# FNB Botswana
## Integrated Report
## 2020

FNB

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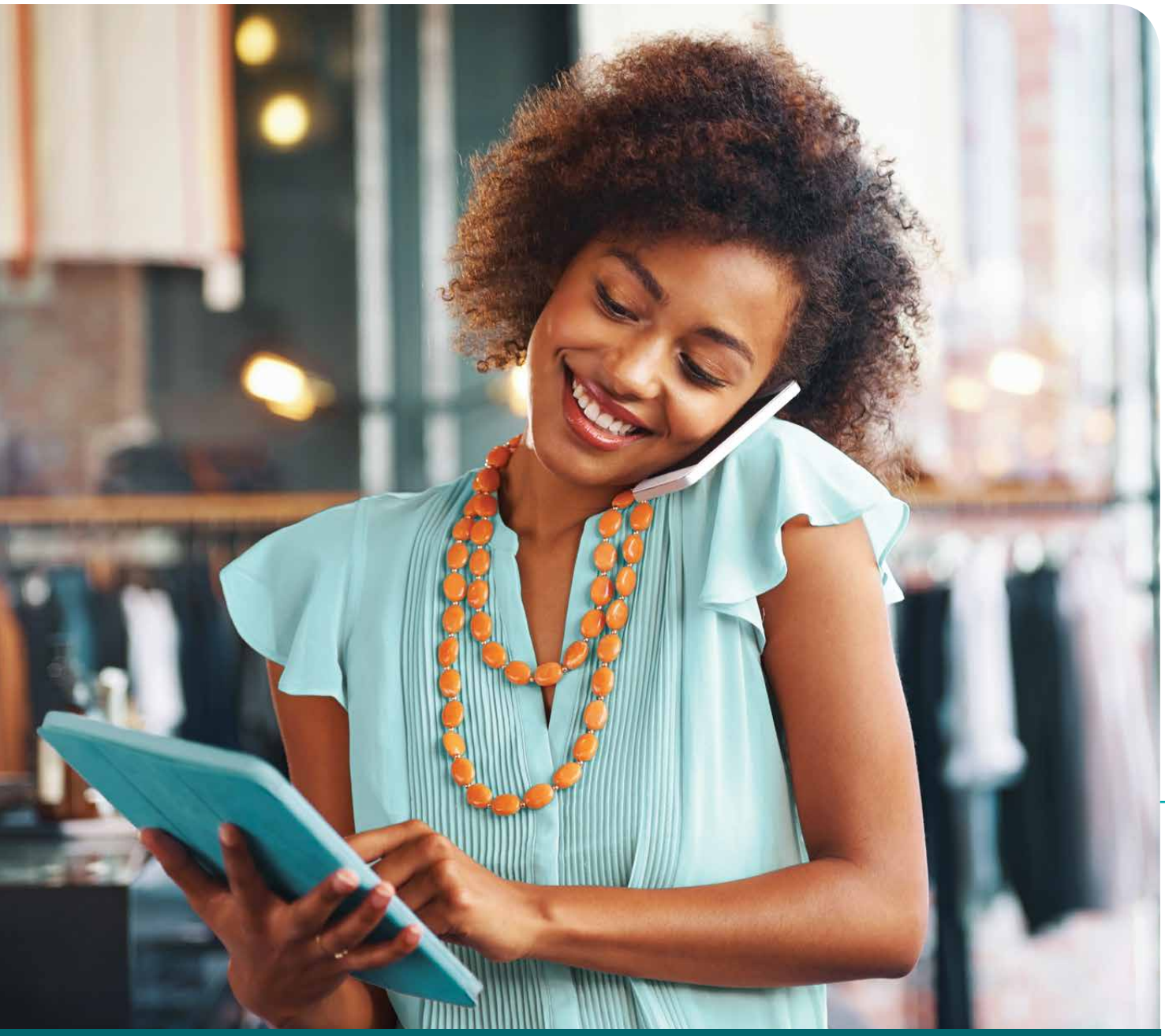
## Key terminology

