



# AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

FOR THE YEAR ENDED 30 JUNE 2023





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 2023.

## 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 2022, and in compliance with the Banking Act (Cap 46:04). The principal accounting policies and the methods of computation are consistent in all material aspects with those adopted in the previous year. The new or amended IFRS that became effective for the period under review had no impact on the bank’s reported earnings, financial position, reserves, or accounting policies.

In the preparation of the consolidated financial statements, the bank has applied sound business principles with key assumptions concerning any inherent uncertainties in recording various assets and liabilities. These assumptions were applied consistently to the audited summarised consolidated financial statements for the financial year ended 30 June 2023 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 the budget for the next financial year. The Directors have also 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. Based on 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.

## 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 2023, 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 2023, 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 before Tax

**P1.4bn**

(2022: P1.2bn)

▲ **18%**

Cost to Income

**49.0%**

(2022: 51.1%)

▼ **200bps**

Credit Loss Ratio

**0.6%**

(2022: 0.3%)

▲ **30bps**

Return on Assets

**3.8%**

(2022: 3.3%)

▲ **50bps**

Return on Equity

**32.0%**

(2022: 25.7%)

▲ **637bps**

Dividend per Share

**32 thebe**

(2022: 26 thebe)

▲ **23%**

Advances to Customers

**P16.3bn**

(2022: P15.1bn)

▲ **8%**

Deposits from Customers

**P23.3bn**

(2022: P21.3bn)

▲ **9%**

NPLs/Advances

**5%**

(2022: 5.0%)

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# ECONOMIC UPDATE

## GLOBAL ECONOMIC OVERVIEW

### Price pressures and tighter policy cap growth in 2023

The global economic backdrop is expected to be positive in 2023 and continues to improve, albeit at a much slower pace relative to trend. Global inflation is slowing across a range of measures, and this is allowing central banks to begin signalling the end of their hiking cycles. Although the rate hiking cycle is now expected to come to an end, based on indications of inflationary pressures easing, the current high interest rates in developed markets are likely to result in real policy rates not seen over the last decade. This has exposed weaknesses among corporates and governments with fragile or poorly managed balance sheets. Our baseline view assumes that the global banking system is sufficiently well capitalised to prevent a financial crisis, and central banks are likely to provide ongoing liquidity support to the financial sector to limit the risk that rate rises translate into systemic financial problems.

Although there are signs that inflation is easing, it is expected to remain above target. Despite lower price pressures over the second and third quarters, compared to last year, global inflation is considered likely to settle above pre-pandemic levels. A significant increase in unemployment in the US could see inflation fall faster than anticipated, but for now, the US labour market remains robust, contributing to stubborn inflation. In the UK, inflation is also falling, but at a slower pace than anticipated. Eurozone consumer prices are on a clear softening trend, but core inflation is proving stickier, aided by rising nominal wages on the back of an all-time low unemployment rate in the bloc.

The US Fed paused its interest rate hiking cycle, leaving the Fed funds target band at 5.25%-5.50%, citing the need to assess additional information and its implications for monetary policy. We anticipate that macroeconomic data will, by the fourth quarter of 2023, be supportive of no further hikes this year in the US economy. The European Central Bank increased rates for the ninth consecutive month at its July meeting, raising the main refinancing operation rate by 25bp to 4.25% on account of persistently high inflation outcomes. The Bank of England hiked its policy

rate by 25bp at its August meeting, lifting the policy rate to a 15-year high of 5.25%. The Fed cited growing inflation risks, mainly stemming from the tight labour market and continued resilience in demand. The Fed warned of growing evidence of second-round effects, which could prompt more interest rate increases to curb entrenched inflation. All central banks have reiterated that policy decisions remain data-dependant. As such, the start of any interest rate cuts will depend on inflation outcomes, as well as the extent of the slowdown in economic activity in individual economies.

## REGIONAL ECONOMY

### Climate risk and a stalling Chinese recovery limit upside prospect for growth

Growth is expected to be heavily dependent on commodity price movements throughout the year. Chinese growth, which was expected to be robust following the lifting of movement restrictions, is anticipated to be tepid, weighing on commodity prices as well as emerging and developing markets growth. Investment in key sectors such as mining, agriculture, logistics and energy will continue, but will be challenged by higher costs of funding (as a result of tighter financial conditions) and the lacklustre global backdrop.

In Southern Africa, South Africa's growth forecast is expected to slow meaningfully this year as global economic activity slows, coupled with high domestic interest rates that will constrain household consumption. South Africa's growth outlook also faces downside risk from political volatility, that will likely limit investment confidence, as well as electricity supply shortages that are currently restricting domestic activity. Loadshedding remains a significant headwind for the economy due to the consequent volatility and uncertainty, heightened over the winter months. We anticipate a gradual decline in loadshedding from the second half of 2025, as more private power generation begins to come online.

Fiscal policy will remain constrained across sub-Saharan Africa, partly due to elevated costs of funding. The elevated interest rates globally have the potential to result in debt distress owing to higher debt costs. Nevertheless, we expect further reliance on multilateral and domestic funding to support the various country deficits. Similarly, the impact of debt sustainability will remain a theme as was seen during the pandemic. The focus in 2023 will be on debt restructuring in markets like Ghana and Zambia, as well as observing vulnerabilities in other markets.

In our view, currency volatility is expected to continue in 2023, with a general bias toward further depreciation for many currencies, relative to the USD. We expect to see broad dollar strength, associated with a tepid global environment, thus raising the costs of servicing dollar-based government debt.

## BOTSWANA ECONOMY

### Base effects wearing away

Botswana's GDP growth slowed marginally from 5.9% year-on-year in the fourth quarter of 2022 to 5.4% in the first quarter of 2023, with all sectors of the economy recording positive growth. The utilities sector registered the largest growth rate (19.3%), and mining activity recorded the second highest growth rate (10.8%) and an overall contribution of 19.6% to total growth. The utilities sector was spurred on by improved coal supply to both Morupule A and B, in part due to the Motheo coal expansion project, leading to improved local electricity generation. The tertiary sector continues to dominate growth, accounting for 56.6% of total output in the first quarter, supported by a sustained recovery across the non-mining private sector. Diamond trading, however, cooled to 0.4% as diamond demand and sales moderated over the period. Within the secondary sector, manufacturing registered 2.3% growth in the first quarter, owing primarily to the improved production of dairy (14.3%) and downstream diamond activity (8.5%).

We maintain our view that over the coming 3-5 years the mining sector will remain Botswana's key growth driver. This should be supported by the expansion of local copper mining activity, with additional copper mines expected to come onstream during 2023. On the diamond mining front, both Jwaneng and Karowe mines are expected to transition from open cast to underground mining through to 2026, prolonging the life of both mines. Underground mining activity is anticipated to extend operations to 2035 in the case of Jwaneng and to 2040 for Karowe.

