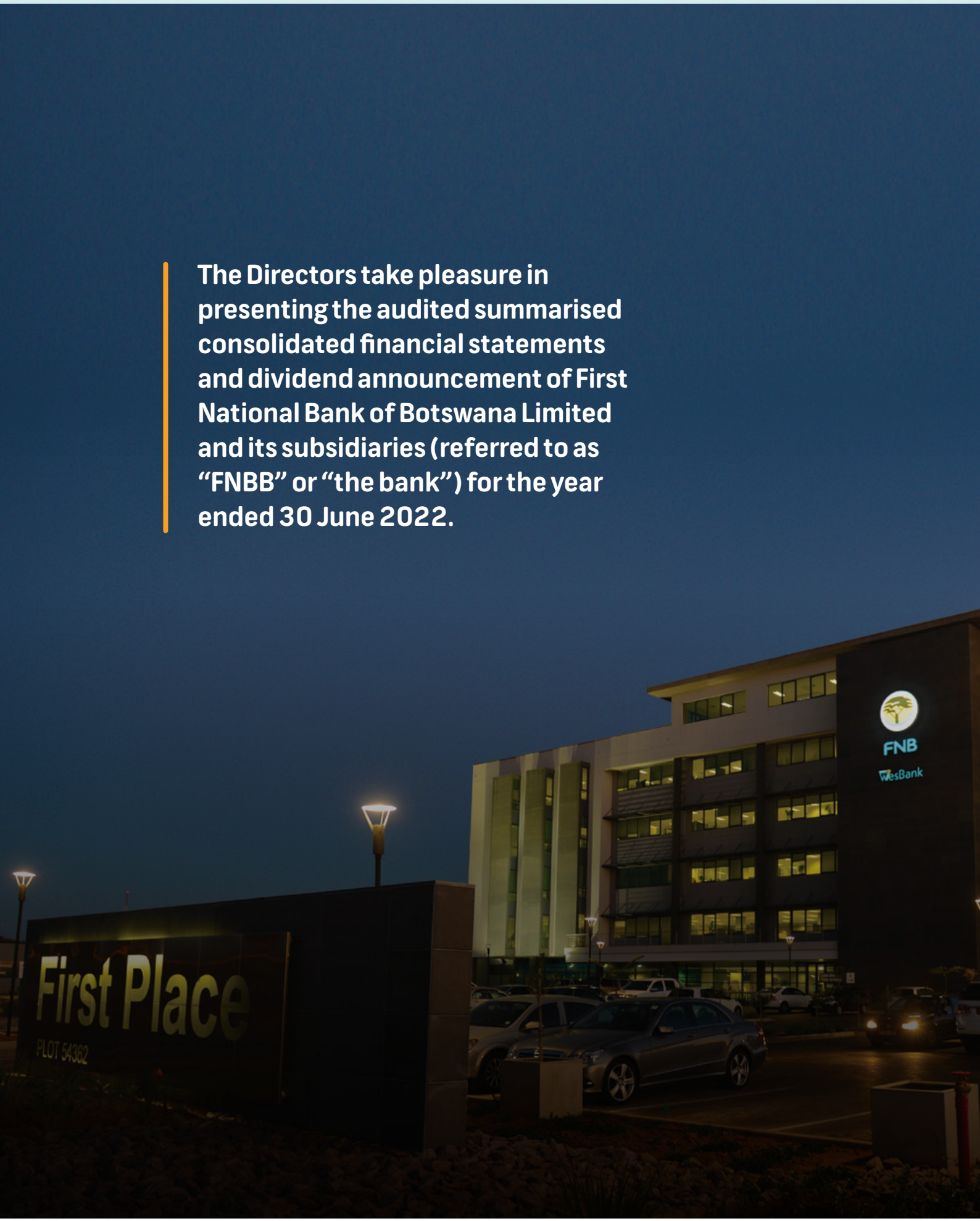
Audited Summarised Consolidated Financial Statements And Dividend Announcement

For The Full Year Ended 30 June 2022

The Directors take pleasure in presenting the audited summarised consolidated financial statements and dividend announcement of First National Bank of Botswana Limited and its subsidiaries (referred to as "FNBB" or "the bank") for the year ended 30 June 2022.



BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The audited summarised consolidated financial statements contained in this analysis of the financial results have been prepared in accordance with the framework concepts and the recognition and measurement requirements of International Financial Reporting Standards ("IFRS"), including interpretations issued by the IFRS Interpretations Committee ("IFRIC") and as a minimum contain the information required by International Accounting Standard 34 ("IAS 34") - Interim Financial Reporting.

The bank's underlying audited consolidated financial statements from which the summarised consolidated financial statements have been extracted have been prepared in accordance with IFRS and all interpretations issued by the IFRS Interpretations Committee effective for annual periods commencing on or after 1 July 2021, and in compliance with the Banking Act (Cap 46:04) and the Companies Act of Botswana (Companies Act, 2003). The principal accounting policies and the methods of computation are consistent in all material aspects with those adopted in the previous year, except for land and buildings which were previously measured under the revaluation model and are now measured using the cost model (refer to change in accounting policy section below). The new or amended IFRS that became effective for the period under review had no impact on the bank's reported earnings, financial position, reserves, or accounting policies.

In the preparation of the consolidated financial statements, the bank has applied sound business principles with key assumptions concerning any inherent uncertainties in recording various assets and liabilities. These assumptions were applied consistently to the audited summarised consolidated financial statements for the financial year ended 30 June 2022 and have been thoroughly assessed by management to ensure the appropriateness thereof. The critical accounting estimates and areas of judgements are:

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

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

The Directors have reviewed and approved three-year forward-looking budgets. The Directors have further reviewed the bank's funding position and available sources of funding and conclude that these are adequate to support the bank's funding requirements. The Directors are confident that the bank's operations will continue to remain uninterrupted. On the basis of this review and considering the current financial position and profitable trading history, the directors are satisfied that the bank has adequate resources to continue in business for the foreseeable future. The going concern basis, therefore, continues to apply and has been adopted in the preparation of the annual financial statements.

SIGNIFICANT JUDGEMENTS AND ESTIMATES

In the prior financial year, additional judgements were applied to elements of the financial statements affected by the economic impact of COVID-19 (in particular Expected Credit Loss models) and adjustments were made on a conservative but reasonable basis.

Due to the dynamic nature of the COVID-19 pandemic, it was not possible to accurately predict the full extent, nor the duration, of its economic impact. While the virus remains a concern for global health, there has been a settling into a "new normal" throughout the global economy and as such, the requirement for post-model adjustments to the Group's financial performance and position is reduced. Accordingly, while judgements are still required, these are no longer considered significant.

The audited consolidated financial statements contain forward-looking indicators, including a detailed explanation of the scenarios considered in determining the bank's assumptions for the purposes of its expected credit loss (ECL) calculations. Noting the wide range of possible scenarios and macroeconomic outcomes, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS – INDEPENDENT AUDITOR'S OPINION

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

The summarised consolidated financial statements comprise the summarised consolidated statement of financial position at 30 June 2022, summarised consolidated income statement, summarised consolidated statement of other comprehensive income, summarised consolidated statement of changes in equity and summarised consolidated statement of cash flows for the year ended 30 June 2022, and related notes. The audited consolidated financial statements and audit report thereon are available for inspection at First National Bank of Botswana Limited's registered office.

The audited consolidated financial statements do not necessarily report on all the information contained in this announcement. For a better understanding of the bank's financial position and the statements of its operations for the year and the scope of the audit engagement, these audited summarised consolidated financial statements should be read in conjunction with the audited consolidated financial statements from which the summarised consolidated financial statements were derived and the audit report thereon. The audit of the summarised consolidated financial statements was conducted in accordance with International Standards on Auditing.

