



# UNAUDITED CONDENSED CONSOLIDATED FINANCIAL RESULTS AND DIVIDEND ANNOUNCEMENT

for the six months ended  
31 December 2018



**FNB**

The directors have pleasure in announcing the unaudited condensed consolidated financial results and dividend announcement of First National Bank of Botswana Limited (the Bank) and its subsidiaries (the Group) for the six months ended 31 December 2018.

## BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated 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 applied in the preparation of the unaudited condensed consolidated interim financial results are in terms of IFRS and are consistent with those applied for the year ended 30 June 2018, except for the adoption of the IFRSs that became effective in the current year.

The unaudited condensed consolidated 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.

IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers became effective in the current year. IFRS 9, which replaces IAS 39 Financial Instruments: Recognition and Measurement, had the most

significant impact on the Group, as it introduced a principle based approach for classifying financial assets based on the entity's business model. It further introduced a new method of calculating impairments on financial assets at amortised cost; a change from the previously applied incurred loss model method to the newly applied expected credit loss model method. The adoption of IFRS 9 has had a significant impact on the Group's financial results and accounting policies.

IFRS 15, which contains a single model that is applied when accounting for contracts with customers, replaced revenue recognition guidance previously included in IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. The adoption of IFRS 15 did not impact the Group's results. No other new or amended IFRS became effective for the six months ended 31 December 2018 that impacted the Group's reported earnings, financial position or reserves, or accounting policies.

In the preparation of the unaudited condensed consolidated financial results, the Group 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 unaudited condensed consolidated financial results for the six months ended 31 December 2018 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 unaudited consolidated financial statements:

- Impairment of goodwill;
- Application and interpretation of regulations;
- Impairment of financial assets;
- Fair value of financial instruments;
- Useful lives of property and equipment; and
- Fair value of cash settled share-based payment plans.

## FINANCIAL HIGHLIGHTS

	Unaudited Six months ended 31 Dec 2018	Unaudited Six months ended 31 Dec 2017	% change
Profit after tax (P'000)	377 972	346 377	9
Impairments (P'000)	156 112	127 160	23
Advances to customers (P'000)	15 480 850	15 091 733	3
Deposits from customers (P'000)	18 265 584	17 818 762	3
<b>RATIOS</b>			
Cost-to-income ratio (%)	47.9	50.0	(4)
Return on equity (%)	24.7	24.3	2
Return on average assets (%)	3.1	3.0	3
NPL's to gross advances (%)	7.6	6.6	15
Dividend per share (thebe)	6.0	5.0	20

## GLOBAL ECONOMY

### Slow but steady economic growth

After peaking at an estimated 3.7% in 2018, the pace of global growth is expected to reduce to between 3.1% and 3.4% in 2019 as US activity tapers in the latter part of the year, occasioning an aggregate slowdown in advanced economies. The outlook for global momentum is clouded by the uncertainty surrounding both Brexit and the USA/China trade discussions.

On balance, global policy was less accommodative in 2018 as tighter financial and monetary conditions, especially across emerging markets (EM), forced central banks to progressively hike interest rates. With headline inflation at or near targeted levels in most advanced economies and moderating across the EM spectrum as supply-shocks dissipate, the need to hike rates aggressively has lessened.

## REGIONAL ECONOMY

### Balancing act in a year dominated by elections

Growth in sub-Saharan Africa (SSA) is expected to rise to 3.8% and 3.9% in 2019 and 2020 respectively, from 3.0% in 2018 (IMF forecasts) on the back of both a slight improvement in commodity prices and higher investment spending. East Africa will be the major regional growth driver, as infrastructure investment and FDI into the up-and-coming oil and gas industry increases over the coming years.

Bigger markets such as Nigeria and South Africa, continue to be a handbrake for SSA growth as their own expansion rates remain well below their long-term averages. However, commodity prices are dependent on global economic stability. Additionally, the upcoming elections in Ghana, Moçambique, Nigeria, South Africa and Tanzania, reduce the likelihood of those governments reining in expenditure, which could negatively impact inflation in the short-term.

We have witnessed most economies adopting a more hawkish tone towards the end of 2018 on the back of rising inflationary pressures, and this trend should continue in 2019. Those countries that had been easing in 2018 are unlikely to cut further (Moçambique and Ghana), while others are expected to start hiking (Zambia and Nigeria). Countries like Botswana, Kenya and Tanzania are expected to keep their stance unchanged – inflation is set to remain within the target range of these central banks. The inflation outlook for South Africa has improved, limiting any potential hike of 25bps in 2019.

## BOTSWANA ECONOMY

### A positive growth momentum is maintained – but will need some nurturing

Our expectation is for Botswana's economy to register a growth rate of 4.4% for 2018 due to higher diamond mining output with our growth forecasts for 2019 and 2020 at 4.7% and 4.5% respectively. The key to unlocking further growth opportunities for Botswana lies in the success of diversification initiatives such as special economic zones and public-private partnerships, with consequent creation of employment opportunities. The service sector has accounted for over 50% of the growth in the past decade, thus reflecting some achievements in the diversification of the economy.

However, Botswana remains reliant on diamonds, as they account for over 85% of the country's exports and contribute close to 30% of fiscal revenue, thus exposing the fiscus to external volatilities. Our growth forecasts therefore remain cautiously optimistic as policy implementation, together with effective infrastructure development, has historically been a challenge. Accordingly, successful diversification will depend largely on investor-friendly regulation and effective implementation of development projects. Given that the economy remains consumer-led, with household expenditure at 49.1% of GDP in Q3 of 2018, sustained economic growth will depend upon both employment creation and real wage increases.

#### Rates remain at cyclical lows

Headline inflation averaged 3.2% in 2018 compared to 3.3% in 2017. Inflation was subdued by lower demand-pull pressures, a reduction in the administered prices of mobile network operators and the alcohol levy, as well as continued zero-VAT rating on most staple food products. Upside pressures were mostly led by an increase in fuel prices as well as public transport fares. We reiterate that demand-pull pressures are likely to limit the increase in inflation as growth in real income levels remains modest. We anticipate the headline in figure of a short-to-medium-term average of 4.0% through to 2023, being within the 3% to 6% target range of the Bank of Botswana.

