienced moderate success with a decrease in the NPL portfolio and high value resolutions of long-dated non-performing loans.

Non-interest revenue (NIR) grew by 10% over the period from increases in volumes of customer transactions, as well as, from merchant service revenue following improved connectivity in the point-of-sale machines and an increase in machines in use. eWallet volumes increased by 31% over the period while Pay 2 Cell increased by 41%, as customers continued to take up of the Bank's convenient solutions. These factors combined with an overall increase in digital transactions resulted in a 29% growth in card and merchant commissions. Revenue from foreign exchange reduced by 3% on the prior year, during which exchange rate volatility increased demand above usual levels.

The improvement in the cost-to-income ratio from 48% to 47% is largely due to the strong growth in NIR and reduced funding costs. It also reflects continued cost management initiatives, with the overall expenditure remaining within an acceptable range. Staff costs increased by 10% due to an increase in headcount with focus on key portfolios such as credit and digital migration and the annual salary increment.

Looking ahead

Much of the Bank's success can be attributable to its forward-thinking approach to technology and innovation, which will remain a constant focus point as the Bank enters this next era of rapid technological development around the world.

The smart device will grow in importance, and in many parts of the world is already taking its place alongside cards as the medium of choice for consumer payments. Contactless in-store payments have become a prominent part of the global customer experience. The Bank has launched contactless point of sale devices and cards to further streamline and develop the customer and merchant experience. Creating a seamless channel experience for our customers remains a focal point, with further developments planned for the FNB Banking App. The Bank seeks to provide its clients with the flexibility to serve themselves in the form of convenient, value-added services. Combatting the everchanging nature of cyber security remains paramount. The Bank deploys significant resources in this area and remains constantly vigilant to the evolving nature of the risk.

The Bank will continue to optimise and standardise processes and systems in order to enhance the benefits derived from job roles and functions. The process and role standardisations are providing a foundational element to enabling technology and automation across the Bank. Artificial Intelligence developments such as Robotic Process Automation, Machine Learning and Optical Character Recognition will be considered to drive optimisation. Given the stress that is evident in the credit portfolios, the Bank will continue to adopt a cautious and selective approach to credit. Although there are some positive possibilities with targeted fiscal support for certain sectors of the economy. If the FATF grey-listing were to be lifted, we would expect a tightening of market liquidity and an upward pressure on funding costs.

The Bank intends to widen its reach by banking the unbanked in order to promote financial inclusion. The recent launch of the Cash Plus channel enables the Bank to economically provide banking services to more remote locations and further access points will be rolled-out. This, along with the Bank on Wheels, has seen the Bank improve its customer reach and service previously unbanked areas (such as Shakawe, Tsabong, Masunga and several other areas). Further the Bank on Wheels was taken to a number of shows to provide banking services to attendees, winning the best stall award at the Ghanzi Agricultural Show.

In November 2019, we published our first Report to Society and have embarked on the process of moving towards Integrated Reporting. The Bank will continue as a strong proponent of governance and good corporate citizenship. The Bank's strategy going forward is to build a shared future of prosperity through enriching the lives of its customers, employees and the societies it serves. This is the foundation to a sustainable future and will preserve the Bank's enduring promise to create long term value and superior returns for its customers.

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 the Bank 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.

The capital focus has been directed to the composition of the Bank's capital structure and efficiency of 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. During the period, the Bank issued tier 2 capital to the value of P196m in order to further optimise the composition of the capital base.

For the six months ended 31 December 2019, the Bank continued to operate above the regulatory minimum capital adequacy ratios. As at the end of the final year period, the total capital adequacy ratio was 20.77% 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 an interim dividend of 7 thebe per share, an increase from the 6 thebe per share interim dividend declared in the prior financial year. The increase in the interim dividend narrows the historic gap that has existed between interim and final dividends.

Events after reporting date

The Directors are not aware of any material events that have 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 and performs this function 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 P57 million to the Foundation, which has been invested appropriately in qualifying beneficiaries.