FORWARD-LOOKING STATEMENTS

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

FINANCIAL HIGHLIGHTS

PROFIT AFTER TAX
P927m
(2021 P685m)
+35%

COST TO INCOME
51.1%
(2021 51.9)
-80bps

CREDIT LOSS RATIO
0.3%
(2021 1.6%)
-130bps

ADVANCES TO CUSTOMERS
P15.1bn
(2021 P13.6bn)
+11%

DEPOSITS FROM CUSTOMERS
P21.3bn
(2021 P21.4bn)
-

NPLS/ADVANCES
5.0%
(2021 7.3%)
-231bps

RETURN ON ASSETS
3.3%
(2021 2.3%)
+97bps

RETURN ON EQUITY
25.7%
(2021 18.4)
+731bps

DIVIDEND PER SHARE (Interim + final)
26 thebe
(2021 55 thebe)
-53%

ECONOMIC UPDATE

GLOBAL ECONOMIC OVERVIEW

Geopolitical tensions intensify global slowdown

Global economic growth continues to slow down while the sectoral composition of activity reflects an ongoing shift from goods to service sectors. Although the US economy appears to be overheating from years of stimulus, the US Fed has stated that it will act decisively and use interest rates to drive inflation lower even at the risk of pushing the US economy into recession. This in turn increases the probability of recession in several large developed markets where the stated fiscal policy is to increase interest rates if required to contain longer-term inflation expectations. As a result of these factors, the IMF expects global growth to register 3.2% (previously 3.6%) in 2022 before moderating to 2.9% (from an earlier estimated 3.6%) in 2023 owing primarily to downward revisions for China, US, and India. Risks to this outlook are tilted to the downside, driven by the possibility of inflation rising further than the current expectation, and by financial conditions continuing to tighten in response. This scenario would further detract from global growth expectations, leading to a plausible scenario in which global growth registers 2.6% (in 2022) and 2.0% (in 2023).

Fiscal policy makers face a dilemma of how to remain supportive while being challenged by the need to shield consumers from the impacts of slowing growth and higher inflation. The complexity of these policy signals, combined with a significant increase in geopolitical risk, is expected to create market volatility throughout the remainder of 2022. Demand for risk assets should remain muted while demand for safe-haven assets is fuelled by not only the Ukraine war but also the mounting tensions between USA and China. Accordingly, in addition to increased costs of food and oil, prices for other commodities are expected to remain elevated well into the second half of the year.

REGIONAL ECONOMY

Recovery at risk

Growth in Sub-Saharan Africa (SSA) is expected to improve through to 2023 with current projections by the IMF reflecting growth firming up to 3.8% and 4.0% in 2022 and 2023 respectively, supported by primary industry output. Furthermore, infrastructure-led growth is forecast to be a key theme in 2022 as investments in energy and logistical services ramp up. Over the medium-term, we expect growth strategies across SSA to be geared towards supporting small-to-medium enterprises and improving employment prospects across various economies.

Fiscal and monetary policy is expected to start normalising. On the fiscal side, most economies have committed to smaller budget deficits into 2022, reigning in expenditure as revenue continues to improve. However, immediate policy priorities will need to balance helping the most vulnerable households cope with high food and energy costs while containing exposure to debt vulnerabilities. We therefore expect central banks to continue raising interest rates in line with global movements both in a bid to restore price stability and to manage exchange rates.

Most currencies are expected to depreciate mildly against the US Dollar in 2022, with the pace of decline depending upon the pace of monetary tightening and its effect on exchange rates.

BOTSWANA ECONOMY

Diversification remains key for sustainable growth

Botswana's economy rebounded by 11.4% in 2021 (up from -8.7% in 2020), owing primarily to a significant recovery in the mining sector. Growth in the 12 months to March 2022 of 13.0% was, led mainly by improved diamond mining activities as global demand continued to recover. We anticipate economic growth to register 3.5% in 2022, with diamond sales remaining above the 2020 levels over the course of the year. In the medium term, the mining sector will also be supported by the resumption of local copper mining activity from the Khoemacau mine which commenced production in the latter part of 2021. A second mine, the Motheo copper project, is expected to come onstream in 2023 to further boost Botswana's emerging copper production capacity.

Further expansion of the economy should be sustained by the recovery in global diamond demand in the medium term. Given that diamonds account for a substantial proportion of fiscal revenue, this would allow Botswana to ramp up its development expenditure to meet its infrastructural needs, both in line with the NDP11 and as the nation transitions to NDP12. The benefits from this would in turn have a positive effect on the economy as a whole. The pandemic has crystalised Botswana's dependence on diamond mining activities for growth and fiscal revenue. This calls for measures to restore the financial buffers that were eroded over 2020, and for the development of a more resilient and diversified economic growth profile. The recovery and transformation of Botswana's economy, will be aided by funds received from development funding partners being directed towards attracting private sector investments contributing to the diversification of Botswana's exports, and creating job opportunities.

Heightened upward pressure on the Monetary Policy Rate (MoPR)

Price growth in Botswana continues to accelerate, reaching 12.7% as at June (up from 11.9% in May 2021). The war in Ukraine has led to significant increases in the major contributors to the headline inflation since the start of the conflict, supporting our view that inflation should average 12.4% in 2022.

There has been increased pressure from Botswana's trading partners to normalise monetary policy due to the expectation of elevated levels of price growth this year, which coupled with domestic factors are expected to exert upside pressure on the headline figure. This has resulted in the Bank of Botswana starting to raise the MoPR, by 51bps (to 1.65%) in April 2022, followed by a further 50bps (to 2.15%) in June 2022. We anticipate upward pressure on the Bank of Botswana to continue increasing the MoPR.

The BWP peg maintains exchange rate stability

The current weights in the Pula basket remain unchanged with a weighting of ZAR: 45% and SDR: 55%. As a result, the Rand will continue to be the dominant factor in the outlook of the Pula against major currencies. Pula movements will continue to be driven mainly by pass-through effects from the political and economic events in the US and South African markets.

FINANCIAL PERFORMANCE

Statement of Financial Position

The balance sheet size reduced by 2% year-on-year following the special dividend paid in October 2021. Credit risk remains heightened despite the economic uncertainty from Covid having subsided considerably. The bank continues to apply a cautious approach to lending to ensure responsible and manageable consumer exposure. This is evidenced by the gross customer advances growing at a similar pace to market. The gross customer advances increased by 8% while the market gross advances rose by 6%.

Retail advances saw an increase of 4% while Botswana's retail market as a whole increased by 5%. The bank's growth was driven largely by term loans where the tenor was selectively extended while maintaining a prudent credit approach. Corporate advances experienced excellent growth of 40% year-on-year, with the bank supporting a resurgence of expansion plans. The commercial segment is also reflecting fresh growth but has seen a moderate overall decline of 2% due to write-offs during the year of some long-outstanding and irrecoverable advances. The combined result of FNBB's commercial and corporate advances was an increase of 16%.

The NPLs (Non-Performing Loans) declined by 26% year-on-year from P1.1bn to P802m, resulting in an NPL/gross advances ratio of 5% as at 30 June 2022 (7.3% as at 30 June 2021). While actively looking for opportunities to support our clients, the bank will continue to be cautious in maintaining the quality of its credit book.

Deposits remained flat at P22.2bn following corporate outflows as trading levels normalised and the Botswana grey list status was uplifted. The Retail segment experienced a flattening out of the deposit portfolio due to increased customer spending. The Commercial segment experienced growth of 13% aligned to a strong customer growth. The market experienced liquidity constraints throughout the year and priced up for term deposits. The central bank increased the MoPR by 101 basis points during the year. FNBB remains well-funded with a loan-to-deposit ratio of 71% and has options to raise additional funding from the market.

Investment securities declined by 32% year-on-year following both the reduction in investable capital post the special dividend payment, and a muted growth on deposits due to a decrease in market liquidity.