| | |
|---|---|
| AC | Audit Committee |
| AML-CFT | Anti-Money Laundering and combating the financing of terrorism |
| BAOA | Botswana Accountancy Oversight Authority |
| BCBS239 | Basel Committee on Banking Supervision – Regulation 239 |
| BCM | Business Continuity Management |
| BCP | Business Continuity Plan |
| BCRC | Board Credit Risk Committee |
| BFA | Botswana Football Association |
| BIA | Business Impact Analysis |
| BIRA | Business Impact Risk Assessment |
| BOTESSA | Botswana Tertiary Student Sports Association |
| BPRMF | Business Performance and Risk Management Framework |
| BSE | Botswana Stock Exchange |
| BSE Listings Requirements/ listing requirements | BSE Equity Listings Requirements, version 3.2, NBFIRA-approved, effective date 1 January 2019 |
| BURS | Botswana Unified Revenue Service |
| CAF | Combined Assurance Forum |
| CAGR | Compound annual growth rate |
| CEO | Chief Executive Officer |
| CLR | Credit loss ratio |
| Companies Act | Botswana Companies Act of 2007 as amended Cap 42:02 |
| CPF | Commercial property finance |
| CSI | Corporate social investment |
| CTI | Cost-to-income |
| CVM | Customer Value Management |
| DAGC | Directors' Affairs and Governance Committee |
| EAP | Employee Assistance Programme |
| ECL | Expected credit loss |
| ECSI | External Customer Satisfaction Index |
| eGRC | Electronic group risk and compliance |
| ESG | Environmental, Social and Governance |
| EVP | Employee Value Propositions |
| FATF | Financial Action Task Force |
| FNBB/FNB Botswana/the Bank | First National Bank of Botswana Limited |
| FNBIB | FNB Insurance Brokerage (Pty) Ltd |
| FNIA | First National Insurance Agency (Pty) Ltd |
| Foundation | FNBB Foundation |
| GES | Group Engagement Survey |
| GIA | Group Internal Audit |
| Group | FirstRand |
| HR | Human resources |
| HQLA | High-quality liquid assets |
| ICAAP | Internal capital adequacy assessment process |
| ICT | Information communication technology |
| IFRS | International Financial Reporting Standards |
| IIRC | International Integrated Reporting Council |
| IMF | International Monetary Fund |
| IR | Integrated Report |
| IT | Information technology |
| King IV | King Report on Corporate Governance™ for South Africa, 2016* |
| KPIs | Key performance indicators |
| KRIs | Key risk indicators |
| KYC | Know your customer |
| LCR | Liquidity coverage ratio |
| MYSC | Ministry of Youth Empowerment, Sport and Culture |
| NII | Net interest income |
| NIR | Non-interest revenue |
| NPLs | Non-performing loans |
| PAT | Profit after tax |
| POPIA | Protection of Personal Information Act |
| POS | Point-of-sale |
| PPE | Personal Protective Equipment |
| PRCIA | Process Risk Control Identification and Assessment |
| RCCC | Risk, Capital Management and Compliance Committee |
| RDARR | Risk Data Aggregation and Risk Reporting |
| REMCO | Remuneration Committee |
| RMB | Rand Merchant Bank |
| ROE | Return on equity |
| SADC | Southern African Development Community |
| SARB | The South African Reserve Bank |
| SLAs | Service Level Agreements |
| SMME | Small, Medium and Micro-enterprise |
| SSA | Sub-Saharan Africa |
| STIP | Short Term Incentive Package |
| TGP | Total Gross Package |
| the/this report | Integrated Report 2020 |
| the/this year | 1 July 2019 to 30 June 2020 (2020) |
| y/y | Year-on-year |

FNB



# Welcome to the 2020 Integrated Report

## Audience and purpose

This report demonstrates how our dedication to customer centricity, innovation and service excellence, and our commitment to the highest standards of corporate governance and capital management enrich our customers' banking experience. As a commercially successful organisation, a sound investment and an exemplary corporate citizen, FNB Botswana (FNBB) will continue to grow in stature as the country's leading bank.

The report informs our customers, shareholders and other stakeholders how the Bank's strategy, governance, performance and prospects lead to the creation of shared value over the short, medium and long term.

## Share your views

The question "How can we help you?" represents the essence of why we exist. We will continue to innovate, excel, and deliver on our promise by offering our customers solutions to their unique needs.