Consequently, we believe that the Bank of Botswana will continue to focus on supporting economic growth and keep its monetary policy stance accommodative for the next 12 to 15 months. We expect that the Bank of Botswana will leave the bank rate unchanged at 5.0% for the rest of 2019.

We foresee overall credit extension remaining below 8% through to 2020, allowing for a slight increase in business credit as confidence returns, but with household credit remaining restricted by the current pressures on discretionary household income.

#### Pula exchange rate regime

In December 2018, the Ministry of Finance and Economic Development announced that the Pula basket weightings would remain unchanged at 45% ZAR and 55% SDR, but has adjusted the crawl to 0.30% p.a. (appreciation) from -0.30% p.a. (depreciation). This adjustment makes little difference to the Pula outlook. The crawl adjustment, however, pushes down our fair value estimates on yields by 0.60% across the curve and could result in slight moderation to inflation. We note that despite the weightings to the Rand having reduced over time, the Pula remains primarily a function of the Rand.



## FINANCIAL PERFORMANCE

With a total Statement of Financial Position of P25 billion, representing a 4% growth as at December 2018, the Bank has maintained its deposit market share of just below 30%. The Bank invested in a new “Bank on Wheels” – a mobile bank that is used primarily to provide banking solutions to customers in areas with no FNB branch presence. Digital migration remains a key focus and Cash Back rewards were introduced during the period to help drive this initiative. The banking app experienced particularly high growth over the period with customer registration increasing by 11%.

The Bank continued to adopt a cautious credit risk appetite over the period. The gross advances increase of 5% was largely driven by growth in FNB Retail and in RMB Corporate. The FNB Retail segment growth was aligned to the Bank’s cautious outlook on consumer lending, and experienced balanced growth in both property loans and personal loans, while the RMB Corporate segment growth was attributed to a small volume of large-value transactions. The FNB Business decline in advances was attributed to increased competition, the internally moderated risk appetite and the high amortisation of the portfolio due to the predominance of amortising term loans in the portfolio.

Interest income increased by 6%, aligned to the growth in advances. However, this increase was largely due to the optimised investment portfolio while the change in the advances portfolio mix resulted in reduced average yields on advances.

Customer deposit growth of 3% as at December 2018 emanated predominantly from increases in transactional balances. The interest expense growth year-on-year of 13% was due to the rollover effect from the previous reporting period when market liquidity was tight. The position subsequently normalised and the Bank maintained its funding profile and careful management of liquidity risk and costs over the current period.

The non-performing loans (NPL) to gross advances ratio increased from 6.6% to 7.6% year-on-year, with the NPL exposure increasing to P1.26 billion. This significant growth in NPLs is largely due to the deterioration of certain high-value FNB Business segment exposures, and the relocations that have been experienced in the FNB Retail and WesBank segments. The resolution of the NPL portfolio remains a top priority, and the Bank will continue to invest in the iterative refinement of processes and systems required to improve collections.

Impairments increased by 23% year-on-year largely due to the FNB Business segment inflow into NPL. IFRS 9 has been successfully implemented, with a retained earnings adjustment of P126 million accounted for in the financial statements. The Bank has not experienced any significant deterioration in the key variables that affect the IFRS 9 expected credit loss assumptions. Together with muted advances growth, these have resulted in a minimal income statement impact being experienced over the period since implementation.

## COMMENTARY ON UNAUDITED CONSOLIDATED SUMMARISED FINANCIAL RESULTS AND DIVIDEND ANNOUNCEMENT

For the six months ended 31 December 2018

Non-Interest Revenue growth of 10% was driven by increases in both foreign exchange revenue and transactional revenue. The foreign exchange revenue growth was due to a significant increase in the value and volume of foreign exchange transactions as a result of ZAR volatility. The growth in transactional revenue was largely due to increased merchant transactional turnover.

The Bank continued to manage operational expenditure prudently and reported an increase of 3%, largely driven by internal efficiencies and initiatives aligned to digital back-office processes. The Bank continued to invest in the improvement of the client experience, in line with its customer centricity strategy.

The Profit After Tax growth of 9% and return on equity of 24.7% (24.3% in December 2017) are a culmination of the aforementioned initiatives for the six months ended December 2018.

### LOOKING AHEAD

Given the current positive outlook for the Botswana economy, the Bank anticipates increased business activity and commensurate growth in market advances. It further anticipates growth in targeted financing for some sectors of the economy such as agriculture, manufacturing and tourism, which are sectors expected to be supported by credit guarantees from development finance institutions. The Bank is well-positioned to assist customers in their participation in these developments. The Bank will continue to invest in key strategic enablers to continue to deliver a superior customer experience. Investment in digital capabilities, human capital and process re-engineering will continue. Consumer indebtedness in the market remains a concern and the Bank will continue its cautious approach in lending into this market.

### CAPITAL MANAGEMENT

The capital management philosophy of FNB Botswana is to maintain sound capital ratios to ensure confidence in the Bank's solvency and quality of capital during both calm and turbulent periods in the economy and in the financial markets. The Bank, therefore, aims to maintain capitalisation ratios aligned to its risk appetite and appropriate to safeguarding 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, inter alia, the organic growth requirements, safety margin for unexpected fluctuations in business plans and earnings volatility. Through this approach, compliance with both the internal and regulatory capital adequacy requirements can be ascertained, shareholders' returns can be safeguarded and the Bank can maintain the 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 Board approved frameworks and policies. In this regard, the strategic focus has been directed to the composition of the Bank's capital structure and efficiency of the risk-adjusted assets.

For the interim financial year ended 31 December 2018, the Bank continued to operate above the regulatory minimum capital adequacy ratios. As at the end of the interim period, the total capital adequacy ratio was 18.18% which 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 6 thebe per share, an increase from the 5 thebe 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

There were no material events that occurred after the reporting date that required adjustment to the amounts recognised in the interim financial report or the required disclosures.

## 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.

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.

## 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
- Job creation
- Skills development/vocational training
- Support for the disadvantaged/ disabled, 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 its Profit After Tax to the Foundation annually. Since its inception in 2001, the Bank has made grants in excess of P48 million to the Foundation, which funds have been channeled accordingly to qualifying beneficiaries.