Prospects for growth within the agricultural sector remain precarious, owing to climate risk concerns. Recently, the Government declared 2022/23 as a drought year due to sporadic rainfall, excessive heat and low agricultural yield over the fiscal year. These factors, and the drought status, have resulted in relief measures being instituted with immediate effect until 30 June 2024; livestock feed subsidies will only be in place until 31 January 2024. The support measures encompass financial assistance from the Ministry of Finance towards servicing seasonal loans, along with subsidies from the Ministry of Agriculture to ensure animal health and irrigation of field crops.

Growth opportunities across other sectors of the economy are expected to be presented by the transitional National Development Plan (NDP) which commenced in the 2023/24 fiscal year. The transitional NDP seeks to foster growth



across a host of sectors with citizen participation at its core. Over the transitional period, the government has implemented reforms to rationalise and consolidate government ministries, along with legislative changes aimed at improving citizen economic inclusion and SME development. Over the two-year transitional period, the government intends to roll-out the rationalisation exercise to parastatals.

Furthermore, the planned development spending over the medium term could be supportive of local businesses and result in more robust growth in gross fixed capital formation than we have factored in, depending on Botswana's rate of key project implementation. The successful execution of these projects would support the construction sector's recovery and improve Botswana's operating environment through improved connectivity as well as stable and reliable utilities supply.

### Inflation falls within range – and expected to stay within range

Botswana's inflation reduced significantly over the course of 2023, following the 14.6% year-on-year peak observed in August 2022, and owing to reduced fuel prices. Local price growth has also been driven down as the effect of earlier increases in administered prices continued to recede. With this in mind, we expect inflation to average 4.9% in 2023 (down from 12.2% registered in 2022).

The pace of disinflation, however, could be challenged by potentially higher food prices owing to heightened climate risk, and its potentially negative impact on agricultural yield. Additionally, Botswana's restriction on the importation of certain fresh produce will likely present upside risk to price growth as local production continues to fall short of demand. The recent declaration of drought adds to the possibility of further price pressure owing to lower-than-expected agricultural produce in 2023. Furthermore, entrenched expectations for higher inflation (noted in the June 2023 Bank of Botswana Business Expectations Survey) present upside risk to price growth.

At its June 2023 meeting, the Monetary Policy Committee (MPC) decided to maintain the MoPR at 2.65% with inflation remaining within the Bank of Botswana (BoB) 3-6% range objective for the second consecutive month. The Central Bank adjusted its inflation expectations lower, anticipating an annual average of 5.8% this year with inflation remaining below 6.0%. Barring any significant price changes and upward pressure from base effects in the fourth quarter of 2023, we project that the MoPR will remain unchanged through to 2024.

As part of its commitment to strengthen monetary policy transmission, the BoB has instituted significant reforms since 2022, which include switching its main monetary policy tool to the MoPR and allowing commercial banks to set their own prime lending rates. Over the medium term, our expectation is for the BoB to effect changes according to the revised BoB Act (2022). These changes include adding four additional non-BoB staff members to the MPC, with two new members having been added to the MPC to date. Additionally, setting of the inflation objective is expected to be implemented by the Ministry of Finance, with the BoB responding with an appropriate monetary policy stance. The MPC will also be mandated to make changes to the constitution of the Pula basket to influence the exchange rate, depending on prevailing market conditions.

### The BWP remains supportive

The weights in the Pula basket have been maintained at ZAR: 45% and SDR 55%. These weights, effected in 2017, remained unchanged in 2023 as they continue to reflect Botswana's external trading patterns with its major trading partners. With the weights in the Pula basket remaining unchanged, we expect the Rand to continue being 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 bank's balance sheet grew 9% year-on-year, driven mainly by growth in advances to customers across all segments. Corporate advances are 11% up, while commercial and retail advances are at 8% and 7% respectively. The growth in corporate advances was driven by working capital support to State Owned Enterprises (SOE) and Fast Moving Consumer Goods (FMCG) sectors, as well as leverage finance deals in the financial services sector. Key deals in the tourism, fuel and agriculture sectors supported growth in the commercial advances book, while personal loans in the retail book grew on the back of extended tenures and ticket size limits to individuals within Group Schemes. At gross level, the bank advances grew by 8%.

Non-Performing Loans (NPLs) increased by 8% year-on-year from P802m to P863m, with the NPL/gross advances remaining flat at 5% year-on-year. Contributing to the somewhat significant growth in NPLs is a low base effect, i.e. prior year NPLs included impact of accelerated write-offs.

Investment securities grew 12% year-on-year following a successful implementation of an overall yield optimisation strategy, which saw increased allocation to instruments of enhanced yields within approved risk appetites.

Deposits from customers increased by 9% year-on-year, broadly in line with the growth in advances, which ensured a sustainably funded growth in assets. The growth in the deposit base was led by an overall growth in retail and commercial current accounts. Retail deposits grew 11% year-on-year mainly reflective of better yields offered by the bank to retail customers on personal savings accounts. The commercial segment deposit base also increased by 11%, mostly on current and call accounts, reflective of both a sustained improvement on the trading environment and the bank's client retention strategy. Corporate and Treasury deposits increased by 6% as the bank slowed down on term deposits amid heightened market cost of funds.

The loan-to-deposit ratio remained relatively flat year-on-year at 70%, reflecting a well-funded position supported by additional funding lines available from the market.

## INCOME STATEMENT

Total bank income grew 15% year-on-year, with net interest income prior to impairments increased by 27% through a combination of volume and rate. Policy rates went up by 151 bps during the 2022 calendar year, while customer advances grew by 8% during the financial year. Gross interest income increased 36%, diluting the growth in interest expense which increased by 75% year-on-year, driven by a higher cost of funding as a result of an increasing MoPR. Notwithstanding, the bank produced a solid 25% growth in net interest income after impairment.

The increase in impairments (86%) is reflective of a low base effect, i.e. there were significant impairment releases in the prior year as Covid

related pressures abated. Despite this increase, the Credit Loss Ratio remains low at 58bps.

Non-interest revenue increased by 7% year-on-year. This was driven primarily by increased transactional volumes in service and other fees. The growth in service fee and card commissions followed increased uptake and utilisation across the bank's digital and electronic channels, most noticeably in convenience channels.

Net card commissions grew by a modest 6% through increased volumes despite softer blended margins. The bank continues to broaden its financial inclusion with further expansion of its Agency Banking (CashPlus) footprint, thereby bringing services to more remote locations and enhancing customer convenience. Foreign exchange and trading income grew 13% year-on-year reflecting

a sustained recovery of the tourism sector, mostly for the retail and commercial segments, while the corporate segment registered both a growth in client base and an increase in volumes within the existing base.

Total expenses grew 12% reflecting increased investments in human capital and technology. Total employee costs were up 16% year-on-year, while IT support and development costs grew 36%. A further spike on operational costs came with the rebranding journey the bank undertook, which saw marketing and advertising expenses growing 31% year-on-year.

The bank delivered an 18% growth in Profit Before Tax for the year, which closed the year at P1.42 billion. Although PBT growth achieved in 2023 is softer compared to the prior year (33%), the growth in 2022 was reflective of a low base effect, i.e., economy emerging from Covid-19 pandemic, of which impact was reflected in 2021 results.