FNBB has adopted an integrated approach to reporting, in accordance with the King Report on Corporate Governance™ for South Africa, 2016 (King IV), and this is our **First** Integrated Report. Please share your feedback and opinions on our report by emailing *fnbbcommunications@fnbbotswana.co.bw.*

## Scope and boundary

Our 2020 Integrated Report covers the financial year 1 July 2019 to 30 June 2020 (2020) and all material risks and opportunities identified within our value chain.

## Frameworks, assurance and reporting suite

Our report is based on the International Integrated Reporting Council's (IIRC) Integrated Reporting (<IR>) Framework. The contents of this report include extracts of financial information based on International Financial Reporting Standards (IFRS) and non-financial information reviewed by management. The Annual Financial Statements published in the report are prepared in accordance with IFRS and in compliance with the Botswana Companies Act of 2007 as amended Cap 42:02, the Non-Banking Financial Institutions Regulatory Authority Act (Cap 46:08), and the Banking Act (Cap 46:04).

## Forward-looking statements

This report contains certain forward-looking statements about the Bank's anticipated performance, results, operations and prospects. Although these statements represent our future expectations and judgements, the opinions are subject to known and unknown risks and uncertainties that could adversely impact our business and financial performance. Undue reliance should not be placed on such opinions, forecasts or data. Forward-looking statements apply to the date on which they are made. The Bank does not undertake any obligation to publicly update or revise any of its opinions or forward-looking statements, whether to reflect new data, future events or circumstances. The financial information on which the forward-looking statements are based has not been audited or reported on by FNBB's independent external auditors.

## Approval of the Integrated Report

The Board is responsible for ensuring the integrity and completeness of this report. With the support of the Audit Committee, the Board collectively assessed the report's content and believes that it provides a fair and balanced representation of the Bank's performance and prospects in accordance with the <IR> Framework. The Board approved the report on 16 September 2020.

**Balisi Mohumi Bonyongo**
*Chairperson*

**Steven Lefentse Bogatsu**
*Chief Executive Officer (CEO)*


In line with Botswana Stock Exchange (BSE) guidelines on Environmental, Social and Governance (ESG) Reporting, the Bank published a report to society on ESG matters in December 2019. Download a copy here:

*https://www.fnbbotswana.co.bw/downloads/fnbBotswana/annual/FNBB_Report_to_Society_2019.pdf*

As the Bank embarks on its integrated reporting journey, future ESG information will be presented in its annual Integrated Report.

FNB

Our purpose is to be a trusted partner committed to building a SHARED FUTURE of prosperity.

# Introduction to FNB Botswana

# About FNB Botswana

**Vision**

We are the world-class financial solutionist of choice, consistently delivering unmatched customer experience.

**Mission**

Our empowered people provide vibrant spaces and use cutting-edge platforms to create sustainable shared value for all.

## Our performance

FNBB's leading position in innovative customer solutions, digital banking, risk management and corporate social responsibility continues to underpin our customer-centric strategy.

**29%**
balance sheet market share

**69**
ATMs with Deposit

**+550k**
customers across Botswana

**P57 million**
invested in communities

**15t**
dividend per share

**169**
ATMs

**1 513**
employees

**P6 million**
invested in employee training

**20.1%**
return on equity

**144**
Cash Plus agents

**24**
branches

**75%**
employee engagement

**49.3**
cost to income ratio

**245**
Cash@Till points

**87.4%**
customers use digital channels

**P1.5 million**
Committed to first COVID-19 relief programme for creative artists

**2**
Premium suites

## FNBB Values

*Our parent company, FirstRand, relaunched its philosophy in 2019. The FirstRand philosophy guides how the Group's people need to behave to deliver the best results for customers, society, shareholders and each other. This philosophy is captured in a set of promises.*

FirstRand

# PROMISES

1


FirstRand is known for ***delivering on its promises.*** It's a reputation that stems from our unique philosophy of owner-management.

This philosophy was created by our founders, entrepreneurs who understood the value of treating their employees like owners so that every employee, regardless of their position, is fully empowered to make a real contribution to the group's success. With empowerment comes ***commitment and accountability*** and this has been the cornerstone to our sustained outperformance.

Our philosophy guides how our people behave to ***deliver the best results*** for our customers, society, shareholders and each other.