Income Statement

FNBB has achieved excellent growth in the profit before tax. This was underpinned by a normalisation of credit losses, as well as a sharp increase in the non-interest revenue (NIR) base. Return on equity of 25.7% (2021: 18.4%) has increased due to the conservative level of capital held in the prior period, as well as the 35% increase in profit after tax. FNBB focused on partnering with clients as the economic recovery transpired, while ensuring the strengthening of the balance sheet through both prudent provisioning as well as maintaining robust capital levels.

Increase of 2% in interest income was driven by the cash and investment portfolio interest income following the sharp increase in the rates on government securities over the period. This was offset by a reduction in advances interest income as the growth in the advances portfolio was realised in the latter part of the reporting period.

Interest expense increased by 11% as a result of a shift from overnight to term deposits from clients seeking higher yields. This is aligned to the bank's strategy to enhance the balance sheet resilience. The cumulative increase of 101 basis points in MoPR was implemented late in the year and had minimal impact on interest expense.

Impairments declined by 79% year-on-year driven by sharp decreases in both the portfolio impairments (comprising Stage 1 and Stage 2) and Stage 3 impairments. In the prior period, the portfolio impairment charge was elevated due to the risk in the SME portfolio prevailing at the time. The risk in the SME portfolio reduced significantly over the year, resulting in an unwind of the prior period expected credit losses and a net release in the portfolio impairment charge. The Stage 3 impairments decrease is attributable to reduced bad debt inflows. The significantly lower impairment charge of P50.3m (2021: P241.5m) resulted in the credit loss ratio reducing to 0.3% (2021: 1.6%).

Non-interest revenue increased by 15% year-on-year. This was driven primarily by a recovery in the foreign exchange business, while service and other fees rose by 9% and card commissions by 8% through increased volumes. The 30% growth in the foreign exchange revenue came from a return to pre-pandemic trading volumes, with increased overall activity across all sectors and customer segments.

The growth in service fee and card commissions was supported by increased volumes across the bank's digital and electronic channels, but most noticeably in merchant transactions. The bank continues to broaden its financial inclusion with further expansion of its CashPlus channel, thereby bringing services to more remote locations and enhancing convenience for our customers.

The cost to income ratio of 51.1% (2021: 51.9%) reflects FNBB's continued focus on balancing cost management initiatives with strategic investments. Employee benefits costs declined by 3% due to the restructuring exercise in the prior year. Other non-employment related costs increased by 15% year-on-year, through volume-driven costs associated with revenue and development costs, and with the return to pre-pandemic business operations such as in travel and promotional functions.

LOOKING AHEAD

While COVID-19 remains a concern for global health, there has been a settling-in to a "new normal" throughout the global economy, and as such, strong economic recovery has ensued from the reduced base of the pandemic. Unfortunately, there are signs that the economy is at the apex of this recovery. Turbulence and uncertainty around global tensions, oil prices and food have dampened the outlook.

The bank has, throughout the COVID-19 period demonstrated that it is a strong proponent of good governance and corporate citizenship. These foundational principles continue to position the bank as a sustainable organisation that can adjust its operating model to respond to external challenges.

FNBB has continued to deploy its financial resources appropriately and prudently. The capital and provisioning levels remain conservative, leaving the bank well-placed for growth. The bank's investment into its digital platform solution continues, and has generated efficiency and improved customer and employee experience through all interfaces. Growth is evident in registrations across all digital platforms, with customers appreciating the ease of electronic transactions, as well as the options to serve themselves in the form of convenient, value-added services. A forward-thinking approach to technology and innovation remains a priority for FNBB. The bank's workforce operates under a blended work model, balancing remote working with face-to-face interactions. As risks around the spread of COVID have diminished, in-office working is once again being encouraged in order to foster innovation and collaboration. There has, however, been no relaxation of the strict governance and risk protocols regarding digital and remote working practices.

The bank will continue to invest in its platform, this will not only drive improvement of both the customer and employee experiences, but also enable the bank to remain nimble and responsive to new key technology as it arises within an increasingly dynamic ecosystem. Risk management and prudential deployment of resources remain the foundational principles in all investment and development decisions.

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

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

EVENTS AFTER REPORTING DATE

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

CORPORATE GOVERNANCE

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

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

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

SOCIAL RESPONSIBILITY

The bank remains committed to its social responsibility to the community, which function it performs through the FNBB Foundation which 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 bank operates, and specifically in the following:

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

FNBB has committed to contributing up to 1% of each year's profit after tax to the Foundation. Since its inception in 2001, the bank has made grants of more than P70 million to the Foundation, which has been invested appropriately in qualifying beneficiaries.

The bank has adopted a series of policies to minimise its operational impact on the environment to counter the threat of climate change, whilst developing strategies to manage risk and transition to sustainable development and finance opportunities. With the global adoption of the Environment Social and Governance (ESG) principles and frameworks this will become more prevalent in the bank's integrated reporting going forward.

CAPITAL MANAGEMENT

FNBB maintains sound capital ratios to maintain confidence in the solvency and the quality of its capital during both calm and turbulent periods in the economy and in financial markets. The bank aims to maintain capital ratios in line with its risk appetite, thereby appropriately safeguarding its operations and stakeholder interests.

Furthermore, FNBB's capital management strategy is to ensure an optimal level and composition of capital, effective allocation of financial resources including capital and risk capacity, with a view to achieving a sound return on equity and a sustainable dividend distribution to shareholders. The capital planning process is conducted on a forward-looking basis and considers, inter alia, the organic growth requirements and a safety margin for unexpected fluctuations in business plans and earnings volatility. Through this approach, compliance with both internal and regulatory capital adequacy requirements can be achieved, shareholders' returns can be safeguarded, and the bank can ensure that it remains a sound going concern even under severe stress conditions.

The capital focus has been directed to the composition of the capital structure and efficiency of the risk-weighted assets. The Directors review and approve macroeconomic scenarios at least twice a year for regulatory and business purposes. The same process is a key input into the Internal Capital Adequacy Assessment Process (ICAAP) which in turn informs our capital management. For the financial year ended 30 June 2022, FNBB continued to operate above both the internal and regulatory minimum capital adequacy ratios.

DECLARATION OF DIVIDEND

Notice is hereby given that a final dividend of 16 thebe per share has been declared for the year ended 30 June 2022. The dividend will be paid on or about 13 October 2022 to shareholders registered at the close of business on 04 October 2022. The ex-dividend date is 29 September 2022.
In terms of the Income Tax Act (Cap 52.01) as amended, withholding tax at the rate of 10% will be deducted by the bank from gross dividends. If a change of address or dividend instructions is to apply to this dividend, notification should reach the Transfer Secretaries by 06 October 2022.

For and on behalf of the Board.

B M Bonyongo
Chairperson

S L Bogatsu
Chief Executive Officer

Gaborone, 14 September 2022

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

SUMMARISED CONSOLIDATED INCOME STATEMENT (P'000)	YEAR ENDED 30 JUNE 2022 AUDITED	YEAR ENDED 30 JUNE 2021 AUDITED	% CHANGE
Interest income calculated using the effective interest rate	1,432,283	1,408,692	2
Interest expenses and similar charges	(268,455)	(241,506)	11
Net interest income before impairment of advances	**1,163,828**	**1,167,186**	**-**
Impairment of advances	(50,297)	(241,251)	(79)
Net interest income after impairment of advances	**1,113,531**	**925,935**	20
Non-interest income and expense	1,390,655	1,205,745	15
Income from operations before operating expenditure	**2,504,186**	**2,131,680**	17
Operating expenses	(651,221)	(566,094)	15
Employee benefits expenses	(628,007)	(647,877)	(3)
Income before taxation	**1,224,958**	**917,709**	33
Indirect taxation	(26,047)	(16,853)	55
Profit before direct taxation	**1,198,911**	**900,856**	33
Direct taxation	(272,168)	(215,680)	26
Profit for the year attributable to owners of the company	**926,743**	**685,176**	35
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)	36.43	26.94	35