Corporate Governance

The Board of Directors is committed to upholding best practices, business ethics and integrity by ensuring that there are adequate people, processes and systems to facilitate the successful implementation of the Bank's strategy. The Board is supported by robust and independent risk control functions over which it has oversight.

The Board of Directors has invested a significant amount of time and resources to bring the structures of the Bank in line with the highest standards of corporate governance espoused within the principles of King IV and recommended international best practice. Apart from guiding strategy and reviewing performance, the Board is also committed to conducting business in a fair and transparent manner with integrity, through the commitment by all staff in the Bank.

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

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 committees include Audit, Credit, Directors' Affairs and Governance, Remuneration; and Risk, Capital Management and Compliance.

Our focus is on delivering positive year-on-year growth while maintaining integrity and ethical governance standards. The Board is fully committed to ensuring that these values are upheld.

Declaration of Dividend

Notice is hereby given that the First National Bank of Botswana Limited Board of Directors declared an interim dividend of 6 thebe per share for the Half-Year ended 31 December 2019. This dividend is payable to all shareholders registered in the books of the Company at close of business on 13 March 2020. The dividend will be paid on or about 25 March 2020 less withholding tax at the rate of 7.5% under the Botswana's Income Tax Act (Cap 52:01) as amended. The ex-dividend date will be on 11 March 2020.
If a change of address or dividend instructions is to apply to this dividend, notification should reach the Transfer Secretaries by 20 March 2020.

For and on behalf of the Board.

B M Bonyongo
Chairman

S L Bogatsu
Chief Executive Officer

Gaborone, 6 February 2020

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

Unaudited summarised consolidated **Income Statement**

	Unaudited Six months ended 31 December 2019 P'000	Unaudited Six months ended 31 December 2018 P'000	% Change
Interest and similar income calculated using effective interest rate	841 864	804 772	5
Interest expense and similar cha rges	(153 715)	(184 937)	(17)
Net interest income before impairment of advances	688 149	619 835	11
Impairment of advances	(172 277)	(156 112)	10
Net interest income after impairment of advances	515 872	463 723	11
Non-interest income	666 119	605 824	10
Income from operations	1 181 991	1 069 547	11
Operating expenses	(325 045)	(305 274)	7
Employee benefit costs	(302 318)	(274 279)	10
Profit before indirect taxation	554 628	489 994	13
Indirect taxation	(9 715)	(8 847)	10
Profit before direct taxation	544 913	481 147	13
Direct taxation	(119 881)	(103 175)	16
Profit for the period	425 032	377 972	12
Average number of shares in issue during the period (thousands)	2 543 700	2 543 700	
Earnings per share (thebe) (based on weighted average number of shares outstanding)	16.71	14.86	12

Unaudited summarised consolidated **Statement of Comprehensive Income**

	Unaudited Six months ended 31 December 2019 P'000	Unaudited Six months ended 31 December 2018 P'000	% Change
Profit for the period	425 032	377 972	12
Other comprehensive income for the period	-	-	
Total comprehensive income attributable to equity holders	425 032	377 972	12

* The bank has elected not to restate its comparative financial statements, as permitted by IFRS 16. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 17 basis. Refer to page 19-22 for more details.

Ratios and **Market Information**

	Unaudited Six months ended 31 December 2019 P'000	Unaudited Six months ended 31 December 2018 P'000	% Change
Dividend per share (thebe)	7.00	6.00	17
Dividend cover (times)	2.4	2.5	(4)
*Cost to income ratio (percent)	47.0	48.0	(2)
**Return on equity (percent)	25.4	24.6	3
***Return on average assets (percent)	3.3	3.1	6
Capital adequacy ratio (percent)	20.77	19.34	7
Closing share price (thebe)	285	245	16
Dividend yield - ordinary shares (percent)	4.9	4.9	0
Price earnings ratio	8.5	8.2	4