## DECLARATION OF DIVIDEND

Notice is hereby given that an interim dividend of 6 thebe per share has been declared for the six months ended 31 December 2018. The dividend will be paid on or about 29 March 2019 to shareholders registered at the close of business on 19 March 2019. The ex-dividend date will be 15 March 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 8 March 2019.

For and on behalf of the Board.



J K Macaskill  
Chairman



S L Bogatsu  
Chief Executive Officer

Gaborone, 06 February 2019

## TRANSFER SECRETARIES

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

## UNAUDITED CONSOLIDATED INCOME STATEMENT

	Unaudited Six months ended 31 December 2018 P'000	Unaudited Six months ended 31 December 2017 P'000	% Change
Interest and similar income	804 772	757 421	6
Interest expense and similar charges	(184 937)	(164 260)	13
<b>Net interest income before impairment of advances</b>	<b>619 835</b>	<b>593 161</b>	<b>4</b>
Impairment of advances	(156 112)	(127 160)	23
<b>Net interest income after impairment of advances</b>	<b>463 723</b>	<b>466 001</b>	<b>(0)</b>
Non-interest income	605 824	548 811	10
<b>Income from operations</b>	<b>1 069 547</b>	<b>1 014 812</b>	<b>5</b>
Operating expenses	(579 553)	(560 332)	3
<b>Profit before indirect taxation</b>	<b>489 994</b>	<b>454 480</b>	<b>8</b>
Indirect taxation	(8 847)	(10 407)	(15)
<b>Profit before direct taxation</b>	<b>481 147</b>	<b>444 073</b>	<b>8</b>
Direct taxation	(103 175)	(97 696)	6
<b>Profit for the period</b>	<b>377 972</b>	<b>346 377</b>	<b>9</b>
Earnings per share (thebe) (based on weighted average number of shares outstanding)	14.86	13.51	10

## UNAUDITED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Unaudited Six months ended 31 December 2018 P'000	Unaudited Six months ended 31 December 2017 P'000	% Change
<b>Profit for the period</b>	<b>377 972</b>	<b>346 377</b>	<b>9</b>
<b>Other comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income attributable to equity holders</b>	<b>377 972</b>	<b>346 377</b>	<b>9</b>



## RATIOS AND MARKET INFORMATION

	Unaudited Six months ended 31 December 2018 P'000	Unaudited Six months ended 31 December 2017 P'000	% Change
Dividend per share (thebe)	6.00	5.00	20
Dividend cover (times)	2.5	2.7	(7)
* Cost to income ratio (percent)	47.9	50.0	(4)
** Return on equity (percent)	24.7	24.3	2
*** Return on average assets (percent)	3.1	3.0	3
Capital adequacy ratio (percent)	18.18	19.88	(9)
Closing share price (thebe)	245	233	5
Dividend yield - ordinary shares (percent)	4.9	4.3	14
Price earnings ratio	8.2	8.6	(5)
* Cost to income ratio is based on total non-interest expenditure including indirect taxation (Value Added Tax).			
** Return on Equity is annualised and includes proposed dividend (dividend reserve).			
*** Return on average assets is annualised.			

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited At 31 December 2018 P'000	Unaudited At 31 December 2017 P'000	% Change
<b>ASSETS</b>			
Cash and short-term funds	4 475 222	4 399 229	2
Derivative financial instruments	50 571	76 952	(34)
Net advances to customers	15 480 850	15 091 733	3
Investment securities and other investments	3 975 090	3 461 795	15
Current taxation	31 816	11 203	184
Due from related companies	7 103	10 463	(32)
Accounts receivable	321 861	276 411	16
Property and equipment	493 689	508 402	(3)
Goodwill	26 963	26 963	-
<b>Total assets</b>	<b>24 863 165</b>	<b>23 863 151</b>	<b>4</b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>			
<b>Liabilities</b>			
Deposits from banks	1 291 750	1 092 722	18
Deposits from customers	18 265 584	17 818 762	3
Accrued interest payable	60 034	84 209	(29)
Derivative financial instruments	18 447	39 034	(53)
Due to related companies	38 399	102 366	(62)
Creditors and accruals	349 397	271 073	29
Employee Liabilities	67 807	66 358	2
Borrowings	1 458 830	1 239 705	18
Deferred taxation	171 357	203 502	(16)
<b>Total liabilities</b>	<b>21 721 605</b>	<b>20 917 731</b>	<b>4</b>
<b>Capital and reserves attributable to ordinary equity holders</b>			
Stated capital	51 088	51 088	-
Reserves	2 937 850	2 766 147	6
Dividend reserve	152 622	128 185	19
<b>Total equity</b>	<b>3 141 560</b>	<b>2 945 420</b>	<b>7</b>
<b>Total equity and liabilities</b>	<b>24 863 165</b>	<b>23 863 151</b>	<b>4</b>
<b>CONTINGENCIES AND COMMITMENTS (OFF BALANCE SHEET ITEMS)</b>			
Undrawn commitments to customers	2 373 043	2 153 489	10
Guarantees and letters of credit	1 294 097	1 135 308	14
<b>Total contingencies and commitments</b>	<b>3 667 140</b>	<b>3 288 797</b>	<b>12</b>

## UNAUDITED CONDENSED 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
<b>Balance at 1 July 2018</b>	51 088	41 677	(1 153)	2 797 215	228 933	3 117 760
IFRS 9 adjustment	-	-	-	(126 392)	-	(126 392)
<b>Restated Balance at 1 July 2018</b>	<b>51 088</b>	<b>41 677</b>	<b>(1 153)</b>	<b>2 670 823</b>	-	<b>2 991 368</b>
Profit for the period	-	-	-	377 972	-	377 972
Transfer of available-for-sale reserve	-	-	1 153	-	-	1 153
Dividend paid - 2018 final	-	-	-	-	(228 933)	(228 933)
Dividend proposed - 2019 interim	-	-	-	(152 622)	152 622	-
<b>Balance at 31 December 2018</b>	<b>51 088</b>	<b>41 677</b>	-	<b>2 896 173</b>	<b>152 622</b>	<b>3 141 560</b>

## UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 31 December 2018 P'000	Unaudited Six months ended 31 December 2017 P'000	% Change
<b>Cash flows from operating activities</b>			
Cash generated by operations	1 002 596	595 190	68
Taxation paid	(234 520)	(97 544)	
	768 076	497 646	
Change in funds from operating activities	18 632	18 632	
<b>Net generated from / operating activities</b>	<b>786 708</b>	<b>516 278</b>	
Net cash utilised in investing activities	(23 086)	(54 647)	
Net cash utilised in financing activities	(137 993)	(68 089)	
<b>Net increase in cash and cash equivalents</b>	<b>625 629</b>	<b>393 542</b>	
<b>Cash and cash equivalents at the beginning of the period</b>	<b>5 548 116</b>	<b>5 154 574</b>	
<b>Cash and cash equivalents at the end of the period</b>	<b>6 173 745</b>	<b>5 548 116</b>	<b>11</b>
<b>Cash and short-term funds at the end of the period</b>			
Cash and short-term funds	4 475 222	4 399 229	2
Investment in Bank of Botswana Certificates	1 698 523	1 148 887	48
	<b>6 173 745</b>	<b>5 548 116</b>	<b>11</b>

## 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.

## UNAUDITED CONDENSED SEGMENTAL REPORTING

	FNB Retail P'000	FNB Business P'000	RMB Corporate P'000	WesBank P'000	Treasury P'000	Total P'000
<b>Six months ended 31 December 2018</b>						
<b>Income statement</b>						
Interest income	281 192	50 059	16 448	53 353	400 133	801 185
Non- interest income	259 666	208 708	134 242	8 193	(4 985)	605 824
<b>Total segment revenue</b>	<b>540 858</b>	<b>258 767</b>	<b>150 690</b>	<b>61 546</b>	<b>395 148</b>	<b>1 407 009</b>
Interest expenditure	38 563	91 080	79 980	2 762	(397 322)	(184 937)
<b>Segment operating income before impairments</b>	<b>579 421</b>	<b>349 847</b>	<b>230 670</b>	<b>64 308</b>	<b>(2 174)</b>	<b>1 222 072</b>
Impairment of advances						(156 112)
<b>Net income after impairment of advances</b>						<b>1 065 960</b>
Total other expenditure						(575 966)
<b>Profit before indirect taxation</b>						<b>489 994</b>
Indirect taxation						(8 847)
<b>Profit before direct taxation</b>						<b>481 147</b>
Direct taxation						(103 175)
<b>Profit for the period</b>						<b>377 972</b>
<b>Statement of financial position</b>						
<b>Net advances to customers</b>	<b>8 634 234</b>	<b>2 926 945</b>	<b>1 661 439</b>	<b>2 258 232</b>	<b>-</b>	<b>15 480 850</b>
<b>Deposits from banks and customers</b>	<b>4 422 464</b>	<b>6 538 704</b>	<b>5 733 827</b>	<b>-</b>	<b>2 862 339</b>	<b>19 557 334</b>

## UNAUDITED CONDENSED SEGMENTAL REPORTING

	FNB Retail P'000	FNB Business P'000	RMB Corporate P'000	WesBank P'000	Treasury P'000	Total P'000
<b>Six months ended 31 December 2017</b>						
<b>Income statement</b>						
Interest income	261 016	58 933	10 061	53 952	373 459	757 421
Non- interest income	256 999	170 923	101 877	7 584	11 428	548 811
<b>Total segment revenue</b>	<b>518 015</b>	<b>229 856</b>	<b>111 938</b>	<b>61 536</b>	<b>384 887</b>	<b>1 306 232</b>
Interest expenditure	40 198	90 814	66 596	(1 660)	(360 208)	(164 260)
<b>Segment operating income before impairments</b>	<b>558 213</b>	<b>320 670</b>	<b>178 534</b>	<b>59 876</b>	<b>24 679</b>	<b>1 141 972</b>
Impairment of advances						(127 160)
<b>Net income after impairment of advances</b>						<b>1 014 812</b>
Total other expenditure						(560 332)
<b>Profit before indirect taxation</b>						<b>454 480</b>
Indirect taxation						(10 407)
<b>Profit before direct taxation</b>						<b>444 073</b>
Direct taxation						(97 696)
<b>Profit for the period</b>						<b>346 377</b>
<b>Statement of financial position</b>						
<b>Net advances to customers</b>	<b>8 339 350</b>	<b>3 451 528</b>	<b>1 197 116</b>	<b>2 103 739</b>	<b>-</b>	<b>15 091 733</b>
<b>Deposits from banks and customers</b>	<b>3 901 631</b>	<b>7 090 952</b>	<b>5 310 085</b>	<b>-</b>	<b>2 608 816</b>	<b>18 911 484</b>

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

<b>GROUP 2018</b>	<b>Level 1 P'000</b>	<b>Level 2 P'000</b>	<b>Level 3 P'000</b>	<b>Fair Value P'000</b>	<b>Carrying amount P'000</b>
<b>ASSETS</b>					
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
<b>Total financial assets at amortised cost</b>	<b>1 920 659</b>	<b>4 231 630</b>	<b>12 117 014</b>	<b>18 269 303</b>	<b>19 418 389</b>
<b>LIABILITIES</b>					
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
<b>Total financial liabilities at amortised cost</b>	<b>-</b>	<b>19 985 891</b>	<b>-</b>	<b>19 985 891</b>	<b>19 940 057</b>

<b>GROUP 2017</b>	<b>Level 1 P'000</b>	<b>Level 2 P'000</b>	<b>Level 3 P'000</b>	<b>Fair Value P'000</b>	<b>Carrying amount P'000</b>
<b>ASSETS</b>					
Advances	-	2 368 812	11 996 881	14 365 693	14 747 081
Investment securities	1 878 218	-	-	1 878 218	1 854 159
	-	-	276 411	276 411	276 411
<b>Total financial assets at amortised cost</b>	<b>1 878 218</b>	<b>2 368 812</b>	<b>12 273 292</b>	<b>16 520 322</b>	<b>16 877 651</b>
<b>LIABILITIES</b>					
Long term borrowings	-	17 991 281	-	17 991 281	17 818 762
Accounts payable	-	1 127 969	-	1 127 969	1 117 153
Accounts payable	-	271 073	-	271 073	271 073
<b>Total financial liabilities at amortised cost</b>	<b>-</b>	<b>19 390 323</b>	<b>-</b>	<b>19 390 323</b>	<b>19 206 988</b>