The Cost to Income ratio for the year reduced by 2% from 51% to 49% driven mainly by growth across all income lines, with total income growing faster than costs.

Return on equity (ROE) for the year is 32%, up from the 26% reported in 2022. This improvement is reflective of both improved profitability and optimal capital management.

## LOOKING AHEAD

The 2023 financial year was characterised by intermittent shocks in the global macro-economic environment. Locally, the policy rate was increased as the MPC of the BoB aimed to contain inflation, price growth remained significantly higher than the upper limit of the objective range between May 2021 and May 2023. By June 2023, there were visible signs of inflation abating into the new financial year, closing off June 2023 at 4.6%, all the way down from a peak of 14.6% reported for the month of August 2022. Although the increase in the policy rate came with some tail winds to top line performance, heightened inflation levels created some pronounced uncertainty on credit capacity for clients and lending appetite for the bank.

The year ahead will be marked by inflation rate outcomes and the resultant policies on interest rates impacting global trade. Geopolitical tensions should persist, exacerbated by the conflict in the Ukraine that shows no immediate signs of ending and which further disrupts supply chains and food supply desperately needed in Africa and Asia. This presents a level of uncertainty which undermines confidence and the outlook of world populations being encumbered by increased borrowing interest rates.

The bank will continue to deploy its financial resources appropriately and prudently, maintaining conservative capital and provisioning levels. Investments in operational efficiencies will maintain focus on increasing delivery of digitalisation and Artificial Intelligence (AI), specifically aimed at further enhancing customer experience through innovations around products and services. A forward-thinking approach to technology and innovation has been, and remains a top priority for FNBB, including the attendant need to continually enhance measures to guard against cybercrime.

The bank holds employees high on its agenda, investment in development and training to improve the welfare of the FNBB family. Our platforms will be enhanced to redefine employee experience, and how they interact with the world.

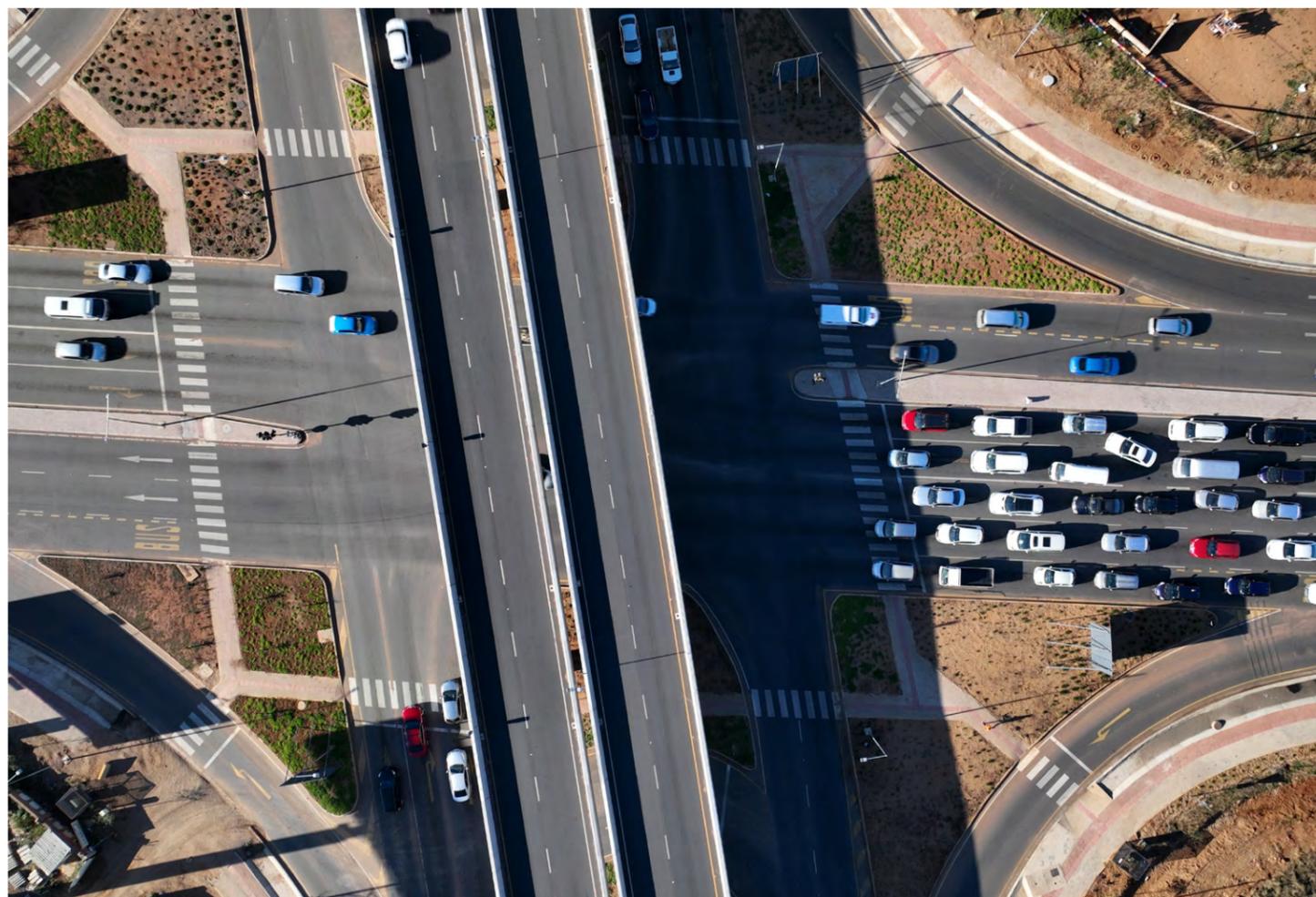
In line with global business practice, FNBB will be making visible strides in supporting green and sustainable economic growth. Our policies have been reviewed to ensure this, and the texture of our balance sheet will begin to reflect our resolve to contribute to safer environments.

Shared prosperity is a core belief of the bank, and specific targets have been rolled out for the ensuing year to ensure that the outcomes of our day-to-day operations are increasingly reflected in the wellbeing of the society. We have made significant progress over the years in this regard, particularly on inclusive banking where our eWallet and CashPlus offerings continue to shrink the unbanked segments of the population.

The Capital and Liquidity positions of the bank ended the 2023 financial year at levels in line with thresholds set by the Board, and optimally ahead of regulatory prescripts. This positions the bank for uninterrupted and sustainable growth into the 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, Remuneration, and Risk, Capital Management and Compliance Committees. The Board has recently set up a Compliance and Conduct Committee separate from the Risk Committee.

## SHARED PROSPERITY

In line with global trends, the outcome of the bank's operations will increasingly be more evident within communities. In this regard the bank focuses on the following key thematic areas;

- Development of Small, Medium and Micro Enterprises (SMME's)
- Human and Social Development
- Elevation of Creative Industries
- Sustainable Environment.