* *including indirect taxation (Value Added Tax).*

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

*** *Return on average assets is annualised.*

Unaudited summarised consolidated **Statement of Financial Position**

	Unaudited At 31 December 2019 P'000	Unaudited At 31 December 2018 P'000	% Change
ASSETS			
Cash and short term funds	4 807 001	4 475 222	7
Derivative financial instruments	74 347	50 571	47
Advances to banks	319 284	-	-
Net advances to customers	15 907 665	15 480 850	3
Investment securities and other investments	4 569 886	3 975 090	15
Current taxation	91 519	31 816	188
Due from related companies	9 475	7 103	33
Accounts receivable	188 620	321 861	(41)
Deferred taxation	6 520	–	–
*Property and equipment	621 775	493 689	26
Goodwill	26 963	26 963	0
Total assets	26 623 054	24 863 165	7
LIABILITIES AND SHAREHOLDERS' FUNDS			
Liabilities			
Deposits from banks	351 907	1 291 750	(73)
Deposits from customers	20 122 675	18 265 584	10
Accrued interest payable	40 540	60 034	(32)
Derivative financial instruments	34 390	18 447	86
Due to related parties	21 850	38 399	(43)
*Creditors and accruals	552 616	349 397	58
Employee benefit liabilities	55 416	67 807	(18)
Borrowings	1 732 467	1 458 830	19
Deferred taxation	205 763	171 357	20
Total liabilities	23 117 624	21 721 605	6
Capital and reserve attributable to ordinary equity holders			
Stated capital	51 088	51 088	-
Reserves	3 276 283	2 937 850	12
Dividend reserve	178 059	152 622	17
Total equity	3 505 430	3 141 560	12
Total equity and liabilities	26 623 054	24 863 165	7
CONTINGENCIES AND COMMITMENTS (OFF BALANCE SHEET ITEMS)			
Undrawn commitments to customers	2 508 453	2 373 043	6
Guarantees and letters of credit	581 251	1 294 097	(55)
Total contingencies and commitments	3 089 704	3 667 140	(16)

* The bank has elected not to restate its comparative financial statements, as permitted by IFRS 16. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 17 basis. Refer to pages 19 - 22 for more details.

Unaudited summarised consolidated **Statement of Changes in Equity**

	Stated capital P'000	Other non -distributable reserves P'000	Retained earnings P'000	Dividend reserve P'000	Total P'000
Balance at 1 July 2019	**51 088**	**61 430**	**2 967 881**	**254 370**	**3 334 769**
Profit for the period	-	-	425 032	-	425 032
Dividend paid - 2019 final	-	-	-	(254 370)	(254 370)
Dividend proposed - 2020 interim	-	-	(178 059)	178 059	-
Balance at 31 December 2019	**51 088**	**61 430**	**3 214 854**	**178 059**	**3 505 431**

Unaudited summarised consolidated **Statement of Cash Flow**

	Unaudited Six months ended 31 December 2019 P'000	Unaudited Six months ended 31 December 2018 P'000	% Change
Cash flows from operating activities			
Cash generated by operations	1 022 922	1 002 596	2
Taxation paid	(277 090)	(234 520)	
	745 832	768 076	
Change in funds from operating activities	(114 063)	18 632	
Net cash generated from operating activities	631 769	786 708	
Net cash utilised in investing activities	(20 730)	(23 086)	
Net cash generated/(utilised) from financing activities	19 267	(137 993)	
Net increase in cash and cash equivalents	630 306	625 629	
Cash and cash equivalents at the beginning of the period	6 173 745	5 548 116	
Cash and cash equivalents at the end of the period	6 804 051	6 173 745	10
Cash and short-term funds at the end of the period			
Cash and short-term funds	4 807 001	4 475 222	7
Investment in Bank of Botswana Certificates	1 997 050	1 698 523	18
	6 804 051	6 173 745	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 Commercial 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.

During the period the Bank adjusted certain internal non-interest income and interest expense segment allocation principles. In order to ensure the prior period figures are comparable, the Bank has restated the prior period in the segmental results. The impact of the restatement is noted in the table underneath the segment results.