**The comparatives have not been restated for the change in the accounting policy for the measurement of freehold and leasehold land and buildings as the impact was not considered material.*

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (P'000)	YEAR ENDED 30 JUNE 2022 AUDITED	YEAR ENDED 30 JUNE 2021 AUDITED	% CHANGE
Profit for the year	**926,743**	**685,176**	35
Other comprehensive income	-	-	-
Total comprehensive income for the year attributable to owners of the company	**926,743**	**685,176**	35

RATIOS AND MARKET INFORMATION	YEAR ENDED 30 JUNE 2022	YEAR ENDED 30 JUNE 2021	% CHANGE
Dividend per share (thebe)**	26	55	(53)
Dividend cover (times)	1.4	0.5	-
Cost to income ratio (percent)*	51.1	51.9	(1)
Return on equity (percent)***	25.7	18.4	40
Return on average assets (percent)	3.3	2.3	41
Capital adequacy ratio (percent)	17.9	17.9	-
Closing share price (thebe)	265	220	20
Price earnings ratio	7.3	8.2	(11)
Earnings per share (thebe)	36.43	26.94	35
Number of ordinary shares issued	2 543 700	2 543 700	-
*Cost to income ratio is based on total non-interest expenditure including indirect taxation (Value Added Tax) and excludes impairments of advances			

***The dividend per share for the prior year includes a special dividend declared in June 2021 of 40 thebe per share.*

**** Return on equity was restated from 18.2% to 18.4% as a result of the change in equity amount due to the change in accounting policy for the measurement of freehold and leasehold land and buildings.*

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (P'000)	YEAR ENDED 30 JUNE 2022 AUDITED	YEAR ENDED 30 JUNE 2021 AUDITED RESTATED	YEAR ENDED 30 JUNE 2020 AUDITED RESTATED	% CHANGE
Assets				
Cash and short-term funds	6,198,095	5,470,758	4,697,599	13
Derivative financial instruments	41,114	35,307	76,872	16
Advances to banks	-	217,957	-	100
Advances to customers	15,081,463	13,642,027	14,686,767	11
Investment securities	5,354,595	7,889,039	9,509,211	(32)
Current taxation	82,299	85,239	86,324	(3)
Due from related parties	6,563	7,552	11,684	(13)
Other assets	328,706	406,658	479,314	(19)
Property and equipment	533,669	530,646	560,785	1
Goodwill	26,963	26,963	26,963	-
Deferred taxation	-	-	3,706	100
Total assets	**27,653,467**	**28,312,146**	**30,139,225**	(2)
Equity and Liabilities				
Liabilities				
Derivative financial instruments	28,632	21,507	36,708	33
Accrued interest payable	21,739	21,360	28,079	2
Due to related parties	24,775	25,093	21,322	(1)
Creditors and accruals	584,531	680,558	723,587	(14)
Deposit from banks	888,862	490,153	545,002	81
Deposit from customers	21,347,612	21,396,057	23,171,897	-
Employee benefits liabilities	98,227	93,887	81,504	5
Borrowings	1,329,454	1,527,200	1,765,858	(13)
Deferred taxation	6,336	158,992	196,988	(96)
Total liabilities	**24,330,168**	**24,414,807**	**26,570,945**	**-**
Capital and reserves attributable to ordinary equity holders				
Stated capital	51,088	51,088	51,088	-
Reserves	2,865,219	2,599,838	3,313,696	10
Dividend reserve	406,992	1,246,413	203,496	(67)
Total equity	**3,323,299**	**3,897,339**	**3,568,280**	**(15)**
Total Equity and Liabilities	**27,653,467**	**28,312,146**	**30,139,225**	**(2)**
Undrawn commitments to customers	2,439,931	2,427,870	2,233,457	-
Guarantees and letters of credit	425,969	484,016	386,300	(12)

The comparatives have been restated due to a change in accounting policy for the measurement of freehold and leasehold land and buildings from the revaluation model to the cost model.

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (P'000) AUDITED	STATED CAPITAL	OTHER NON -DISTRIBUTABLE RESERVES	DIVIDEND RESERVE	RETAINED EARNINGS	TOTAL
Balance at 01 July 2020 as previously stated	51,088	59,866	203,496	3,283,696	3,598,146
Transfer from revaluation reserve	-	(30,000)	-	30,000	-
Change in accounting policy	-	(29,866)	-	-	(29,866)
Balance at 01 July 2020 restated	**51,088**	**-**	**203,496**	**3,313,696**	**3,568,280**
Profit for the year	-	-	-	685,176	685,176
2020 Final Dividends paid	-	-	(203,496)	-	(203,496)
2021 Interim Dividends paid	-	-	-	(152,622)	(152,622)
2021 Final Dividends proposed	-	-	228,933	(228,933)	-
2021 Special Dividends proposed	-	-	1,017,480	(1,017,480)	-
Total contributions by and distributions to owners of company recognized directly in equity	-	-	**1,042,917**	**(1,399,035)**	**(356,118)**
Balance at 01 July 2021 restated	**51,088**	**-**	**1,246,413**	**2,599,837**	**3,897,338**
Profit for the year	-	-	-	926,743	926,743
2021 Final Dividends paid	-	-	(1,246,413)	-	(1,246,413)
2022 Interim Dividends paid	-	-	-	(254,370)	(254,370)
2022 Final Dividends proposed	-	-	406,992	(406,992)	-
Total contributions by and distributions to owners of company recognized directly in equity	**-**	**-**	**(839,421)**	**(661,362)**	**(1,500,783)**
Balance at 30 June 2022	**51,088**	**-**	**406,992**	**2,865,219**	**3,323,299**

The comparatives have been restated due to change in accounting policy for the measurement of freehold and leasehold land and buildings from the revaluation model to cost model.

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS (P'000)	YEAR ENDED 30 JUNE 2022 AUDITED	YEAR ENDED 30 JUNE 2021 AUDITED	% CHANGE
Cash flows from operating activities			
Cash (used in)/generated from operations before taxation and working capital changes	**(186,889)**	288,504	-165%
Interest and similar income received	1,425,230	1,410,837	1%
Interest and similar expense paid	(262,551)	(248,100)	6%
Taxation paid	(421,884)	(260,765)	62%
Cash from operating activities	**553,906**	**1,190,476**	**-53%**
Movement in amounts due to other banks	398,709	(54,849)	-827%
Movement in deposits and current accounts	(48,445)	(1,775,840)	-97%
Movement in amounts due to related companies	(318)	3,771	-108%
Movement in accrued interest payable	(353)	(125)	182%
Movement in creditors and accruals	(102,653)	(16,879)	508%
Movement in employee benefits liabilities	4,340	12,383	-65%
Movement in investments - fair value through profit or loss	53,071	67,498	-21%
Movement in investments - amortised cost	(618,364)	(545,678)	13%
Movement in advances to customers	(1,482,680)	801,344	-285%
Movement in advances to banks	217,957	(217,957)	-200%
Movement in other assets	77,952	72,655	7%
Movement in amounts due from related companies	989	4,132	-76%
Cash flows used in operating activities	**(945,889)**	**(459,069)**	**106%**

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS (P'000)	YEAR ENDED 30 JUNE 2022 AUDITED	YEAR ENDED 30 JUNE 2021 AUDITED	% CHANGE
Cash flows to investing activities			
Acquisition of property and equipment	**(46,859)**	(40,634)	15%
Cash flows (used in)/from financing activities			
Borrowings raised	183,190	-	100%
Repayment of borrowings	(389,398)	(253,006)	54%
Finance lease interest	(5,172)	(5,375)	-4%
Finance lease payments	(24,327)	(22,849)	6%
Dividends paid	(1,500,783)	(356,118)	321%
Net cash used in financing activities	**(1,736,490)**	**(637,348)**	**172%**
Cash movement for the year	**(2,729,238)**	**(1,137,051)**	**140%**
Cash and cash equivalents at the beginning of the year	9,470,080	10,795,275	-12%
Effect of exchange rate movement on cash balances	356,838	(188,144)	-290%
Total cash and cash equivalents at end of the year	**7,097,680**	**9,470,080**	**-25%**
Cash and short-term funds	6,198,095	5,470,758	13%
Investment in Bank of Botswana Certificates	899,585	3,999,322	-78%