Regarding SMMEs, the bank has reviewed its procurement policy to give more prominence to local procurement with clear intentions to increase spend on locally owned businesses.

Memorandum of agreements have been signed with large corporates in the mining sector to provide working capital to local enterprises who participate in the supply value chain. Under the Human and Social Development focal area, FNBB has taken an early lead in financial inclusion with eWallet volumes reaching 12.5 million transactions annually in 2023, supported by a CashPlus agent network which increased to 1,099 outlets in 2023, these are spread throughout the country. The bank remains committed to its social responsibility to the community, the FNBB Kazungula Bridge Marathon surpassed the inaugural instalment in the prior year. The marathon is an event accredited by World Athletics, the international governing body of athletics. Also in sports, the bank through the FNBB Foundation sponsored the FNB Botswana Golden Grand Prix bringing it to Botswana for the first time. This in an internationally recognised athletics competition known for attracting the world's best athletes.

Going into the next year, the bank set ambitious targets to contribute meaningfully to the sustainable environment agenda.

## 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 quarterly in a year due to the rapidly changing world economic environment for regulatory and business purposes. Additionally, the Directors' review the Capital Management Framework annually, and this together with the approval of the economic scenarios forms the basis of the Internal Capital Adequacy Assessment Process (ICAAP) which provides a sound basis for managing our capital in a constantly dynamic world. For the financial year ended 30 June 2023, 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 20 thebe per share has been declared for the year ended 30 June 2023. The dividend will be paid on or about 11 October 2023 to shareholders registered at the close of business on 29 September 2023. The ex-dividend date is 27 September 2023.

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 04 October 2023.

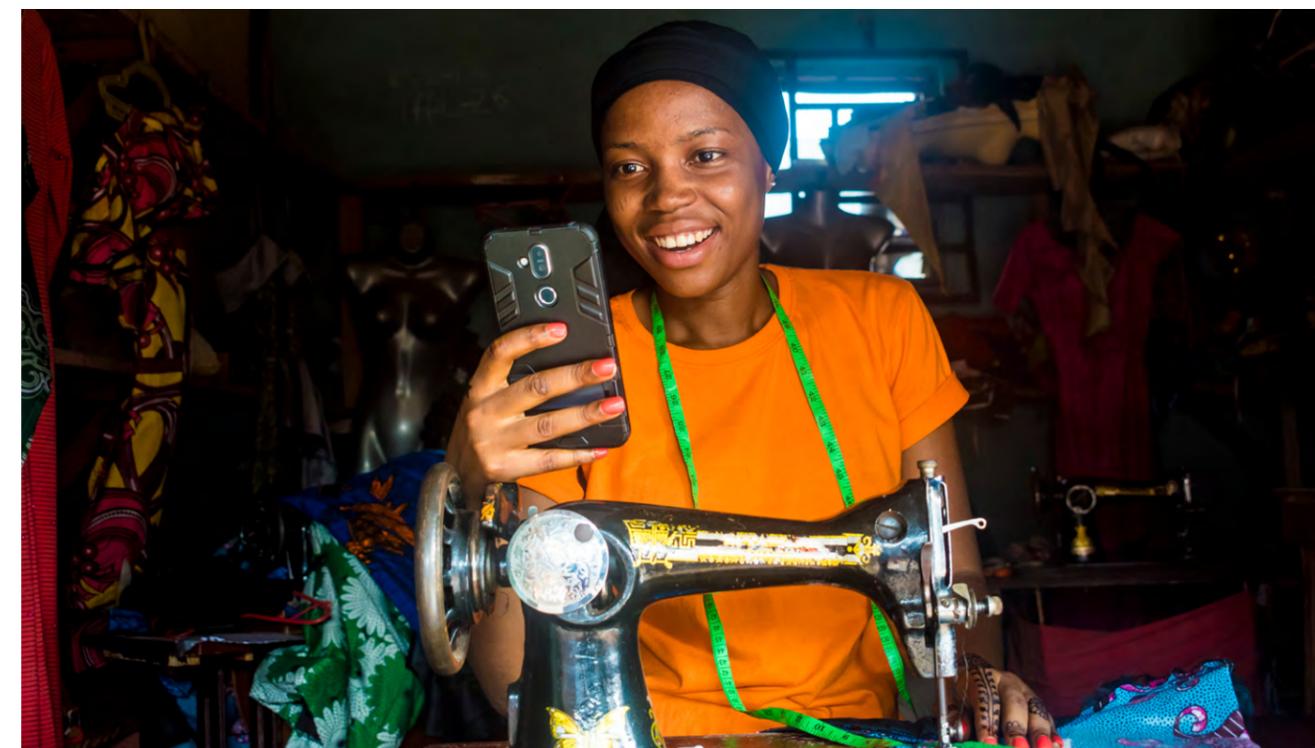
For and on behalf of the Board.

**B M Bonyongo**  
Chairperson

**S L Bogatsu**  
Chief Executive Officer

Gaborone, 08 September 2023

**Transfer secretaries**  
Central Securities Depository  
Company of Botswana,  
Plot 70667, 4th Floor, Fairscape Precinct,  
Fairgrounds  
Private Bag 00417, Gaborone



# AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

FOR THE YEAR ENDED 30 JUNE 2023



## SUMMARISED CONSOLIDATED INCOME STATEMENT (P'000)

	YEAR ENDED 30 JUNE 2023 AUDITED	YEAR ENDED 30 JUNE 2022 AUDITED	% CHANGE
Interest income and similar income using the effective interest rate	1,950,758	1,432,283	36
Interest expenses and similar charges	(469,175)	(268,455)	75
<b>Net interest income before impairment of advances</b>	<b>1,481,583</b>	<b>1,163,828</b>	<b>27</b>
Impairment of advances	(93,557)	(50,297)	86
<b>Net interest income after impairment of advances</b>	<b>1,388,026</b>	<b>1,113,531</b>	<b>25</b>
Non-interest income and expense	1,486,904	1,390,655	7
<b>Income from operations before operating expenditure</b>	<b>2,874,930</b>	<b>2,504,186</b>	<b>15</b>
Operating expenses	(710,067)	(651,221)	9
Employee benefits expenses	(725,879)	(628,007)	16
<b>Income before indirect taxation</b>	<b>1,438,984</b>	<b>1,224,958</b>	<b>17</b>
Indirect tax	(19,108)	(26,047)	(27)
<b>Profit before direct taxation</b>	<b>1,419,876</b>	<b>1,198,911</b>	<b>18</b>
Direct taxation	(304,104)	(272,168)	12
<b>Profit for the year attributable to owners of the company</b>	<b>1,115,772</b>	<b>926,743</b>	<b>20</b>
<b>Total comprehensive income for the year</b>	<b>1,115,772</b>	<b>926,743</b>	<b>20</b>
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)	43.86	36.43	20