Unaudited Summarised **Segmental Reporting**

Six months ended 31 December 2019

Income statement	Retail P'000	Business P'000	Corporate P'000	WesBank P'000	Treasury P'000	Total P'000
Interest income	286 755	53 942	16 688	47 003	437 475	841 863
Non- interest income	305 285	225 471	128 418	7 022	(77)	666 119
Total segment revenue	592 040	279 413	145 106	54 025	437 398	1 507 982
Interest expenditure	62 814	98 136	75 458	(810)	(389 313)	(153 715)
Segment operating income before impairments	654 854	377 549	220 564	53 215	48 085	1 354 267
Impairment of advances	(121 303)	(42 636)	2 127	(10 465)	-	(172 277)
Income from operations	533 551	334 913	222 691	42 750	48 085	1 181 990
Statement of financial position						
Net advances to customers	9 346 535	2 602 142	1 719 607	2 239 380	-	15 907 665
Deposits from banks and customers	4 850 079	6 943 928	5 878 497	1 672	2 800 406	20 474 582

Unaudited Summarised **Segmental Reporting**

Six months ended 31 December 2018

Income statement	Retail P'000	Business P'000	Corporate P'000	WesBank P'000	Treasury P'000	Total P'000
Interest income	281 192	50 059	16 448	56 940	400 133	804 772
Non- interest income	280 557	198 869	123 190	8 193	(4 985)	605 824
Total segment revenue	561 749	248 928	139 638	65 133	395 148	1 410 596
Interest expense and similar charges	44 546	88 815	58 460	2 762	(379 520)	(184 937)
Segment operating income before impairments	606 296	337 743	198 097	67 895	15 628	1 225 659
Impairment of advances	(84 488)	(48 535)	(2 949)	(20 616)	476	(156 112)
Income from operations						1 069 547
Statement of financial position						
Net advances to customers	8 634 234	2 926 945	1 661 439	2 258 232	-	15 480 850
Deposits from banks and customers	4 422 464	6 538 704	5 733 827	-	2 862 339	19 557 334

December 2018 restatement	Retail P'000	Business P'000	Corporate P'000	WesBank P'000	Treasury P'000	Total P'000
Interest income	-	-	-	3 587	-	3 587
Non-Interest Income	20 891	(9 839)	(11 052)	-	-	-
Interest expense and similar charges	5 983	(2 265)	(21 520)	-	17 802	-
Net Impact	**20 891**	**(9 839)**	**(11 052)**	**3 587**	**17 802**	**3 587**

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 maximizes 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 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 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 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 table on page 14 outlines 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	Descriptipon 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

Unaudited Financial **Instruments Disclosure**

The following represents the fair values of financial instruments carried at amortised cost on the summarised consolidated 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	-	2 795 289	14 336 073	17 131 361	15 907 665
Investments securities	2 080 591	2 372 629	-	4 453 220	4 426 813
Accounts receivable	-	-	188 620	188 620	188 620
Total financial assets at amortised cost	**2 080 591**	**5 167 918**	**14 524 693**	**21 773 201**	**20 523 097**
Deposits	-	20 144 160	-	20 144 160	20 122 675
Long term borrowings	-	1 604 036	-	1 604 036	1 586 810
Accounts payable	-	552 616	-	552 616	552 616
Total financial liabilities at amortised cost	**-**	**22 300 812**	**-**	**22 300 812**	**22 262 101**

2018	Level 1 P'000	Level 2 P'000	Level 3 P'000	Fair value P'000	Carrying amount P'000
ASSETS					
Advances	-	2 299 853	11 795 153	14 095 006	15 225 113
Investment securities	1 920 659	1 931 777	-	3 852 436	3 871 415
Accounts receivable	-	-	321 861	321 861	321 861
Total financial assets at amortised cost	**1 920 659**	**4 231 630**	**12 117 014**	**18 269 303**	**19 418 389**
Deposits	-	18 308 318	-	18 308 318	18 265 584
Long term borrowings	-	1 328 176	-	1 328 176	1 325 076
Accounts payable	-	349 397	-	349 397	349 397
Total financial liabilities at amortised cost	**-**	**19 985 891**	**-**	**19 985 891**	**19 940 057**