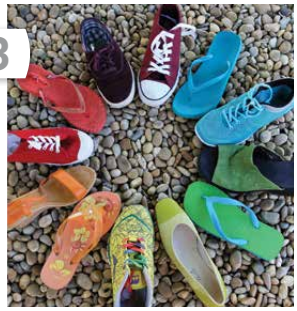
2

*be*
**deeply invested.**

***Care for the business as if it were your own.***

Take initiative and be a leader in your own right. Put your time, passion and energy into serving our customers' needs, knowing that you are empowered, entrusted and accountable.

3



value our
**differences.**

Continue to build an ***environment that values differences,*** an environment where everyone's views and contributions can be heard and seen. Stay focused on the talent and ability of those around you, and not only their similarity to you. Be ***inclusive, gracious, decent and humble.*** Listen, reflect and only then respond.

4


build **trust,**
not territory.

**Create a culture of sharing.** Work together and build trust into all your relationships. We are team players who act for the long-term interests of the group, not self-interest or the short term. Everyone is encouraged to contribute outside their area of expertise, so we can **unlock our collective wisdom** and achieve the very best results.

5

**have**
**COURAGE.**

***Nothing limits our imagination like fear.***

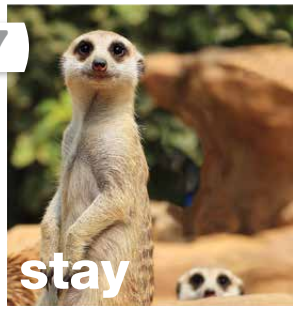
We've built a **culture of bravery** by speaking our minds and encouraging others to do the same. We enable bravery with a tolerance for failure, resilience, the courage to speak up and express and share opinions, and a spirit that is adventurous and ambitious.

6


***Question*** **behaviours that are inconsistent with our beliefs.**

Fight for ***ethical conduct*** and ***transparency,*** both inside and outside FirstRand. Champion honourable behaviour and excellent service and treat your customers, colleagues and partners fairly, to build value for our communities and shareholders.

7




**curious.**

***Think differently.***

Believe in insight, creativity and its power to unlock value. Encourage curiosity, avoid intellectual laziness and make an effort to question the status quo, even when it is uncomfortable.

## Our business activities

FNB

**FNBB** previously operated with four customer segments being Retail, Commercial, RMB and WesBank. Following an alignment to its customer centric strategy, FNBB incorporated the WesBank product offering into the three remaining segments (Retail, Commercial and RMB) and dissolved the WesBank segment during the second half of the financial year.

**Retail Banking,** a segment of FNBB, provides the full range of investment; transactional banking; saving; borrowing; vehicle and asset finance (WesBank); insurance financial services and solutions to individual customers – Consumer (Youth, Smart and Gold) and Premium (Premier and Private Clients).

- Providing solutions to dynamic and ever-evolving customer needs
- Diversifying customers' offshore investment portfolios
- Serving the everyday needs of Batswana, enabling them to transfer money across the country

**Commercial Banking** provides a full range of financial services, including vehicle and asset finance (WesBank), through a customer segmentation strategy that improves turnaround times by optimising process efficiency.

The segment comprises Upper Commercial, Lower Commercial, SMME and Public Sector customer segments. Further, it hosts the Agriculture and Tourism, Commercial Property Finance, WesBank and Islamic Banking product houses.

**RMB –** As FNBB's **Corporate and Investment Banking** segment, Rand Merchant Bank (RMB) offers customers access to a comprehensive suite of investment banking products and services, including:

- Advisory
- Corporate finance
- Trade solutions
- Infrastructure and project finance
- Structured trade and commodity finance
- Fixed income
- Currency and commodity services
- Investment opportunities

Largest company on the Botswana Stock Exchange by capitalisation

Balance sheet of P30 billion in total assets

Gross advances book at P16 billion

FNBB established the FNBB Foundation in 2001 to implement the Bank's corporate social responsibility policy and has to date committed P57 million to uplifting the lives of many less privileged members of our society. We published our first comprehensive Report to Society in December 2019, demonstrating how we live our brand promise of supporting the society within which we operate to create a better world.