## RATIOS AND MARKET INFORMATION

	YEAR ENDED 30 JUNE 2023	YEAR ENDED 30 JUNE 2022	% CHANGE
Dividend per share (thebe)	32	26	23
Dividend cover (times)	1.4	1.4	-
Cost to income ratio (percent)*	49.0	51.1	(4)
Return on equity (percent)	32.0	25.7	25
Return on average assets (percent)	3.8	3.3	15
Capital adequacy ratio (percent)	18.1	17.9	1
Closing share price (thebe)	367	265	38
Price earnings ratio	8.4	7.3	15
Earnings per share (thebe)	43.86	36.43	20
Number of ordinary shares issued (thousands)	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

## SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (P'000)

	AT 30 JUNE 2023 AUDITED	AT 30 JUNE 2022 AUDITED	% CHANGE
<b>Assets</b>			
Cash and short-term funds	6,715,040	6,198,095	8
Derivative financial instruments	36,897	41,114	(10)
Advances to customers	16,274,676	15,081,463	8
Investment securities	5,972,948	5,354,595	12
Current taxation	88,368	82,299	7
Due from related parties	6,804	6,563	4
Other assets	369,882	328,706	13
Property and equipment	566,148	533,669	6
Goodwill	26,963	26,963	-
<b>Total assets</b>	<b>30,057,726</b>	<b>27,653,467</b>	<b>9</b>
<b>Equity and Liabilities</b>			
<b>Liabilities</b>			
Derivative financial instruments	25,623	28,632	(11)
Accrued interest payable	40,922	21,739	88
Due to related parties	72,460	24,775	192
Creditors and accruals	781,428	584,531	34
Deposit from banks	849,454	888,862	(4)
Deposit from customers	23,333,051	21,347,612	9
Employee benefits liabilities	116,915	98,227	19
Borrowings	1,100,887	1,329,454	(17)
Deferred taxation	10,151	6,336	60
<b>Total liabilities</b>	<b>26,330,891</b>	<b>24,330,168</b>	<b>8</b>
<b>Capital and reserves attributable to ordinary equity holders</b>			
Stated capital	51,088	51,088	-
Retained earnings	3,167,007	2,865,219	11
Dividend reserve	508,740	406,992	25
<b>Total equity</b>	<b>3,726,835</b>	<b>3,323,299</b>	<b>12</b>
<b>Total Equity and Liabilities</b>	<b>30,057,726</b>	<b>27,653,467</b>	<b>9</b>
Undrawn commitments to customers	2,729,340	2,439,931	12
Guarantees and letters of credit	743,191	425,969	74

# AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

FOR THE YEAR ENDED 30 JUNE 2023



## SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (P'000) AUDITED

	STATED CAPITAL	DIVIDEND RESERVE	RETAINED EARNINGS	TOTAL
<b>Balance at 01 July 2021</b>	<b>51,088</b>	<b>1,246,413</b>	<b>2,599,838</b>	<b>3,897,339</b>
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)	-
<b>Total contributions by and distributions to owners of company recognised directly in equity</b>	<b>-</b>	<b>(839,421)</b>	<b>(661,362)</b>	<b>(1,500,783)</b>
<b>Balance at 01 July 2022</b>	<b>51,088</b>	<b>406,992</b>	<b>2,865,219</b>	<b>3,323,299</b>
Profit for the year	-	-	1,115,772	1,115,772
2022 Final Dividends paid	-	(406,992)	-	(406,992)
2023 Interim Dividends paid	-	-	(305,244)	(305,244)
2023 Final Dividends proposed	-	508,740	(508,740)	-
<b>Total contributions by and distributions to owners of company recognised directly in equity</b>	<b>-</b>	<b>101,748</b>	<b>(813,984)</b>	<b>(712,236)</b>
<b>Balance at 30 June 2023</b>	<b>51,088</b>	<b>508,740</b>	<b>3,167,005</b>	<b>3,726,835</b>

## SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS (P'000)

	YEAR ENDED 30 JUNE 2023 AUDITED	YEAR ENDED 30 JUNE 2022 AUDITED	% CHANGE
<b>Cash flows from operating activities</b>			
Cash used in operations before taxation and working capital changes	(110,495)	(186,889)	(41)
Interest and similar income received	1,949,109	1,425,230	37
Interest and expenses paid	(445,412)	(262,551)	70
Taxation paid	(306,358)	(421,884)	(27)
<b>Cash from operating activities</b>	<b>1,086,844</b>	<b>553,906</b>	<b>96</b>
<b>Movement in operating assets and liabilities</b>			
Movement in amounts due to other banks	(39,408)	398,709	(110)
Movement in deposits and current accounts	1,985,439	(48,445)	(4,198)
Movement in amounts due to related companies	47,685	(318)	(15,095)
Movement in accrued interest payable	208	(353)	(159)
Movement in creditors and accruals	196,555	(102,653)	(291)
Movement in employee benefits liabilities	18,688	4,340	331
Movement in investments – fair value through profit or loss	14,539	53,071	(73)
Movement in investments – carried at amortised cost	(33,764)	(618,364)	(95)
Movement in advances to customers	(1,285,121)	(1,482,680)	(13)
Movement in advances to banks	-	217,957	(100)
Movement in other assets	(41,176)	77,952	(153)
Movement in amounts due from related companies	(241)	989	(124)
<b>Net cash flows from/(used in) operating activities</b>	<b>1,950,248</b>	<b>(945,889)</b>	<b>(306)</b>
<b>Cash flows to investing activities</b>			
<b>Acquisition of property and equipment</b>	<b>(85,870)</b>	<b>(46,859)</b>	<b>83</b>
<b>Cash flows used in financing activities</b>			
Borrowings raised	-	183,190	(100)
Repayment of borrowings	(236,746)	(389,398)	(39)
Finance lease interest	(4,788)	(5,172)	(7)
Finance lease payments	(25,582)	(24,327)	5
Dividends paid	(712,236)	(1,500,783)	(53)
<b>Net cash used in financing activities</b>	<b>(979,352)</b>	<b>(1,736,490)</b>	<b>(44)</b>
<b>Cash movement for the year</b>	<b>885,026</b>	<b>(2,729,238)</b>	<b>(132)</b>
Cash and cash equivalents at the beginning of the year	7,097,680	9,470,080	(25)
Effect of exchange rate movements on cash balances	231,047	356,838	(35)
<b>Total cash and cash equivalents at end of the year</b>	<b>8,213,753</b>	<b>7,097,680</b>	<b>16</b>
Comprising:			
Cash and short-term funds	6,715,040	6,198,095	8
Investment in Bank of Botswana Certificates	1,498,713	899,585	67