The following represents the fair values of financial instruments carried at fair value on the summarised consolidated 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	-	143 073	-	143 073
Non-financial assets	-	349 451	-	349 451
Total assets	**-**	**492 524**	**-**	**492 524**
Financial liabilities held for trading	-	34 390	-	34 390
Mandatory at fair value through profit or loss	-	-	145 657	145 657
Total liabilities	**-**	**34 390**	**145 657**	**180 047**

2018	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
ASSETS				
Financial assets held for trading	-	154 246	-	154 246
Non-financial assets	-	328 048	-	328 048
Total assets	**-**	**482 297**	**-**	**482 294**
Financial liabilities held for trading	-	18 447	-	18 447
Mandatory at fair value through profit or loss	-	-	133 754	133 754
Total liabilities	**-**	**18 447**	**133 754**	**152 201**

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 reporting period	139 533	127 985
Amounts recognised in profit or loss the 6 months	6 124	5 769
Balance at the end of the reporting periods	**145 657**	**133 754**

Unaudited Related **Party Balances**

	Year ended 31 December 2019 Unaudited P'000	Year ended 31 December 2018 Unaudited P'000
Related party balances		
Due from related parties:		
FirstRand Limited – South Africa	**1 622 831**	2 485 539
First National Bank Holdings (Botswana) Limited	**9 475**	7 103
	1 632 306	2 492 642
Less money at call and short notice:		
FirstRand Limited – South Africa - call balances	**(1 835)**	**(65)**
FirstRand Limited – South Africa - nostro balances	**(1 620 996)**	**(2 485 474)**
	9 475	7 103
Due to related companies -current liabilities:		
FirstRand Limited – South Africa	**21 850**	38 399
	21 850	38 399

Included in the call and term deposits is a balance of P8 314 850 (2018: P83 309 446) relating to First National Bank Holdings (Botswana) Limited.

Included in deposits from banks is a balance due to FirstRand Bank Limited of P15 000 000 (2018: P 47 000), First National Bank Zambia P 61 000 (2018: P-), and First National Bank Swaziland P60 000 (2018: P 40 000), First National Bank Namibia P Nil (2018: P 93 000) First National Bank Tanzania P Nil (2018: P 5 000) and First National Bank South Africa P 326 000 000 (2018: P 361 660 000).

Related party transactions		
Interest Income		
FirstRand Limited – South Africa	24 680	22 271
Interest expenditure		
FirstRand Limited – South Africa	13 399	232
Operating expenses		
Service Fees - FirstRand Limited	105 790	98 905
	105 790	**98 905**
Transactions with key management personnel:		
Compensation paid to key management personnel:		
Share-based payments	4 500	3 203
Short term employee benefits	9 468	7 006
Total short-term benefits	**13 968**	**10 209**
Post-employment benefits		
Pension	466	435
Advances:		
Personal loans	1 963	2 325
Overdrafts	33	15
Credit card	306	241
Instalment finance	2 492	3 516
Property loans	12 144	16 498
Total advances	**16 936**	**22 595**

Related Party Balances

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
	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

Impact of adopting revised Accounting Standards

The Bank adopted IFRS 16 effective 1 July 2019, which replaces IAS 17 and various related interpretations. IFRS 16 introduced a single lease accounting model for lessees, which had an impact on the Bank's financial results as at 1 July 2019.

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents leasing transactions. Under IFRS 16, the accounting treatment of leases by the lessee has changed fundamentally as it eliminates the dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases.

The Bank leases a variety of properties, equipment and vehicles. Rental agreements typically include fixed periods over which the item is leased, which are individually negotiated and contain a wide range of different terms and conditions. The Bank assesses whether a contract is or contains a lease at inception of a contract. Qualifying leases are recognised as a ROUA (Right Of Use Asset) and a corresponding liability at the date at which the leased asset is made available for use by the Bank.