SEGMENTAL REPORTING

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

The bank has four primary business segments:

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

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

SUMMARISED SEGMENTAL REPORTING	RETAIL	COMMERCIAL	CORPORATE	TREASURY	TOTAL
30 JUNE 2022 (P'000)- (AUDITED)					
Income Statement					
Interest and similar income	549,786	126,369	65,234	690,894	1,432,283
Non- interest income	608,400	447,804	326,376	8,075	1,390,655
Total segment revenue	**1,158,186**	**574,173**	**391,610**	**698,969**	**2,822,938**
Interest expense and similar expenses	103,423	131,636	85,335	(588,849)	(268,455)
Segment operating income before impairments	1,261,609	705,809	476,945	110,120	2,554,483
Impairment of advances	(126,472)	76,657	(482)	-	(50,297)
Net interest income after impairment of advances	1,135,137	782,466	476,463	110,120	2,504,186
Total expenditure	(573,062)	(514,375)	(193,427)	1,637	(1,279,228)
Profit before indirect taxation	**562,075**	**268,091**	**283,036**	**111,757**	**1,224,958**
Indirect taxation	(22,944)	120	(2,689)	(534)	(26,047)
Profit before direct taxation	**539,131**	**268,211**	**280,347**	**111,223**	**1,198,911**
Direct taxation					(272,168)
Profit for the year					**926,743**

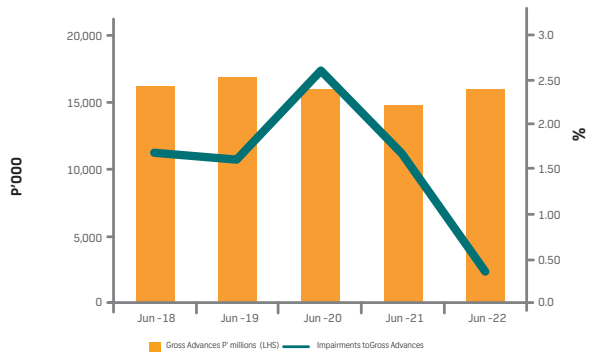
Statement of Financial Position: P'000					
Gross Advances to customers	**10,081,991**	**2,990,898**	**3,023,197**	**-**	**16,096,086**
Loss allowance	(567,999)	(413,340)	(33,284)	-	(1,014,623)
Net advances	9,513,992	2,577,558	2,989,913	-	15,081,463
Deposits from customers	**5,617,729**	**8,342,605**	**5,942,301**	**1,444,977**	**21,347,612**

SUMMARISED SEGMENTAL REPORTING	RETAIL	COMMERCIAL	CORPORATE	TREASURY	TOTAL
30 JUNE 2021 (P'000)- (AUDITED)					
Income Statement					
Interest and similar income	580,748	125,186	45,850	656,908	1,408,692
Non- interest income	581,782	417,301	241,466	(34,804)	1,205,745
Total segment revenue	**1,162,530**	**542,487**	**287,316**	**622,104**	**2,614,437**
Interest expense and similar expenses	103,734	144,963	118,697	(608,900)	(241,506)
Segment operating income before impairments	1,266,264	687,450	406,013	13,204	2,372,931
Impairment of advances	(83,417)	(154,243)	(3,591)	-	(241,251)
Net interest income after impairment of advances	1,182,847	533,207	402,422	13,204	2,131,680
Total expenditure	(568,649)	(471,190)	(171,782)	(2,350)	(1,213,971)
Profit before indirect taxation	**614,198**	**62,017**	**230,640**	**10,854**	**917,709**
Indirect taxation	(16,405)	1,474	(1,545)	(377)	(16,853)
Profit before direct taxation	**597,793**	**63,491**	**229,095**	**10,477**	**900,856**
Direct taxation					(215,680)
Profit for the year					**685,176**

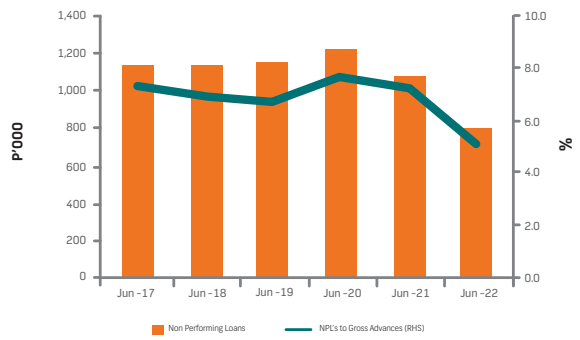
Statement of Financial Position:P'000					
Gross Advances to customers	**9,665,634**	**3,040,377**	**2,157,967**	**-**	**14,863,978**
Loss allowance	(545,741)	(643,425)	(32,785)	-	(1,221,951)
Net advances	9,119,893	2,396,952	2,125,182	-	13,642,027
Deposits from customers	**5,625,754**	**7,381,530**	**7,379,983**	**1,008,790**	**21,396,057**

FINANCIAL GRAPHS

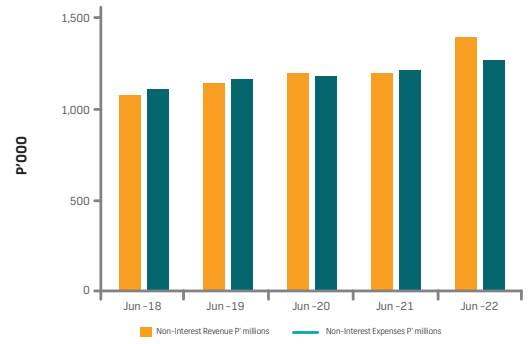
Gross Advances vs Impairments to Gross Advances



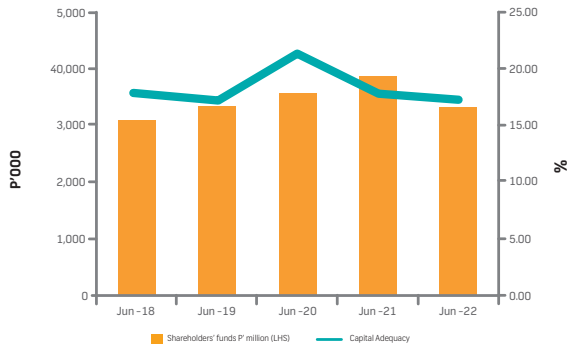
Gross Advances vs NPLs



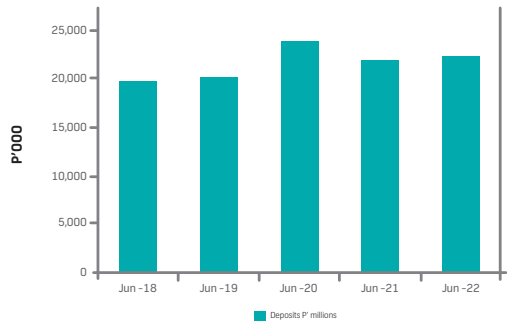
Operating Expenditure vs Non Interest Revenue



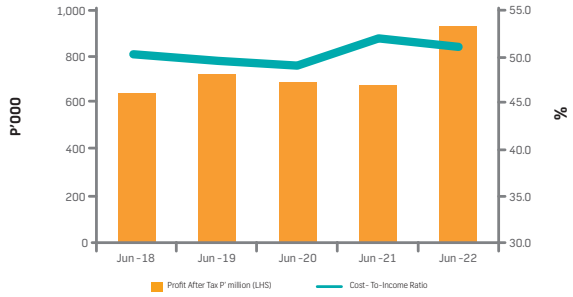
Shareholders' Funds vs Capital Adequacy



Deposits



Non-Interest Revenue vs Non-Interest Expenses



IMPACT OF ADOPTING REVISED ACCOUNTING STANDARDS

There were no new or amended IFRS standards which became effective for the year ended 30 June 2022 that impacted the bank's reported earnings, financial position or reserves, or the accounting policies.