## 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.

# AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

FOR THE YEAR ENDED 30 JUNE 2023



## SUMMARISED SEGMENTAL REPORTING

	RETAIL	COMMERCIAL	CORPORATE	TREASURY	TOTAL
<b>YEAR-ENDED 30 JUNE 2023 (P'000) - (AUDITED)</b>					
<b>SUMMARISED CONSOLIDATED INCOME STATEMENT</b>					
Interest and similar income	594,658	128,522	87,004	1,140,574	1,950,758
Non-interest income	644,322	515,544	327,580	(542)	1,486,904
<b>Total segment revenue</b>	<b>1,238,980</b>	<b>644,066</b>	<b>414,584</b>	<b>1,140,032</b>	<b>3,437,662</b>
Interest expense and similar expenses	168,994	232,513	128,157	(998,839)	(469,175)
<b>Segment operating income before impairments</b>	<b>1,407,974</b>	<b>876,579</b>	<b>542,741</b>	<b>141,193</b>	<b>2,968,487</b>
Impairment of advances	(73,642)	28,061	(47,976)	-	(93,557)
<b>Net interest income after impairment of advances</b>	<b>1,334,332</b>	<b>904,640</b>	<b>494,765</b>	<b>141,193</b>	<b>2,874,930</b>
Depreciation	(80,208)	(744)	(470)	(67)	(81,489)
Total expenditure	(576,369)	(551,094)	(225,183)	(1,811)	(1,354,457)
<b>Profit before indirect taxation</b>	<b>677,755</b>	<b>352,802</b>	<b>269,112</b>	<b>139,315</b>	<b>1,438,984</b>
Indirect taxation	(16,642)	(70)	(1,718)	(678)	(19,108)
<b>Profit before direct taxation</b>	<b>661,113</b>	<b>352,732</b>	<b>267,394</b>	<b>138,637</b>	<b>1,419,876</b>
Direct taxation	-	-	-	-	(304,104)
<b>Profit for the year</b>					<b>1,115,772</b>

## SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<b>Gross Advances to customers</b>	<b>10,757,448</b>	<b>3,156,990</b>	<b>3,391,094</b>	<b>-</b>	<b>17,305,532</b>
Loss allowance	(572,874)	(376,718)	(81,264)	-	(1,030,856)
Net advances	10,184,574	2,780,272	3,309,830	-	16,274,676
<b>Deposits from customers</b>	<b>6,252,968</b>	<b>9,268,574</b>	<b>6,990,175</b>	<b>821,334</b>	<b>23,333,051</b>

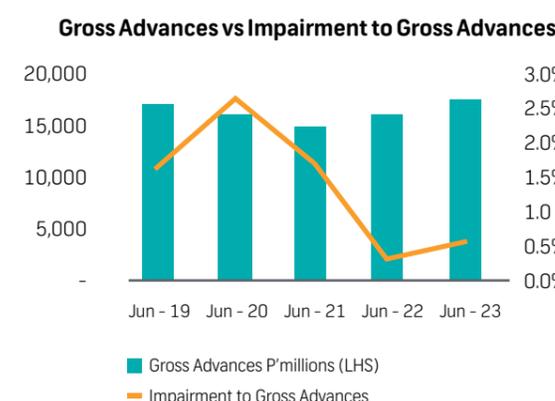
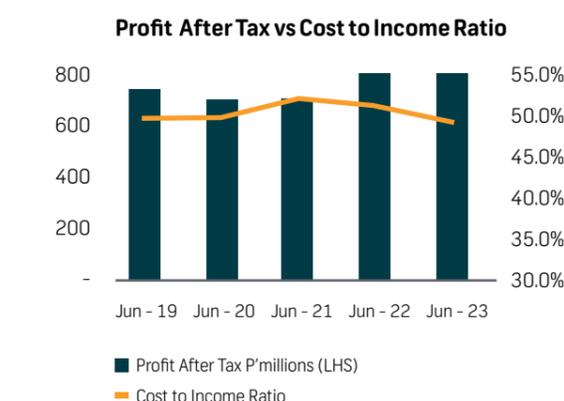
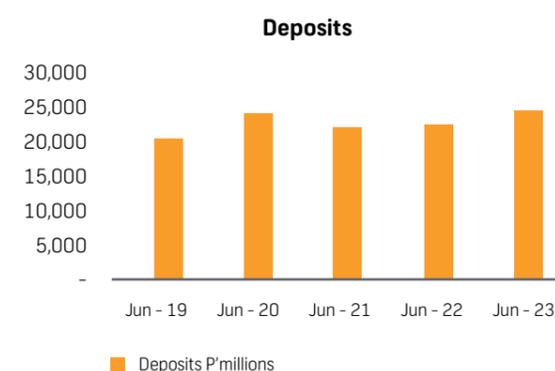
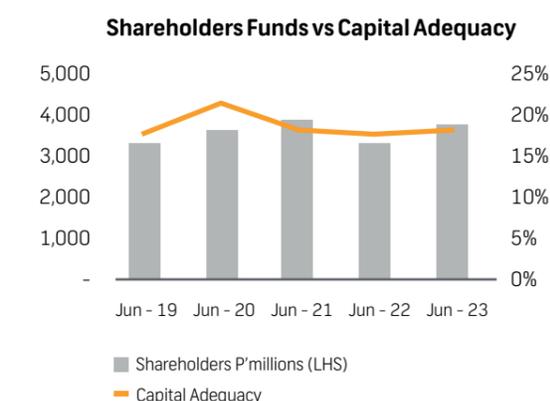
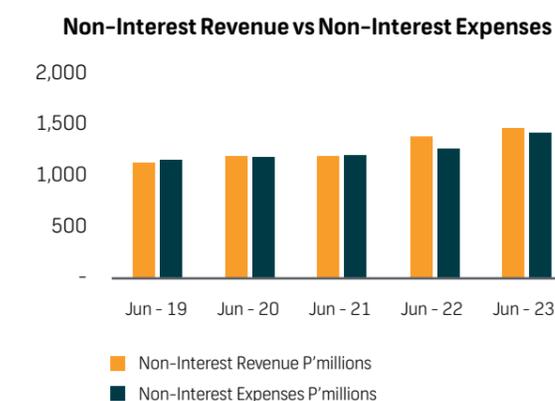
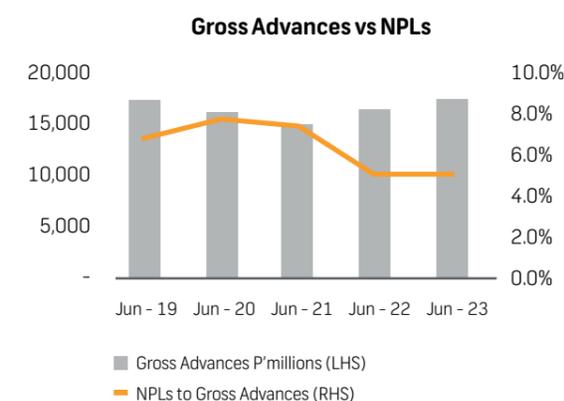
## SUMMARISED SEGMENTAL REPORTING