The following is an extract of the updated accounting policies as a result of the implementation of the IFRS 16 amendments. The IFRS 16 policies only include the accounting policies where the Bank is the lessee, as IFRS 16 did not have an impact on the accounting policies for transactions where the Bank is the lessor.

	Leases where the Bank is the lessee
At inception	The Bank recognises a ROUA and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. The Bank considers the following assets as low value assets: printers, laptops and office furniture. These are assessed as low value assets on the following basis: • The underlying asset is not highly dependent on, or highly interrelated with, other assets; and • These assets have individual values that are not significant when compared to our other leased assets. The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the individual Bank lessee uses its own incremental borrowing rate, being the rate that it can borrow funds from the Treasury department. The ROUA's are measured at cost comprising of the amount of the initial measurement of the lease liability plus any initial direct costs and restoration costs. Where applicable, any lease payments made at or before the commencement date less any lease incentives received is deducted from the cost. Post initial recognition, ROUA's are treated in line with other property and equipment.
Over the life of the lease	Each lease payment is allocated between the lease liability and interest expense. The interest expense is charged to the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The ROUA is subsequently measured at cost less accumulated depreciation and impairment losses. The asset is depreciated over the lease term on a straight-line basis, where ownership is not transferred at the end of the lease term. If ownership is transferred at the end of the lease term, the asset is depreciated over the shorter of the lease term or useful life. For short-term and low value leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease. The Bank applies IAS 36 to determine whether a ROUA is impaired and accounts for any identified impairment loss.
Variable Lease Payments	Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and the ROUA. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the operating expenses in the income statement.
Presentation	The lease liability is presented in other liabilities in the consolidated statement of financial position. The ROUA's are not presented as a separate line in the consolidated statement of financial position, but rather disclosed as ROUA in the property, plant and equipment note.

As permitted by IFRS 16, the Bank did not restate comparative information and elected to apply the modified retrospective approach on the date of adoption (DIA) being 1 July 2019. On the DIA, a lease liability, measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate at DIA was recognised. The Bank elected to measure the ROUA at a value equal to the lease liability as calculated at the DIA, adjusted for any lease prepayments that were made as well as any operating lease smoothing liabilities that were raised under IAS 17. This measurement option is as per IFRS 16 par C8 (b) (ii).

The ROUA recognised is accounted for as Property and equipment (PPE) within the Bank. This leads to additional capital requirements and the transition to IFRS 16 resulted in a decrease of 9 basis points (on a fully loaded basis) to the CET1 ratio of the Bank.

The recognition of the lease liability and right-of use asset has impacted the amounts recognised in the Bank's income statement from the DIA. Under IAS 17 a straight-lined operating lease charge was recognised in operating expenses.
From DIA, the following amounts will be recognised in the income statement under IFRS 16:

From DIA, the following amounts will be recognised in the income statement under IFRS 16:

- interest expense on the lease liability;
- depreciation charge on the right-of use assets and will be recognised over the lease term; and
- rental charge will be recognised in operating expenses for assets classified as short-term or low-value in terms of the Bank's policy.

The table below reconciles the operating lease commitments recognised under IAS 17 to the lease liabilities recognised on balance sheet as at 1 July 2019:

	Note	Amount P'000
Operating lease commitments disclosed as at 30 June 2019 under IAS 17	1	51 457
Less: short term leases	2	-
Less: low-value leases	3	-
Less: variable rate leases	4	-
Add: Adjusted for treatment of extension and termination options	5	97 287
Total qualifying operating leases subject to IFRS 16		**148 744**
Less: Discounted using the Bank's incremental borrowing rate	6	24 680
Additional lease liability recognised as at 1 July 2019 (included in other liabilities)		**124 064**

The adoption of IFRS 16 had no impact on the amount of deferred tax recognised.