FNB

## Our milestones

**1991**
- FNBB registered in Botswana as a subsidiary of the FirstRand Group

**1993**
- Listed on the Botswana Stock Exchange

**2001**
- First bank to introduce a charitable foundation in Botswana – FNBB Foundation

**2004**
- Launched Online Banking

**2010**
- Introduced eWallet, a cardless money transfer service that allows customers to send money instantly to anyone in Botswana with an active mobile number

**2013**
- Launched the FNB Banking App (FNB App)
- Launched *174# Mobile Transact to purchase prepaid electricity and make real-time payments to Multichoice
- Rebranded the Corporate and Investment Banking segment to RMB

**2015**
- Was first to launch ATM deposit-taking machines (ATMs with Deposit)

**2016**
- Launched eWallet Bulk Send for business account holders to pay single or multiple eWallet/s at once through Online Banking Enterprise Platform

**2017**
- Introduced Mogwebi Business Insurance, underwritten by Old Mutual

**2018**
- Introduced Bank on Wheels (mobile branch), giving banking access to remote areas
- Launched Cashback Rewards where customers get cash paid monthly into their digital Savings Pocket account
- Unveiled a P3 million sponsorship with BOTESSA and BFA respectively to support grassroots sports development for three years

**2019**
- Launched Cash Plus for customers to make banking transactions at retail stores and supermarkets
- Published the Bank's first Report to Society
- Partnered with MYSC for disbursement of the Youth Grant and the Youth in Business Value Proposition bundle that includes transactional, investment, insurance and lending products
- Partnered with Water Utilities Corporation to create the *186# portal for bill enquiries, payments and other services
- Introduced free Wi-Fi for customers at all branches and Head Office
- Partnered with Botswana Power Corporation for the sale of electricity as a 'super-vendor'

**2020**
- Launched customer-initiated eWallet reversal
- Launched a COVID-19 relief programme for customers, the community and creative artists

## Awards achieved

**2010**

- Named 'Best Bank in Botswana' Award by *Euromoney* Awards for Excellence

**2013**

- Received Leader Award for the 'Top Acquirer in Sub Saharan Africa' at the 2013 Visa Security Summit
- RMB awarded the 'Best Local Trade Finance Bank in Botswana' by *Global Trade Review*

**2014**

- Named 'Most Innovative Bank in Botswana' by *Global Banking & Finance Review*

**2015**

- Received the 'Diamond Arrow Award' in the Business Banking Sector
- RMB awarded the 'Best Trade Finance Bank in Botswana' by *Global Trade Review*

**2016**

- Awarded 'Best Foreign Exchange provider in Botswana' by *Global Finance*
- Named the 2016 'Best Commercial Bank in Botswana' by *International Finance Magazine*

**2017**

- Named 'Best Bank in Botswana' by *Euromoney* Awards for Excellence
- Awarded 'Best Foreign Exchange Provider in Botswana' by *Global Finance*

**2018**

- Named 'Best Bank in Botswana' by *Euromoney* Awards for Excellence
- Awarded 'Best Foreign Exchange Provider' in Botswana by *Global Finance*

**2019**

- Named 'Best Bank in Botswana' by *Euromoney* Awards for Excellence
- RMB awarded the 'Best Trade Finance Bank in Botswana' by *Global Trade Review*
- Awarded 'Best Foreign Exchange Provider in Botswana' by *Global Finance*
- RMB Custody received the 'Best Custody Award' in the 2019 Alexander Forbes survey
- Awarded Global Service Quality Award by Visa
- Awarded 'Most Innovative Commercial Bank Botswana' by *Global Banking & Finance Review*

FNB

# Operating context

## Our Bank's external environment directly impacts our ability to create and sustain value. By understanding the challenges and opportunities in our operating environment, we can respond to them with our disciplined risk and opportunity management process.