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

<b>GROUP 2018</b>	<b>Level 1 P'000</b>	<b>Level 2 P'000</b>	<b>Level 3 P'000</b>	<b>Total P'000</b>
<b>ASSETS</b>				
Financial assets held for trading	-	154 246	-	154 246
Non-financial assets	-	328 048	-	328 048
<b>Total assets</b>	<b>-</b>	<b>482 294</b>	<b>-</b>	<b>482 294</b>
<b>LIABILITIES</b>				
Financial liabilities held for trading	-	18 447	-	18 447
Designated at fair value through profit or loss	-	-	133 754	133 754
<b>Total liabilities</b>	<b>-</b>	<b>18 447</b>	<b>133 754</b>	<b>152 201</b>

<b>GROUP 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Fair Value</b>
<b>ASSETS</b>				
Financial assets held for trading	-	174 553	-	174 553
Available for sale financial assets	-	1 510 035	-	1 510 035
Non-financial assets	-	334 052	-	334 052
<b>Total assets</b>	<b>-</b>	<b>2 018 640</b>	<b>-</b>	<b>2 018 640</b>
<b>LIABILITIES</b>				
Financial liabilities held for trading	-	39 034	-	39 034
Designated at fair value through profit or loss	-	-	122 552	122 552
<b>Total liabilities</b>	<b>-</b>	<b>39 034</b>	<b>122 552</b>	<b>161 586</b>

	Unaudited 31 December 2018 P'000	Unaudited 31 December 2017 P'000
<b>Related party balances</b>		
Due from related parties:		
FirstRand Limited – South Africa	2 485 539	721 946
First National Bank Holdings (Botswana) Limited	7 103	10 463
	<b>2 492 642</b>	<b>732 409</b>
Less money at call and short notice:		
FirstRand Limited – South Africa - call balances	(65)	-
FirstRand Limited – South Africa - nostro balances	(2 485 474)	(721 946)
	<b>7 103</b>	<b>10 463</b>
Due to related companies –current liabilities:		
FirstRand Limited – South Africa	38 399	102 366
	<b>38 399</b>	<b>102 366</b>
Included in the call and term deposits is a balance of P83 309 446 (2017: P 89 951 872) relating to First National Bank Holdings (Botswana) Limited.		
Included in deposits from banks is a balance due to FirstRand Bank Limited of P47 000 (2017: P 47 000), First National Bank Zambia P- (2017: P 18 000), First National Bank Swaziland P40 000 (2017: P 9 000), First National Bank Namibia P93 000 (2017: P235 000), First National Bank Tanzania P5 000 (2017: P -) and First National Bank South Africa P361 660 000 (2017: P 202 361 000).		
<b>Interest Income</b>		
FirstRand Limited – South Africa	22 271	13 229
<b>Interest expenditure</b>		
FirstRand Limited – South Africa	232	343
<b>Operating expenses</b>		
Service Fees - FirstRand Limited	98 905	101 914
	<b>98 905</b>	<b>101 914</b>
<b>Transactions with key management personnel:</b>		
Compensation paid to key management personnel:		
Share-based payments	3 203	2 266
Short term employee benefits	7 006	6 766
<b>Total short term benefits</b>	<b>10 209</b>	<b>9 032</b>
<b>Post employment benefits</b>		
Pension	435	405
Advances:		
Personal loans	2 325	2 034
Overdrafts	15	94
Credit card	241	317
Instalment finance	3 516	1 432
Property loans	16 498	16 640
<b>Total advances</b>	<b>22 595</b>	<b>20 517</b>
<b>Related parties</b>		
Relationships:		
Ultimate holding company	FirstRand Limited	
Holding company	First National Bank Holdings 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	

## IMPACT OF ADOPTING REVISED ACCOUNTING STANDARDS

The bank has adopted IFRS 9 and IFRS 15 during the current period. The bank, as permitted by these standards, elected not to restate any comparative information. Accordingly, the impact of adopting the revised requirements of IFRS 9 has been applied prospectively with an adjustment to the bank's 1 July 2018 opening reserves. Reported information in terms of the financial year ended 30 June 2018 and all previous financial years were unaffected by the application of IFRS 9.

Requirement	Description of change	Impact on the bank
<b>Classification and measurement</b>	<p>IFRS 9 introduced a principle-based approach for classifying financial assets, based on the entity's business model (for example how an entity manages its financial assets to generate cash flows) and the nature of its cash flows. Financial assets held to collect contractual cash flows, which pass the Solely Payments of Principal and Interest test (SPPI), are classified at amortised cost. Financial assets held in a mixed business model (for example, held to collect contractual cash flows which meet the SPPI test and held for sale) are classified at fair value through other comprehensive income (FVOCI). All other financial assets held under a different business model or cash flows that do not meet the SPPI test are classified at fair value through profit or loss (FVTPL).</p> <p>The classification of financial liabilities remains relatively unchanged, with the exception of financial liabilities designated at fair value.</p>	<p>The bank's approach was to first reclassify the items and then remeasure them, as indicated in the table that follows. Based on the business model assessments performed, the following were the significant reclassifications and re-measurements:</p> <ul style="list-style-type: none"> <li>P1.1 billion of investment securities held in the bank's liquid asset portfolio were reclassified from available-for-sale to amortised cost because they are held to collect contractual cash flows that meet the SPPI test. This resulted in a P 1.15 million release of available-for-sale reserve.</li> </ul>
<b>Expected Credit Loss (ECL) impairment</b>	<p>IFRS 9 introduced an ECL model which includes the incorporation of forward-looking information (FLI) for the recognition of impairments on financial assets. It is no longer required that a credit event occurs before credit losses are recognised. This applies to financial assets classified at amortised cost and FVOCI, lease receivables and trade receivables. It also applies to loan commitments, unutilised facilities and financial guarantee contracts not designated at FVTPL, referred to collectively as off-balance sheet exposures.</p> <p>The level of ECL to be recognised is determined with reference to the credit risk of the asset at reporting date in relation to its credit risk at origination. Where the credit risk has not increased significantly since origination, impairment is calculated based on a 12-month ECL. If there has been a significant increase in credit risk (SICR), impairment is based on a Lifetime ECL (LECL).</p>	<p>The revised impairment requirements increased impairments by P126 million, excluding ISP, due to earlier recognition of ECL, incorporating FLI, the inclusion of off-balance sheet exposures and the extension of the measurement period.</p>
<b>Hedge accounting</b>	<p>IFRS 9 more closely aligns hedge accounting with the entity's risk management policies and permits the use of internally produced risk management information as a basis for hedge accounting, thereby widening the range of items that can be hedge accounted.</p>	<p>The Bank does not apply hedge accounting.</p>
<b>IFRS 15 Revenue</b>	<p>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 model specifies that revenue is recognised as and when control of goods or services are transferred to a customer and that revenue is recognised at the amount which an entity expects to receive. Depending on certain criteria revenue is recognised at a point in time or over time.</p>	<p>The adoption of IFRS 15 has had no impact on the Bank's reported results.</p>