CHANGE IN ACCOUNTING POLICY

During the current financial period, the Bank changed its accounting policy for the measurement of freehold and leasehold land buildings from the revaluation model to the cost model. This change was implemented in order to remove unnecessary areas of judgement in the financial statements as the Group's portfolio of land and buildings is primarily held for the execution of the Groups operating activities.

The impact of the change in accounting policy is as follows:

P'000	AS REPORTED 30 JUNE 2020	CHANGE IN ACCOUNTING POLICY	RESTATED 30 JUNE 2020	AS REPORTED 30 JUNE 2020	CHANGE IN ACCOUNTING POLICY	RESTATED 30 JUNE 2021
Property and equipment	601,044	(40,259)	560,785	570,910	(40,259)	530,651
Deferred taxation	207,381	(10,393)	196,988	169,385	(10,393)	158,992
Retained income	3,283,696	30,000	3,313,696	2,571,400	28,436	2,599,836
2020*	**-**	**30,000**	**-**	**-**	**30,000**	**-**
2021*	**-**	**-**	**-**		**(1,564)**	**-**
Other non-distributable reserves	59,866	(59,866)	-	58,302	(58,302)	-
2020*	**-**	**(59,866)**	**-**	**-**	**(59,866)**	**-**
2021*	**-**	**-**	**-**		**1,564**	**-**

**The income statement has not been restated for the change in the accounting policy as the impact was not considered material.*

ADVANCES

Analysis of advances per class – 2022 (P'000)– (Audited)	AMORTISED COST	LOSS ALLOWANCE	TOTAL
Term loans*	6,707,243	(364,822)	6,342,421
Instalment sales	1,709,983	(98,123)	1,611,860
Property loans	6,257,007	(358,960)	5,898,317
Overdraft and managed account	1,164,389	(175,603)	988,786
Other	257,464	(17,385)	240,079
Total	**16,096,086**	**(1,014,623)**	**15,081,463**

Analysis of advances per class – 2021 (P'000)– (Audited)	AMORTISED COST	LOSS ALLOWANCE	TOTAL
Term loans	6,047,708	(486,979)	5,560,729
Instalment sales	1,895,978	(128,664)	1,767,314
Property loans	5,684,944	(376,947)	5,307,997
Overdraft and managed account	1,014,370	(211,223)	803,147
Other	220,978	(18,138)	202,840
Total	**14,863,978**	**(1,221,951)**	**13,642,027**

**Term loans include marketable advances of P222 488 000 (2021: P-).*

Instalment sales of P1 896 000 were described as suspensive sale debtors and lease payments receivable in the prior year.To better reflect the nature of this category of advances, the balances described as suspensive sale debtors and lease payments are now described as instalment sales.

	Gross advances				Loss allowance			
(P'000) (AUDITED)	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**
Amortised cost	12,401,432	1,377,901	1,084,645	14,863,978	172,921	294,162	754,868	1,221,951
Amount as at 01 July 2021	12,401,432	1,377,901	1,084,645	14,863,978	172,921	294,162	754,868	1,221,951
Stage 2 to stage 1	370,347	(370,347)	-	-	24,435	(24,435)	-	-
Stage 3 to stage 1	25,569	-	(25,569)	-	9,020	-	(9,020)	-
Stage 3 to stage 2	-	56,055	(56,055)	-	-	17,205	(17,205)	-
Stage 1 to stage 2	(709,318)	709,318	-	-	(34,423)	34,423	-	-
Stage 1 to stage 3	(85,722)	-	85,722	-	(869)	-	869	-
Stage 2 to stage 3	-	(64,008)	64,008	-	-	(10,085)	10,085	-
Opening balance after transfers	**12,002,308**	**1,708,919**	**1,152,751**	**14,863,978**	**171,084**	**311,270**	**739,597**	**1,221,951**
Net movement current year	**1,645,111**	**(62,530)**	**13,502**	**1,596,083**	**(3,448)**	**(73,364)**	**186,046**	**109,234**
Attributable to change in measure-ment period	-	(37,249)	-	(37,249)	-	17,430	-	17,430
Attributable to change in risk parameters	-	-	-	-	(36,787)	(115,895)	166,276	13,594
Change due to new business net of attrition	1,645,111	(25,281)	13,502	1,633,332	33,339	25,101	19,770	78,210
Bad debts written off	-	-	(363,975)	(363,975)	-	-	(363,975)	(363,975)
Net interest suspended/released	-	-	-	-	-	-	47,413	47,413
Amount as at 30 June 2022	**13,647,419**	**1,646,389**	**802,278**	**16,096,086**	**167,636**	**237,906**	**609,081**	**1,014,623**

	Gross advances				Loss allowance			
(P'000) (Audited)	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**	**STAGE 1**	**STAGE 2**	**STAGE 3**	**TOTAL**
Amortised cost	13,585,181	1,208,852	1,222,445	16,016,478	201,960	241,071	886,680	1,329,711
Amount as at 01 July 2020	13,585,181	1,208,852	1,222,445	16,016,478	201,960	241,071	886,680	1,329,711
Stage 2 to stage 1	242,819	(242,819)	-	-	30,210	(30,210)	-	-
Stage 3 to stage 1	62,115	-	(62,115)	-	13,370	-	(13,370)	-
Stage 3 to stage 2	-	53,369	(53,369)	-	-	7,131	(7,131)	-
Stage 1 to stage 2	(729,825)	729,825	-	-	(9,886)	9,886	-	-
Stage 1 to stage 3	(160,154)	-	160,154	-	(97,266)	-	97,266	-
Stage 2 to stage 3	-	(104,600)	104,600	-	-	(70,927)	70,927	-
Opening balance after transfers	**13,000,136**	**1,644,627**	**1,371,715**	**16,016,478**	**138,388**	**156,951**	**1,034,372**	**1,329,711**
Net movement current year	**(598,704)**	**(266,726)**	**168,988**	**(696,442)**	**34,533**	**137,211**	**116,556**	**288,300**
Attributable to change in measurement period	-	(63,582)	-	(63,582)	-	22,078	-	22,078
Attributable to change in risk parameters	-	-	-	-	9,362	85,467	115,495	210,324
Change due to new business net of attrition	(598,704)	(203,144)	168,988	(632,860)	25,171	29,666	1,061	55,898
Bad debts written off	-	-	(456,058)	(456,058)	-	-	(456,058)	(456,058)
Net interest suspended/released	-	-	-	-	-	-	59,998	59,998
Amount as at 30 June 2021	**12,401,432**	**1,377,901**	**1,084,645**	**14,863,978**	**172,921**	**294,162**	**754,868**	**1,221,951**

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

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

IMPAIRMENT OF ADVANCES

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

Impairment of financial assets: Staging of Financial Assets and Significant Increase in Credit Risk (SICR)
In accordance with IFRS 9, all exposures are assessed to determine whether there has been a significant increase in credit risk (SICR) at each reporting date. The assessment is performed monthly.

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

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

Approach to Incorporate Forward-Looking Indicators (FLI)

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

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

To arrive at the macroeconomic forecasts, a bottom-up and top-down process is followed. The process is conducted by a team of professional economists. These economists assess micro and macroeconomic developments to formulate (bottom-up) and adjust (top-down) the macroeconomic forecasts. Probabilities are assigned to each scenario with supporting rationale. The creation of macroeconomic scenarios and the determination of associated probabilities are subjective, with final ECL results dependent on the assumptions applied during the process.
The baseline, downside and upside scenarios are used in the ECL calculations.