The Board regularly reviews internally generated macroeconomic factor reports which focus on a time horizon between one and three years.

| Core scenario | Dec '19 | **Jun '20** | Dec '20 | Jun '21 | Dec '21 | Jun '22 | Dec '22 | Jun '23 | Dec '23 |
|---|---|---|---|---|---|---|---|---|---|
| GDP growth, y/y | 3.0 | **-5.6** | -10.5 | -2.1 | 4.5 | 3.3 | 3.4 | 3.5 | 3.7 |
| Dollar/Pula (12-month average) | 10.77 | **11.20** | 11.51 | 11.22 | 11.15 | 11.25 | 11.34 | 11.44 | 11.53 |
| Pula/Rand (12-month average) | 1.34 | **1.41** | 1.43 | 1.40 | 1.39 | 1.42 | 1.44 | 1.46 | 1.49 |
| Inflation (12-month average) | 2.81 | **2.00** | 1.90 | 2.20 | 2.60 | 3.10 | 3.15 | 3.20 | 3.20 |
| Monetary policy rate (period-end) | 4.75 | **3.75** | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 | 3.50 |

### Global economy

#### Context

- The COVID-19 pandemic is inflicting high and rising human costs worldwide, and the necessary protection measures are severely impacting economic activity. As a result of the pandemic, the IMF projects that global economy will contract by 4.9% in 2020 (2.9% in 2019) and recover to 5.4% in 2021. A premise for this gradual recovery is the ongoing and well-coordinated fiscal and monetary policy support, which is expected to underpin further stabilisation in financial conditions. However, primary risk to global growth is tilted to the downside.
- While some economies are reopening gradually, others are tightening social distancing and lockdown regulations to stem the risk of a 'second wave' of the pandemic. Although these developments are unlikely to prevent the economic upswing from taking place, they will limit the extent of the recovery. They will exacerbate the disinflationary trend, which is expected to subside in 2021 – with the developed markets' inflation expected to remain below target for some time despite the higher food inflation.
- A vast number of economies have been forced to lift their debt levels to combat the virus and must now proceed with the hard work of stabilising economic growth and fiscal indebtedness. This environment remains supportive of safe-haven assets, which should continue to support the US Dollar in the near term, although this support is expected to fade further as the global recovery matures.

## Regional economy

### Context

- The outbreak of COVID-19 has had a severe impact on global supply chains, leaving commodity-dependent countries heavily exposed to a downturn in economic growth. According to the IMF, the Sub-Saharan Africa (SSA) growth is expected to contract by 3.2% in 2020 (3.1% in 2019), before gradual rebound to 3.4% in 2021.
- The downside risks to the region's growth will mostly stem from a weak external environment, which is linked to a fragile global economy, and the COVID-19 impact on the high public and corporate debt levels, which will continue to affect several economies in the region. The high debt levels could result in some sovereign defaults in markets like Zambia and further credit downgrades in others. Across the region, we anticipate the tourism, mining and oil, aviation and trade sectors to be hardest hit as most economies are anticipated to register negative growth.
- We anticipate macroeconomic pressures with currency transferability and convertibility risk to rise sharply over 2020, due to the collapse in commodity prices, especially oil, together with the impact of COVID-19 on global markets and on Nigeria, the largest economy in SSA. Consequently, we expect the Nigerian economy to enter a deep recession in 2020 that will last through to first half of 2022. In South Africa, the second largest economy in SSA, the extremely weak domestic demand and income growth is magnified by the COVID-19 crisis and the limited fiscal space to support the economy. This demand weakness continues to depress core inflation, which in turn has forced the South African Reserve Bank (SARB) to provide significant monetary policy support to the economy.
- The gradual growth recovery anticipated for SSA in 2021 is subject to the continued gradual easing of restrictions that started in the latter part of 2020 and, importantly, to the region avoiding the same epidemic dynamics that have played out elsewhere. Africa's authorities have acted swiftly to support the economy, but these efforts have been constrained by falling revenues and limited fiscal space. Regional policies should remain focused on safeguarding public health, supporting people and businesses hardest hit by the crisis, and facilitating recovery.