IFRS 9 TRANSITION IMPACT ON THE BANK'S UNAUDITED  
CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

			30 June 2018 Balances before re- statement	Reclassifi- cation from IAS39 to IFRS9	To amortised cost	Recog- nition increase or decrease of ECL	Interest in suspense (ISP)	30 June 2018 Balances after restatement
	IAS 39 clas- sification	IFRS 9 clas- sification	P'000	P'000	P'000	P'000	P'000	P'000
Deposits	Amortised cost	Amortised cost	19 616 338	-	-	-	-	19 616 338
Derivatives financial instruments	Held for trading	Mandatory FVTPL	20 315	-	-	-	-	20 315
Creditors and accruals	Amortised cost	Amortised cost	459 949	-	-	-	-	459 949
Borrowings	Amortised cost	Amortised cost	1 160 942	-	-	-	-	1 160 942
Borrowings	Mandatory FVTPL	Mandatory FVTPL	127 985	-	-	-	-	127 985
Due to related parties	Loans and receivables	Amortised cost	73 861	-	-	-	-	73 861
Other liabilities	Amortised cost	Amortised cost	291 278	-	-	-	-	291 278
<b>Total liabilities</b>			<b>21 750 668</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21 750 668</b>
Share capital			51 088	-	-	-	-	51 088
Total reserves			3 066 672	-	1 153	(126 392)	-	2 941 433
- Retained income			2 797 215	-	-	(126 392)	-	2 670 823
- Available-for-sale reserve			(1 153)	-	1 153	-	-	-
- Other non-distrib- utable reserves			41 677	-	-	-	-	41 677
- Dividend reserve			228 933	-	-	-	-	228 933
<b>Total equity and reserves</b>			<b>3 117 760</b>	<b>-</b>	<b>1 153</b>	<b>(126 392)</b>	<b>-</b>	<b>2 992 521</b>
<b>Total liabilities and shareholders funds</b>			<b>24 868 428</b>	<b>-</b>	<b>1 153</b>	<b>(126 392)</b>	<b>-</b>	<b>24 743 189</b>
<b>Assets</b>								
Cash and short term funds	Loans and receivables	Amortised cost	4 356 895	-	-	-	-	4 356 895
Derivatives financial instruments	Held for trading	Mandatory FVTPL	55 181	-	-	-	-	55 181
Advances to banks	Loans and receivables	Amortised cost	650 912	-	-	-	-	650 912
Advances to customers	Loans and receivables	Amortised cost	16 122 567	-	-	-	170 929	16 293 496
Impairment of advances	Loans and receivables	Amortised cost	(643 630)	-	-	(126 392)	(170 929)	(940 951)
Investment securities	Held for trading	Mandatory FVTPL	94 745	-	-	-	-	94 745
Investment securities	Held to maturity	Amortised cost	2 166 857	1 098 489	1 153	-	-	3 266 499
Investment securities	Available-for- sale	Amortised cost	1 098 489	(1 098 489)	-	-	-	-
Account receivable	Loans and receivables	Amortised cost	357 133	-	-	-	-	357 133
Current taxation			65 267	-	-	-	-	65 267
Due from related parties	Loans and receivables	Amortised cost	9 465	-	-	-	-	9 465
Property and equipment			507 584	-	-	-	-	507 584
Goodwill			26 963	-	-	-	-	26 963
<b>Total assets</b>			<b>24 868 428</b>	<b>-</b>	<b>1 153</b>	<b>(126 392)</b>	<b>-</b>	<b>24 743 189</b>

## SUMMARY OF ACCOUNTING POLICIES

The following is an extract of the significant changes to the accounting policies as a result of the implementation of IFRS 9.

Classification and Measurement	
<b>Initial measurement</b>	<p>All financial instruments are initially measured at fair value including transaction costs, except for those classified as FVTPL, where the transaction costs are expensed on the transaction date.</p> <p>Immediately after initial recognition, an ECL allowance is recognised for newly originated financial assets measured at amortised cost, and debt instruments measured at fair value through other comprehensive income.</p>
<b>Subsequent measurement of financial assets</b>	<p>Management determines the classification of its financial assets at initial recognition based on:</p> <ul style="list-style-type: none"> <li>• the Bank's business model for managing the financial assets; and</li> <li>• the contractual cash flow characteristics of the financial asset.</li> </ul>
<b>Business model</b>	<p>The Bank distinguishes three main business models for managing financial assets:</p> <ul style="list-style-type: none"> <li>• holding financial assets to collect contractual cash flows;</li> <li>• managing financial assets and liabilities on a fair value basis or selling financial assets; and</li> <li>• a mixed business model of collecting contractual cash flows and selling financial assets.</li> </ul> <p>The business model assessment is not performed on an instrument by instrument basis, but at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment is done for each legal reporting entity at least at a business level, although businesses could perform the assessment on a portfolio or sub-portfolio level depending on the manner in which groups of financial assets are managed.</p> <p>The main consideration in determining the different business models is whether the objectives of the business model are met primarily through holding the financial assets to collect contractual cash flows, through the sale of these financial assets, by managing assets and liabilities on a fair value basis, or through a combination of these activities.</p> <p>One of the factors considered, when determining whether the business objective is achieved primarily through collecting contractual cash flows, is the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the Bank only considers a transaction a sale if the asset is derecognised for accounting purposes.</p> <p>If sales of financial assets are frequent, the significance of these sales is determined by comparing the amounts of assets sold during the period and cumulatively to the total carrying amount of assets held in the business model. If sales are either infrequent or insignificant, these will not impact the conclusion that the business model is to collect contractual cash flows.</p> <p>A change in one or more business models of the Bank only occurs on the rare occasion when the Bank genuinely changes the way in which it manages a financial asset. Any changes in business model would result in a reclassification of the relevant financial assets from the beginning of the next reporting period.</p>
<b>Cash flow characteristics</b>	<p>In order for a debt instrument to be measured at amortised cost or FVOCI, the cash flows on the asset have to be SPPI, consistent with those of a basic lending agreement.</p> <p>The SPPI test is applied on a portfolio basis for retail advances, as the cash flow characteristics of these assets are standardised. This includes the consideration of any pre-payment penalties that are limited by consumer credit regulation and can therefore be considered reasonable compensation which would not cause these assets to fail the SPPI test.</p> <p>For wholesale advances, the SPPI test is applied to individual advances at initial recognition, based on the cash flow characteristics of the asset. Wholesale advances that do not pass the SPPI test and that have to be measured at FVPL include advances with equity participation features, convertible bonds and payments linked to commodity or other prices. If the contract contains prepayment penalties, the amount of the prepayment penalty is compared to the present value of the margin that would be earned if the loan is not prepaid. If the amount of the prepayment penalty is lower than or equal to the margin lost due to prepayment, this is considered reasonable compensation and the loan passes the SPPI test.</p>