Note	Adjustment	Description of FNBB Policy
1	Operating lease commitments under IAS 17	The Bank applied the practical expedient in IFRS 16 C3 and did not reassess the definition of a lease on its current lease contracts but applied the requirements of IFRS 16 to all leases recognised as operating leases previously under IAS 17.
2	Short term leases	IFRS 16 provides an exemption for leases that are short-term in nature. The exemption allows a lessee to not recognise a ROUA or lease liability. The exemption is applied per class of leases (i.e. leases of property, leases of vehicles, etc.). The Bank applied this exemption to all classes of leases at DIA and for new leases entered after the DIA that meets the definition. The Bank defines short term leases as any lease that has a lease term of 12 months or less and where the terms of the lease contain: • no extension periods that the Bank will reasonably exercise which would result in the lease term being longer than 12 months; and • no purchase option in the lease contract.
3	Low-value leases	IFRS 16 provides an exemption for leases of assets that are low-value in nature. The exemption allows a lessee to not recognise a ROUA or lease liability. The exemption is applied on an asset-by-asset basis and is at the election of the lessee. This exemption has been applied to all classes of leases, excluding property, at DIA and to new leases entered into after the DIA. The Bank considers the following assets as low value assets: printers, laptops and office furniture. These are assessed as low value assets on the following basis: • The underlying asset is not highly dependent on, or highly interrelated with, other assets; and • These assets have individual values that are not significant when compared to our other leased assets.
4	Variable rate leases	Under IAS 17, certain variable lease payments where included in the amount of operating lease commitments disclosed in the annual financial statements. Under IFRS 16 variable lease payments are not capitalised and are expensed when incurred.
5	Extension and termination options	The Bank's policy is to include extension and termination operations for certain property leases where there is a reasonably certain expectation asserted that the lease will be renewed and as such the value of these extension and termination options are taken into consideration in the determination of the lease liability. In assessing whether it is reasonably certain that the option will be exercised, past practices observed for similar types of leases and the economic reasons for electing those options are used to conclude whether it is reasonably certain that the option will be exercised or not.
6	Discounting using the Bank's incremental borrowing rate	IFRS 16 requires that the lease payments are discounted. The discounted amount is calculated using the incremental borrowing rate at DIA. The Bank used the practical expedient in IFRS 16 that allows the use of a single discount rate to a portfolio of leases with reasonably similar characteristics. The incremental borrowing rates used ranged between 4.15% - 5.7%. The range is indicative of: • Duration of the lease; • Credit risk of the business that is the lessee.

The unaudited impact on the Bank's financial results as at 1 July 2019 (DIA for IFRS 16) is set out below.

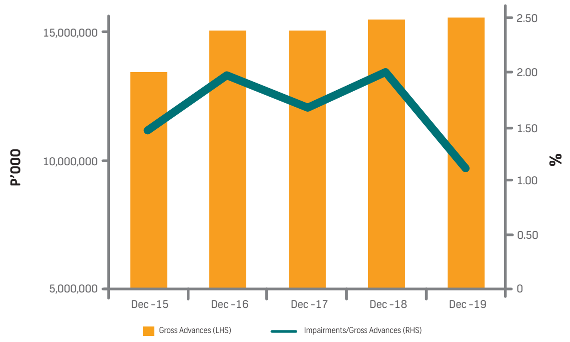
	As previously reported at 30 June 2019	Restatement adjustment for IFRS 16	Restated 1 July 2019
Property and equipment	481 307	124 064	605 371
Accounts receivable (Prepayments)	317 627	-	317 627
All other assets	25 472 688	-	25 472 688
Total assets	**26 271 622**	**124 064**	**26 395 686**
Liabilities			
All other iabilities	22 073 119	-	22 073 119
Creditors, accruals and provisions (Straight-lining liability)	863 734	**124 064**	987 798
Total liabilities	**22 936 853**	**124 064**	**23 060 917**
Equity			
Ordinary shares	51 088	-	51 088
Dividend reserve	254 370	-	254 370
Reserves	3 029 311	-	3 029 311
Capital and reserves attributable to equity-holders of the group	3 334 769	-	3 334 769
Total equity and liabilities	**26 271 622**	**124 064**	**26 395 686**