Economic Scenarios Applied in June 2022 ECL computation

The FLI component of ECL is a dual factor of GDP and monetary policy rate.

The economic scenarios applied are described as follows:
Upside: The government successfully rolls out its Economic Recovery & Transformation Plan, leading to increased activity in sectors such as agriculture, manufacturing, and construction, which have traditionally had a low contribution to Botswana's economy. Global commodity prices rise significantly which boosts diamond and copper production and exports. Public sector stakeholders successfully implement the NDP11 framework which unlocks private investment in key sectors. Improved power and water supply facilitate greater economic activity. Tax revenues increase while the tax base also expands. Bank lending to households and businesses improves gradually given stable interest rates. The USD depreciates as a search for yield in emerging markets returns. Private and public sector investment increases on the back of greater policy certainty. Global inflation trends lower as supply side pressures dissipate and stronger than expected global growth.

Baseline: The disruptions caused by the war between Russia and Ukraine, along with the sanctions imposed on Russia, pose upside risks to local price growth. Additionally, Botswana Housing Corporation (BHC) rental prices are expected to be revised upwards due to reduced subventions from the government to major parastatals. As a result of these factors, coupled with our expectation of local food prices continuing to tick up because of import substitution policies, we expect inflation to average 12.4% in 2022. We anticipate that the central bank's hiking cycle will see the monetary policy rate reaching a level of 3.4% by the second half of 2023. To reduce the size of Botswana's deficits in the long-term, service fees, charges and levies are expected to be adjusted to reflect the increasing cost of public sector service delivery. To date, electricity prices, water prices and rental prices have been increased, reducing the pressure for subventions from the government to major parastatals such as the Botswana Power Corporation (BPC), Water Utilities Corporation (WUC) and the Botswana Housing Corporation (BHC). Further increases in tariffs from these institutions are expected this year, for them to meet their operating costs. Over the medium term, preliminary budget figures indicate a more positive outlook of Botswana's fiscal position, due to a substantial rebound in mineral revenue, coupled with a recovery in the level of SACU receipts. The budget deficit is expected to be financed through a combination of domestic and external borrowing over the medium term.

Downside: The war in Ukraine continues to damage global supply chains, creating global shortage of commodities, with high inflation globally. Diamond production slumps due to escalating input costs, weak global demand, and delays in the implementation of the Cut 3 and Cut 9 projects. Government finances come under pressure as SACU revenues fall. Credit agencies downgrade Botswana due to reduced government revenues as well as budget deficit increases. The ZAR depreciates sharply against the USD in response to a marked fall in the appetite for emerging market assets. BWP/ZAR increases sharply as a result. Global inflation lifts further due to supply side pressures. Global central banks tighten monetary conditions to address inflation and financial conditions tighten.

Scenario – 2022	**Upside**	**Baseline**	**Downside**
2023	5,25	3,70	0,90
2024	5,45	3,90	0,55
2025	5,50	4,00	0,40
Weighting	**15%**	**66%**	**19%**

		FLIs: Applied in ECL Models	
Scenario – 2021	**Upside**	**Baseline**	**Downside**
2022	7,95	5,10	2,25
2023	6,95	4,10	2,30
2024	6,30	3,70	2,20
Weighting	**15%**	**68%**	**17%**

FLI: Sensitivity Analysis

Forward-looking macro-economic indicators (FLI) has been incorporated into expected loss estimates through the application of quantitative modelling and expert judgement-based adjustments applied to PDs. The sensitivity shown indicates the ECL impact of a 5% shift towards the downside scenario from the baseline with a 5% shift from the upside scenario to the baseline.

2022

	Sensivity Weighting		
Scenario	**Upside**	**Baseline**	**Downside**
Weighting	15%	66%	19%
Sensitivity weighting	10%	66%	24%
Total impact on ECL (P'000)	**2,009**		

2021

	Sensivity Weighting		
Scenario	**Upside**	**Baseline**	**Downside**
Weighting	15%	68%	17%
Sensitivity weighting	10%	68%	22%
Total impact on ECL (P'000)	**2,627**		

Fair Value Financial Instruments

Fair value hierarchy and measurements

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

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

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

Valuations based on observable inputs include:

Level 1
Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities where this is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. This category includes listed bonds and equity, exchange-traded derivatives, exchange-traded commodities, and short trading positions.

Level 2
Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly such as quoted prices for similar items in an active market or for an identical item in an inactive market, or valuation models using observable inputs or inputs derived from observable market data. This category includes loans and advances to customers, equities listed in an inactive market, debt instruments, private equity investments, non-recourse investments and deposits, over the counter derivatives, deposits, other liabilities, long term borrowings, commodities which are not exchange-traded and investment properties.

Level 3
Fair value is determined using a valuation technique and significant inputs that are not based on observable market data (i.e. unobservable inputs) such as an entity's own assumptions about what market participants would assume in pricing assets and liabilities. The assumptions applied by the bank are set out in the table below. This category includes certain loans and advances to customers, certain over-the-counter derivatives such as equity options, investments in debt instruments, private equity investments, and certain deposits such as credit linked notes.

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

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Loans and advances to customes					
- Corporate investment banking book held at fair value	Level 3	Discounted cash flows	The future cashflows are discounted using a market related interest rate. To calculate the fair value of loan book the Group uses a valuation methodology based on the credit spread matrix, which considers loss given default and the internal credit committee rating criteria. The fair value measurement includes the original credit spread and is repriced when there is a change in rating of the counterparty. A decline in credit rating would result in an increase in the spread above the base rate for discounting purposes and consequently a reduction of the fair value of the advance.	Market interest rates and curves	Credit inputs- market related interest rates.
- Other loans and advances	Level 2 and 3	Discounted cash flows	The future cashflows are discounted using a market related interest rate adjusted for credit inputs, over the contractual period.	Market interest rates and curves	Credit inputs.
Investment securities and other investments					
- Equities/bonds listed in an inactive market	Level 2	Discounted cash flows	For listed equities and bonds, the listed price is used where the market is active (i.e.Level1). However, if the market is not active and the listed price is not representative of fair value these are classified as Level 2 and a valuation technique is used, for example the discounted cashflow is used for listed bonds. This will be based on risk parameters of comparable securities and the potential pricing difference in spread and/or price terms with the traded comparable is considered. The future cashflows are discounted using a market related interest rate adjusted for credit inputs over the contractual period.	Market interest rates and credit spreads	Not applicable
- Unlisted bonds	Level 2	Discounted cash flows	Unlisted bonds are valued similarly to advances measured at fair value. The future cashflows are discounted using a market related interest rate adjusted for credit in puts, over the contractual period.	Market interest rates and credit spreads.	Not applicable

Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
Investment securities and other investments					
- Negotiable certificates of deposit (NCD)	Level 2	Discounted cash flows	The future cashflows are discounted using a market related interest rate. Inputs to these models include information that is consistent with similar market quoted instruments, where available.	Market interest rates and market quotes for NCD instruments	Not applicable
- Treasury Bills	Level 2	Bank of Botswana quoted prices	Bank of Botswana quoted prices.	Market interest rates and curves	Not applicable
Deposits					
- Other deposits	Level 2	Discounted cash flows	The related forecasting curve is 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	Not applicable
- Other liabilities and Tier 2 liabilities	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate.	Market interest rates	Not applicable
- Financial assets and liabilities not measured at fair value but for which fair value is disclosed	Level 2	Discounted cash flows	The future cash flows are discounted using a market related interest rate and curves adjusted for credit inputs. Where the value of the liability is linked to the performance of an underlying and the underlying is observable, these liabilities are classified as level 2.	Market interest rate curves or performance of underlying	Not applicable