	RETAIL	COMMERCIAL	CORPORATE	TREASURY	TOTAL
<b>YEAR-ENDED 30 JUNE 2022 (P'000) - (AUDITED)</b>					
<b>SUMMARISED CONSOLIDATED INCOME STATEMENT</b>					
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
<b>Total segment revenue</b>	<b>1,158,186</b>	<b>574,173</b>	<b>391,610</b>	<b>698,969</b>	<b>2,822,938</b>
Interest expense and similar expenses	103,423	131,636	85,335	(588,849)	(268,455)
<b>Segment operating income before impairments</b>	<b>1,261,609</b>	<b>705,809</b>	<b>476,945</b>	<b>110,120</b>	<b>2,554,483</b>
Impairment of advances	(126,472)	76,657	(482)	-	(50,297)
<b>Net interest income after impairment of advances</b>	<b>1,135,137</b>	<b>782,466</b>	<b>476,463</b>	<b>110,120</b>	<b>2,504,186</b>
Depreciation	(71,753)	(1,187)	(98)	(147)	(73,185)
Total expenditure	(501,309)	(513,188)	(193,329)	1,784	(1,206,043)
<b>Profit before indirect taxation</b>	<b>562,075</b>	<b>268,091</b>	<b>283,036</b>	<b>111,757</b>	<b>1,224,958</b>
Indirect taxation	(22,944)	120	(2,689)	(534)	(26,047)
<b>Profit before direct taxation</b>	<b>539,131</b>	<b>268,211</b>	<b>280,347</b>	<b>111,223</b>	<b>1,198,911</b>
Direct taxation	-	-	-	-	(272,168)
<b>Profit for the year</b>					<b>926,743</b>

## SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<b>Gross Advances to customers</b>	<b>10,081,991</b>	<b>2,990,898</b>	<b>3,023,197</b>	<b>-</b>	<b>16,096,086</b>
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
<b>Deposits from customers</b>	<b>5,617,729</b>	<b>8,342,605</b>	<b>5,942,301</b>	<b>1,444,977</b>	<b>21,347,612</b>

## FINANCIAL GRAPHS



# AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

FOR THE YEAR ENDED 30 JUNE 2023



## ACCOUNTING POLICIES

The accounting policies and other methods of computation applied in the preparation of the consolidated financial statements, from which the summarised consolidated financial statements were derived, are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous summarised consolidated financial statements.

The consolidated financial statements, from which this summary consolidated financial statements are extracted, 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.

Improvements to the Conceptual Framework, as well as amendments to IAS 16 Property, Plant and Equipment, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IFRS 9 Financial Instruments become effective in the current year. None of these amendments to IFRS impacted the bank's reported earnings, financial position or reserves, or the accounting policies.

## ADVANCES

Analysis of advances per class - 2023 (P'000)-(Audited)	AMORTISED COST	LOSS ALLOWANCE	TOTAL
Term loans	7,812,186	(317,132)	7,495,054
Instalment sales	1,722,924	(110,032)	1,612,892
Property loans	6,177,956	(352,776)	5,825,180
Overdraft and managed accounts	1,297,551	(226,146)	1,071,405
Other	294,915	(24,770)	270,145
<b>Total</b>	<b>17,305,532</b>	<b>(1,030,856)</b>	<b>16,274,676</b>

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 accounts	1,164,389	(175,603)	988,786
Other	257,464	(17,385)	240,079
<b>Total</b>	<b>16,096,086</b>	<b>(1,014,623)</b>	<b>15,081,463</b>

(P'000) (Audited)	GROSS ADVANCES				LOSS ALLOWANCE			
	STAGE 1	STAGE 2	STAGE 3	TOTAL	STAGE 1	STAGE 2	STAGE 3	TOTAL
Amortised cost								
<b>Amount as at 01 July 2022</b>	<b>13,647,419</b>	<b>1,646,389</b>	<b>802,278</b>	<b>16,096,086</b>	<b>167,636</b>	<b>237,906</b>	<b>609,081</b>	<b>1,014,623</b>
Stage 2 to stage 1	468,531	(468,531)	-	-	14,767	(14,767)	-	-
Stage 3 to stage 1	13,949	-	(13,949)	-	4,244	-	(4,244)	-
Stage 3 to stage 2	-	2,284	(2,284)	-	-	2,111	(2,111)	-
Stage 1 to stage 2	(1,310,009)	1,310,009	-	-	(25,026)	25,026	-	-
Stage 1 to stage 3	(71,865)	-	71,865	-	(706)	-	706	-
Stage 2 to stage 3	-	(63,535)	63,535	-	-	(9,728)	9,728	-
<b>Opening balance after transfers</b>	<b>12,748,025</b>	<b>2,426,616</b>	<b>921,445</b>	<b>16,096,086</b>	<b>160,915</b>	<b>240,548</b>	<b>613,160</b>	<b>1,014,623</b>
<b>Net movement current year</b>	<b>1,398,716</b>	<b>(130,877)</b>	<b>120,199</b>	<b>1,388,038</b>	<b>94,197</b>	<b>(16,832)</b>	<b>76,258</b>	<b>153,623</b>
Attributable to change in measurement period	-	(69,002)	-	(69,002)	-	26,043	-	26,043
Attributable to change in risk parameters	-	-	-	-	54,057	(80,671)	17,489	(9,125)
Change due to new business net of attrition	1,398,716	(61,875)	120,199	1,457,040	40,140	37,796	58,769	136,705
Bad debts written off	-	-	(178,592)	(178,592)	-	-	(178,592)	(178,592)
Net interest released	-	-	-	-	-	-	41,202	41,202
<b>Amount as at 30 June 2023</b>	<b>14,146,741</b>	<b>2,295,739</b>	<b>863,052</b>	<b>17,305,532</b>	<b>255,112</b>	<b>223,716</b>	<b>552,028</b>	<b>1,030,856</b>

(P'000) (Audited)	GROSS ADVANCES				LOSS ALLOWANCE			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Amortised cost								
<b>Amount as at 01 July 2021</b>	<b>12,401,432</b>	<b>1,377,901</b>	<b>1,084,645</b>	<b>14,863,978</b>	<b>172,921</b>	<b>294,162</b>	<b>754,868</b>	<b>1,221,951</b>
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	-
<b>Opening balance after transfers</b>	<b>12,002,308</b>	<b>1,708,919</b>	<b>1,152,751</b>	<b>14,863,978</b>	<b>171,084</b>	<b>311,270</b>	<b>739,597</b>	<b>1,221,951</b>
<b>Net movement current year</b>	<b>1,645,111</b>	<b>(62,530)</b>	<b>13,502</b>	<b>1,596,083</b>	<b>(3,448)</b>	<b>(73,364)</b>	<b>186,046</b>	<b>109,234</b>
Attributable to change in measurement 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 released	-	-	-	-	-	-	47,413	47,413
<b>Amount as at 30 June 2022</b>	<b>13,647,419</b>	<b>1,646,389</b>	<b>802,278</b>	<b>16,096,086</b>	<b>167,636</b>	<b>237,906</b>	<b>609,081</b>	<b>1,014,623</b>

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

# AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

FOR THE YEAR ENDED 30 JUNE 2023



## 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 2023 ECL computation

The FLI component of ECL is a dual factor including GDP and monetary policy rate. As the FLI models did not sufficiently capture inflation, additional post-model adjustments were considered.