Impact of Revised Accounting Standards – Other

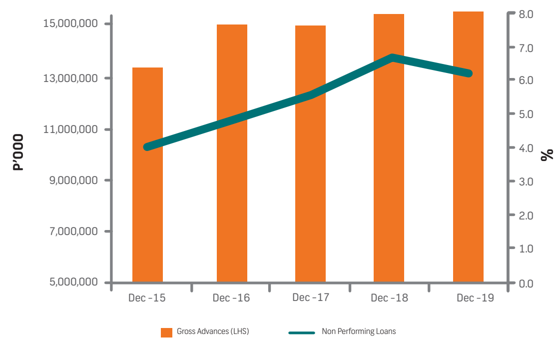
New /revised IFRS	Description of change	Impact on the Bank
IFRIC 23 **Uncertainty over Income Tax Treatments**	This interpretation is to be applied to the determination of taxable profit or loss, tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.	The Bank complies with the guidance issued by the IFRIC.

Financial **Graphs**

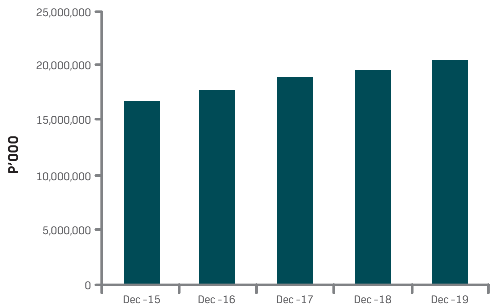
Gross Advances vs Impairments to Gross Advances



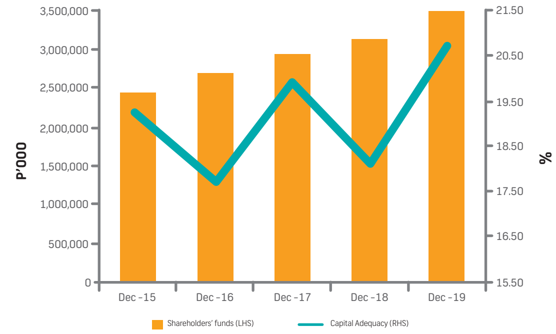
Gross Advances vs NPLs



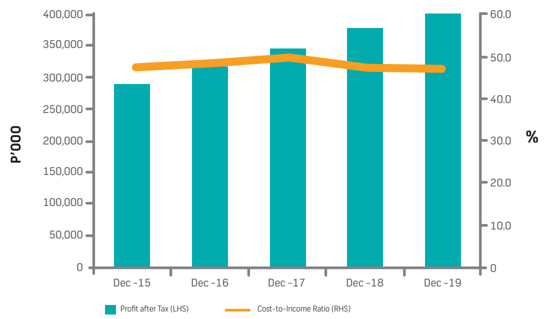
Deposits



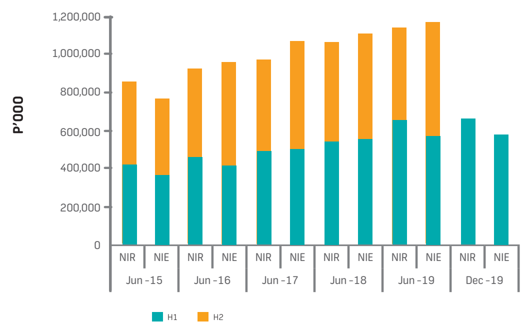
Shareholders' Funds vs Capital Adequacy



Profit After Tax vs Cost-To-Income Ratio



Non-Interest Revenue vs Non-Interest Expenses



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 (Non-Executive Director)(SA), Michael W. Ward (Independent Non-Executive Director), Nelson D. Mokgethi (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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