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

2022	LEVEL 1	LEVEL 2	LEVEL 3	FAIR VALUE	AMORTISED COST
Advances	-	-	15,219,501	15,219,501	15,081,463
Investment securities	5,135,504	-	-	5,135,504	5,312,010
Due from related parties	-	-	6,563	6,563	6,563
Other assets	-	-	328,706	328,706	328,706
Total financial assets at amortised cost	**5,135,504**	**-**	**15,554,770**	**20,690,274**	**20,728,742**
Deposits and current accounts	-	21,460,122	-	21,460,122	21,347,612
Long-term borrowings	-	1,184,053	-	1,184,053	1,154,987
Due to related parties	-	-	24,775	24,775	24,775
Accrued interest payable	-	21,739	-	21,739	21,739
Creditors and accruals	-	584,531	-	584,531	584,531
Total financial liabilities at amortised cost	**-**	**23,250,445**	**24,775**	**23,275,220**	**23,133,644**

2021	LEVEL 1	LEVEL 2	LEVEL 3	FAIR VALUE	AMORTISED COST
Advances	-	-	13,735,592	13,735,592	13,779,513
Investment securities	7,640,487	-	-	7,640,487	7,793,383
Due from related parties	-	-	7,552	7,552	7,552
Other assets	-	-	406,658	406,658	406,658
Total financial assets at amortised cost	**7,640,487**	**-**	**14,149,802**	**21,790,289**	**21,987,106**
Deposits and current accounts	-	21,416,664	-	21,416,664	21,396,057
Long-term borrowings	-	1,367,570	-	1,367,570	1,361,195
Due to related parties	-	-	25,093	25,093	25,093
Accrued interest payable	-	21,360	-	21,360	21,360
Creditors and accruals	-	680,558	-	680,558	680,558
Total financial liabilities at amortised cost	**-**	**23,486,152**	**25,093**	**23,511,245**	**23,484,263**

The following represents the fair values of financial instruments carried at fair value in the consolidated summarised statement of financial position(P'000)-(Audited)				
2022	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Mandatory fair value through profit and loss (P'000) Audited				
- Investments securities	-	42,585	-	42,585
- Derivative financial instruments	-	41,114	-	41,114
Non-financial assets				
Total assets	**-**	**83,699**	**-**	**83,699**
Financial liabilities held for trading				
- Derivative financial instruments	-	28,632	-	28,632
Mandatory at fair value through profit or loss				
- Zero coupon deposit	-	174,467	-	174,467
Total liabilities	**-**	**203,099**	**-**	**203,099**

2021	**LEVEL 1**	**LEVEL 2**	**LEVEL 3**	**TOTAL**
Mandatory fair value through profit and loss (P'000) Audited				
- Investments securities	-	95,656	-	95,656
- Derivative financial instruments	-	35,307	-	35,307
Non-financial assets				
Total assets	**-**	**130,963**	**-**	**130,963**
Financial liabilities held for trading				
- Derivative financial instruments	-	21,507	-	21,507
Mandatory at fair value through profit or loss				
- Zero coupon deposit	-	166,005	-	166,005
Total liabilities	**-**	**187,512**	**-**	**187,512**

Reconciliation of level 3 fair value measurements

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
Advances	Credit	Scenario analysis	Increased and decreased by 10%.
Other assets	Performance of underlying contract	Profit on the underlying contract	Increased and decreased by 10%.
Due to related parties	Performance of underlying contract	Profit on the underlying contract	Increased and decreased by 10%.

The following represents the fair values of financial instruments carried at amortised cost in the consolidated summarised statements of financial position (P'000)-(Audited)						
(P'000) Audited	**2022**			**2021**		
Assets	**Reasonable Fair value**	**Possible value using more positive assumptions**	**Alternative value using more negative assumptions**	**Reasonable Fair value**	**Possible value using more positive assumptions**	**Alternative value using more negative assumptions**
Other assets	328,706	379,224	310,274	406,658	447,324	365,992
Advances	15,219,501	16,741,451	13,697,551	13,707,258	15,077,984	12,365,532
Total financial assets measured at fair value in level 3	**15,548,207**	**17,120,675**	**14,007,825**	**14,113,916**	**15,525,308**	**12,731,524**
Liabilities						
Due to related parties	24,775	22,298	27,253	25,093	22,583	27,602

RELATED PARTY BALANCES (P'000)

Due from related parties	**YEAR ENDED 30 JUNE 2022 AUDITED**	**YEAR ENDED 30 JUNE 2021 AUDITED**
FirstRand Limited - South Africa	3,327,902	2,846,885
RMB International Mauritius Ltd	351,322	-
Financial Services Company Proprietary Limited	6,563	6,363
Net	**3,685,787**	**2,853,248**
Less money at call and short notice:		
FirstRand Limited - South Africa - call balances	(151,003)	(18,059)
FirstRand Limited - South Africa - nostro balances	(3,176,899)	(2,827,637)
RMB International Mauritius Ltd	(351,322)	-
Net	**6,563**	**7,552**
Due to related companies – current liabilities		
FirstRand Limited - South Africa	24,775	25,093
Due to related companies – creditors and accruals	**24,775**	**25,093**
Interest income		
FirstRand Limited - South Africa Proprietary Limited	32,468	13,433
Non-interest income		
Agent Commission - FNB Insurance Brokers (Botswana) Proprietary Limited	6,948	339
Interest expenditure		
FirstRand Limited - South Africa	24 147	15 155
Operating expenses		
Service fees - FirstRand Limited	278 534	215 540
Transaction with key management personnel:		
Compensation paid to key management personnel		
Share-based payments	1 596	89

RELATED PARTY BALANCES (P'000)

Due from related parties	YEAR ENDED 30 JUNE 2022 AUDITED	YEAR ENDED 30 JUNE 2021 AUDITED
FirstRand Limited - South Africa	3,327,902	2,846,885
RMB International Mauritius Ltd	351,322	-
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Non-interest income		
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Interest expenditure		
FirstRand Limited - South Africa	24 147	15 155
Operating expenses		
Service fees - FirstRand Limited	278 534	215 540
Transaction with key management personnel:		
Compensation paid to key management personnel		
Share-based payments	1 596	89
Short-term employee benefits	17 223	16 812
Net	**18 819**	**16 901**
Post-employment benefits		
Pension	659	810
Advances		
Personal loans	813	544
Credit card	282	259
Instalment Sale	1,136	2,412
Property loans	11,473	16,226
Total advances	**13,704**	**19,441**

Interest rates are in line with normal rates charged to customers or staff rates in line with company policy. For all the above facilities, normal credit checks are performed. Personal loans are repayable between 5 - 6 years. Property loans and instalment finance loans are repayable monthly over 20 years, and 6 years, respectively. Property loans are collateralised by properties with a total fair value of P17 940 000 (2021: P 26 520 000).

Related party (FirstRand Bank Limited) derivatives	Notional P '000	Fair value P '000	Notional P '000	Fair value P '000
2022				
Trading derivatives	104,049	620	240,843	7,516
Interest rate swaps	324,748	23,157	34,420	2,005
Currency swaps	211,107	11,102		
	639,904	**34,879**	**275,263**	**9,521**
2021				
Trading derivatives	274,816	1,284	204,281	567
Interest rate swaps	324,748	22,355	34,420	8,743
Currency swaps	106,094	1,417	-	-
	705,658	**25,056**	**238,701**	**9,310**

Related parties

The following are the related parties of the bank:

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

DIRECTORS:

Balisi Bonyongo (Chairperson), Steven L. Bogatsu (CEO - Executive Director)
Jabulani R. Khethe (Independent Non - Executive Director), John K. Macaskill (Non - Executive Director)
Doreen Ncube (Independent Non - Executive Director), Michael W. Ward (Independent Non - Executive Director)
Naseem B. Lahri(Independent Non - Executive Director), Ephraim Letebele(Independent Non - Executive Director)
Massimo M. Marinelli (Independent Non - Executive Director), Asad Petkar (Independent Non - Executive Director)
Louis F. Jordaan (Non - Executive Director), Luke D. Woodford (CFO - Executive Director)

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

MARKETING & COMMUNICATIONS

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