The economic scenarios applied are described as follows:

**Upside:** The government successfully rolls out its Transitional National Development 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. Stronger than expected global growth.

**Baseline:** The global economic backdrop continues to improve gradually. Global inflation slows across a range of measures, and thus allows central banks to begin signaling the end of their hiking cycles. Botswana's GDP growth continues to reflect recovery, primarily led by improved diamond mining activities as global demand for diamonds remained supportive. However, global diamond demand will abate over the course of the year which will act as a drag on Botswana's growth, leading to a 3.7% growth average for 2023. Botswana's Transitional National Development Plan (NDP), which is expected to run from 2023/24 to 2025/26, fast tracks outstanding infrastructure projects from NDP11 (which came to an end on 1 April 2023). This will support Botswana's construction industry as well as improve the local operating environment as the planned infrastructure comes onstream. Following a 12.1% average in 2022, Botswana's inflation is expected to moderate to an average of 4.9% in 2023 owing to lower local fuel prices as well as the suspension of rate increases from utilities providers. Botswana Energy Regulatory Authority continues to reject the Botswana Power Corporation's (BPC) application for tariff increase. The Botswana Housing Corporation suspended rental price increases for two consecutive years effective 1st April 2023, reducing pressure on local inflation. The extension of import restrictions on fresh produce will continue to exert upward pressure on local food prices, along with the reversion of VAT to 14% in April 2023 (from 12% implemented in August 2022) slowing the rate of disinflation locally.

**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 government fails to privatise and/or restructure loss making state-owned entities, causing further drag on the fiscus. 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.

### GDP

Scenario - 2023	FLIs: Applied in ECL Models			Scenario - 2022	FLIs: Applied in ECL Models		
	Upside	Baseline	Downside		Upside	Baseline	Downside
2023	7.50	4.50	1.00	2022	5.25	3.70	0.90
2024	7.90	4.40	1.20	2023	5.45	3.90	0.55
2025	8.00	4.30	1.20	2024	5.50	4.00	0.40
<b>Weighting</b>	<b>14%</b>	<b>65%</b>	<b>21%</b>	<b>Weighting</b>	<b>15%</b>	<b>66%</b>	<b>19%</b>

### Monetary Policy

Scenario - 2023	FLIs: Applied in ECL Models			Scenario - 2022	FLIs: Applied in ECL Models		
	Upside	Baseline	Downside		Upside	Baseline	Downside
2023	3.10	4.20	8.40	2022	3.70	2.70	3.70
2024	3.10	4.20	8.40	2023	3.10	3.20	8.40
2025	3.10	4.20	8.40	2024	3.10	3.20	8.40
<b>Weighting</b>	<b>14%</b>	<b>65%</b>	<b>21%</b>	<b>Weighting</b>	<b>15%</b>	<b>66%</b>	<b>19%</b>

# AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

FOR THE YEAR ENDED 30 JUNE 2023



## 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
<b>DERIVATIVE FINANCIAL INSTRUMENTS</b>					
<b>- Option contracts</b>	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
<b>- Swaps</b>	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
<b>- Forward contracts</b>	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

# AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

FOR THE YEAR ENDED 30 JUNE 2023



Instrument	Fair value hierarchy level	Valuation technique	Description of valuation technique and main assumptions	Observable inputs	Significant unobservable inputs of Level 3 items
<b>LOANS AND ADVANCES TO CUSTOMERS</b>					
- 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.
<b>INVESTMENT SECURITIES AND OTHER INVESTMENTS</b>					
- 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., Level 1). 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
<b>INVESTMENT SECURITIES AND OTHER INVESTMENTS</b>					
- 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
<b>DEPOSITS</b>					
- 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

# AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

FOR THE YEAR ENDED 30 JUNE 2023



## FAIR VALUE FINANCIAL INSTRUMENTS

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

2023	Level 1	Level 2	Level 3	Fair value	Amortised cost
Advances	-	-	16,242,831	16,242,831	16,274,676
Investment securities	5,695,630	-	-	5,695,630	5,944,902
Due from related parties	-	-	369,882	369,882	369,882
Other assets	-	-	6,804	6,804	6,804
<b>Total financial assets at amortised cost</b>	<b>5,695,630</b>	<b>-</b>	<b>16,619,517</b>	<b>22,315,147</b>	<b>22,596,264</b>
Deposits and current accounts	-	23,405,219	-	23,405,219	23,333,051
Long-term borrowings	-	981,908	-	981,908	968,241
Due to related parties	-	-	72,460	72,460	72,460
Accrued interest payable	-	40,922	-	40,922	40,922
Creditors and accruals	-	781,428	-	781,428	781,428
<b>Total financial liabilities at amortised cost</b>	<b>-</b>	<b>25,209,477</b>	<b>72,460</b>	<b>25,281,937</b>	<b>25,196,102</b>

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
<b>Total financial assets at amortised cost</b>	<b>5,135,504</b>	<b>-</b>	<b>15,554,770</b>	<b>20,690,274</b>	<b>20,728,742</b>
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
<b>Total financial liabilities at amortised cost</b>	<b>-</b>	<b>23,250,445</b>	<b>24,775</b>	<b>23,275,220</b>	<b>23,133,644</b>

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

2023	Level 1	Level 2	Level 3	Total
<b>Mandatory fair value through profit and loss (P'000)</b>				
- Investments securities	-	28,046	-	28,046
- Derivative financial instruments	-	36,897	-	36,897
<b>Non-financial assets</b>				
<b>Total assets</b>	<b>-</b>	<b>64,943</b>	<b>-</b>	<b>64,943</b>
<b>Financial liabilities held for trading</b>				
- Derivative financial instruments	-	25,623	-	25,623
<b>Mandatory at fair value through profit or loss</b>				
- Zero coupon deposit	-	132,646	-	132,646
<b>Total liabilities</b>	<b>-</b>	<b>158,269</b>	<b>-</b>	<b>158,269</b>

2022	Level 1	Level 2	Level 3	Total
<b>Mandatory fair value through profit and loss (P'000)</b>				
- Investments securities	-	42,585	-	42,585
- Derivative financial instruments	-	41,114	-	41,114
<b>Non-financial assets</b>				
<b>Total assets</b>	<b>-</b>	<b>83,699</b>	<b>-</b>	<b>83,699</b>
<b>Financial liabilities held for trading</b>				
- Derivative financial instruments	-	28,632	-	28,632
<b>Mandatory at fair value through profit or loss</b>				
- Zero coupon deposit	-	174,467	-	174,467
<b>Total liabilities</b>	<b>-</b>	<b>203,099</b>	<b>-</b>	<b>203,099</b>

# AUDITED SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS AND DIVIDEND ANNOUNCEMENT

FOR THE YEAR ENDED 30 JUNE 2023



## Related parties

The following are the related parties of the bank:

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

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## **DIRECTORS**

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

## **MARKETING AND COMMUNICATIONS**

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Log onto <http://www.fnbbotswana.co.bw> to access our latest and historic financial reports