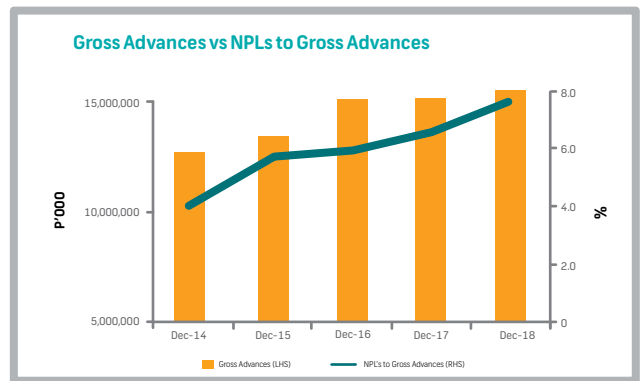
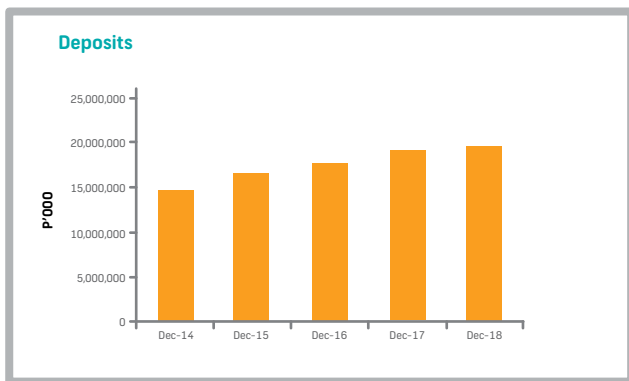
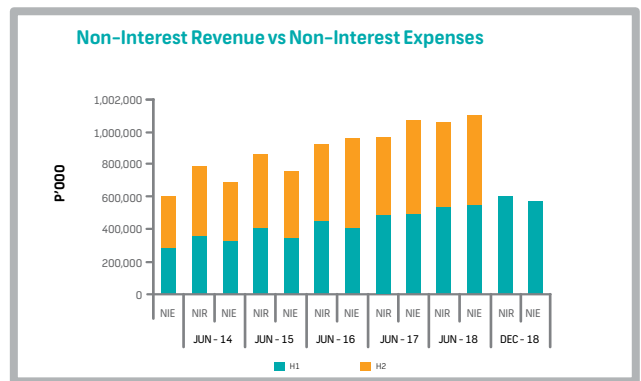
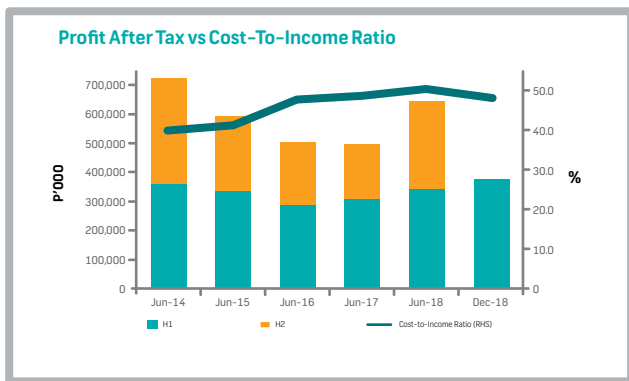
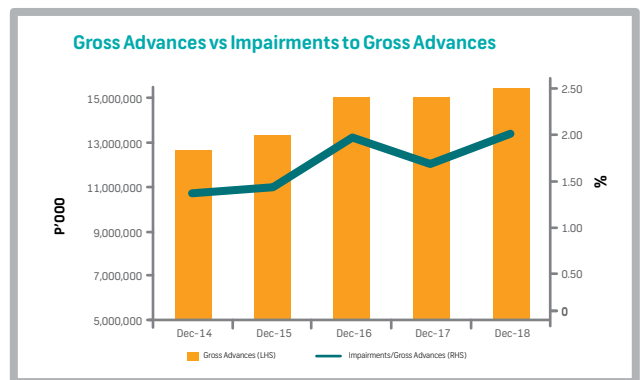
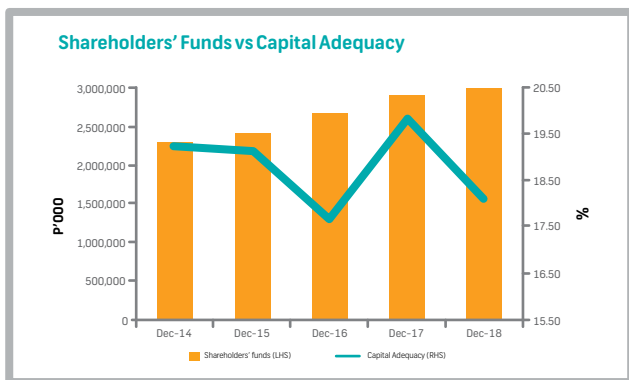
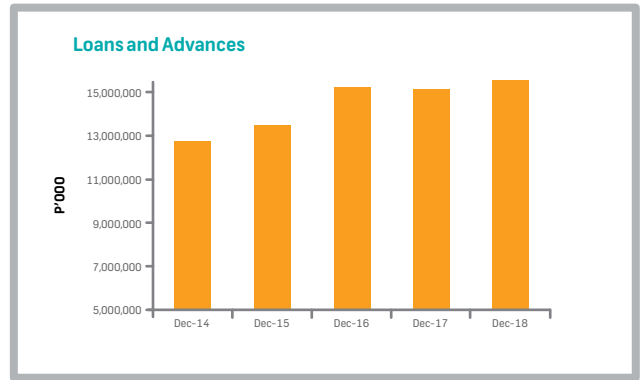
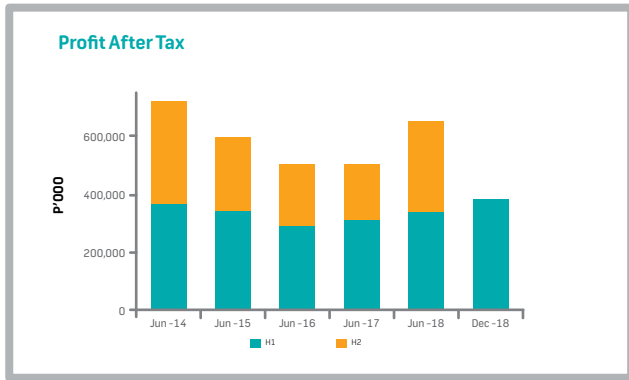
## SUMMARY OF ACCOUNTING POLICIES [CONTINUED]

Impairment of financial assets	
<p>This applies to:</p> <ul style="list-style-type: none"> <li>• financial assets, measured at amortised cost including financial accounts receivable and cash;</li> <li>• debt instruments measured at FVOCI;</li> <li>• loan commitments;</li> <li>• financial guarantees; and</li> <li>• finance lease debtors where the Bank is the lessor</li> </ul> <p>IFRS 9 establishes a three-stage approach for the impairment of financial assets:</p>	
<b>Stage 1</b>	At initial recognition, the financial asset is classified as stage 1 and 12-month ECL is recognised. This is a credit loss related to default events expected to occur within the next 12 months.
<b>Stage 2</b>	If the asset has experienced a SICR since initial recognition but the asset is not considered non-performing, it is classified as stage 2, and LECL is recognised.
<b>Stage 3</b>	If the asset has become non-performing since initial recognition, it is classified as stage 3, with ECL measured and recognised on a lifetime basis.
<p>ECL are calculated by multiplying the EAD of a financial asset by the PD and the LGD of the asset and by discounting this figure to the reporting date using the original effective interest rate. Impairment losses are recognised in profit or loss. The loss allowance on debt instruments measured at FVOCI is recognised in other comprehensive income.</p> <p>In the section below, the term financial asset also refers to loan commitments, finance lease debtors where the Bank is the lessor and financial guarantees, unless stated otherwise.</p>	
Definitions	
<b>SICR since initial recognition</b>	<p>In order to determine whether an advance has experienced a SICR, the PD of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined to be the most recent date at which the Bank had an opportunity to price or re-price the advance based on the outcome of either the original or up-to-date risk assessment.</p> <p>SICR test thresholds have been determined at a portfolio level and are reassessed and, if necessary, updated, on at least an annual basis.</p> <p>Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a SICR.</p> <p>In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a SICR. One such qualitative consideration is the appearance of wholesale and commercial SME facilities on a credit watch list.</p> <p>Any up-to-date facility that has undergone a distressed restructure (such as a modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a SICR.</p> <p>The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred. When it no longer meets SICR requirements it cures back from stage 2 to stage 1, with the exception of distressed restructured exposures, which are required to remain in stage 2 for a minimum period of time before re-entering stage 1.</p>
<b>Low credit risk</b>	Financial assets with low credit risk are assumed not to have experienced a SICR since initial recognition. The Bank does not use the low credit risk assumption for advances.

## Definitions

<b>Credit-impaired financial assets</b>	<p>Advances are considered non-performing if they meet the definition of default.</p> <p>The definition of default applied by the Bank for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, to the operational management of credit and for internal risk management purposes.</p> <p>Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, have more than three unpaid instalments.</p> <p>In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the Bank to actions such as the realisation of security. Indicators of the unlikelihood to pay include examples such as the application for bankruptcy or obligor insolvency.</p> <p>Any distressed restructures of accounts that have experienced a SICR since initial recognition are defined as default events.</p> <p>Accounts are considered to no longer be in default if they meet the stringent cure definition which has been determined at a portfolio level based on an analysis of redefault rates.</p>
<b>Write-offs</b>	<p>Write-off must occur when it is not economical to pursue further recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised).</p> <ul style="list-style-type: none"> <li>• By implication, in both retail and wholesale, for secured as well as unsecured exposures, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account;</li> <li>• Within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post-write recoveries. Within wholesale exposures, a judgemental approach to write off is followed based on a case-by-case basis by a credit committee.</li> </ul> <p>Partial write-offs are not performed within credit portfolios. Where required, additional provisions against irrecoverable assets will be raised until such a time as final write-off can occur.</p>
<b>Modifications and derecognition</b>	<p>Financial instruments are derecognised when:</p> <ul style="list-style-type: none"> <li>• the contractual rights and obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement;</li> <li>• they are transferred and the derecognition criteria of IFRS 9 are met; or</li> <li>• the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met.</li> </ul> <p>Financial assets are derecognised when the Bank has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (such as the pass-through arrangement under IFRS 9).</p> <p>If the contractual cash flows of a financial asset measured at amortised cost are modified (changed or restructured, including distressed restructures), the Bank determines whether this is a substantial modification, which results in the derecognition of the existing asset, and the recognition of a new asset, or whether the change is a non-substantial modification of the existing terms which does not result in derecognition. A modification of a financial asset is substantial where the modified contractual terms are priced to reflect current conditions on the date of modification, and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting derecognition the original asset continues to be recognised.</p>

# FINANCIAL GRAPHS





## 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).

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## MARKETING & COMMUNICATIONS

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