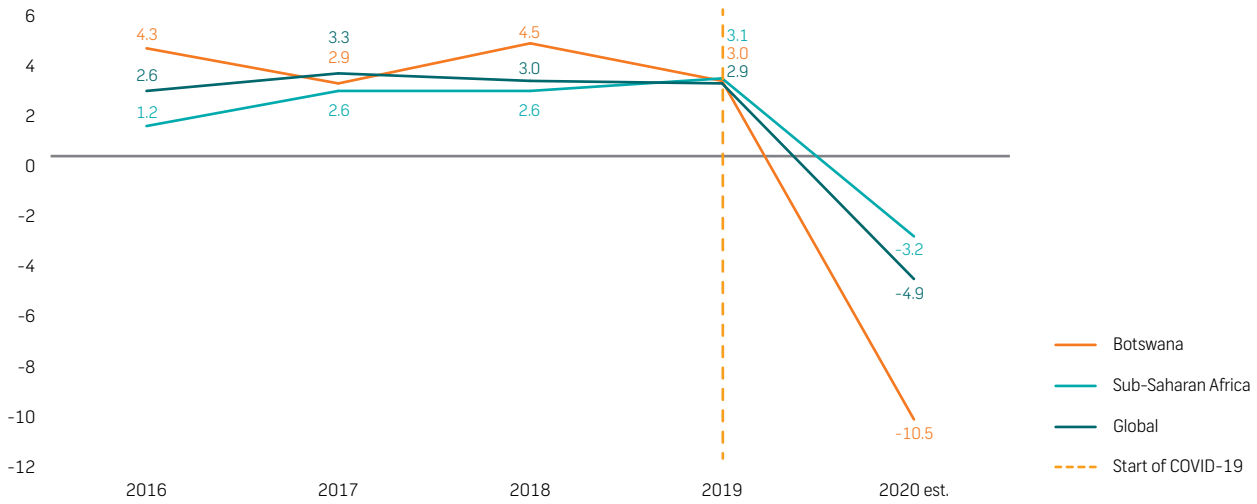
## Botswana economy

### Context

- While the 28-day lockdown instituted in April to contain the spread of COVID-19 was lifted, we anticipate that the disruptions to business and consumer activity associated with the COVID-19 pandemic will result in an economic contraction of 10.5% y/y in 2020 (3.0% growth in 2019), before rebounding to 4.5% in 2021 with structural recovery.
- Notably, the impact of COVID-19 on the global economy has already weighed on demand for diamonds, leading to a moderation of both diamond prices and local production, a trend expected to persist until the virus is contained and demand for the commodity lifts. Other sectors with close ties to tourism will continue to be severely affected, with travel bans already limiting anticipated growth within the local hospitality and aviation industry.
- To mitigate the impact of COVID-19 on the economy, Government has drafted an economic recovery and transformation plan at an estimated cost of P20 billion (10% of GDP) over two and a half years, while the expected budget deficit over the same period is around P20 billion. As a result of these two factors, approximately P40 billion must be funded over the next two and a half years, which coincides with the remaining period of NDP 11.
- The proposed package will undoubtedly increase fiscal pressure (presenting a budget deficit of around 10% – 12%). However, unlike most of its peers in the region, Botswana has several funding options available. They include sizeable foreign exchange reserves; capacity to increase its public debt; a captive domestic capital market; and options for foreign currency debt from different Development Finance Institutions, as the sovereign remains the highest-rated sovereign in Sub-Saharan Africa, despite the recent downgrades by Standard and Poor. We reiterate that a successful transformation of the economy will be reliant on implementation of the development agenda and improved efficiencies in project management by Government.
- Given the dip in economic growth and broad-based decline in business and consumer activity, we expect headline inflation to average 1.9% in 2020, further supported by low Brent crude oil prices. The recessionary growth pattern that we anticipate in 2020, coupled with stubbornly low inflation dynamics and subdued demand and output prospects, all point to our fundamental view that the bank rate will trend lower in the short to medium term. We maintain our view that the bank rate will trend lower to 3.75% in 2020 (currently at 4.25%), thus the timing for the cut remains uncertain.
- The Pula is pegged 45% to the Rand and 55% to the IMF Special Drawing Rate and at the April Monetary Policy Committee, Bank of Botswana Governor Moses Pelaelo indicated that the crawl had been adjusted further to a downward crawl of 2.87% per annum effective May 2020 from a downward crawl of 1.51% per annum, which was announced in January 2020. In our view, this adjustment to the crawl makes little difference to the Pula outlook, nor does it affect our view on the bank rate. The Pula will be 3.17% weaker at the end of 2020 (from 1.81% weaker, which we estimated at the crawl adjustment in January) than it would otherwise have been, a difference that can be seen in a single day's trading for volatile and free-floating currencies in the Pula peg, such as the Rand.

*Chairperson's review and CEO's review*

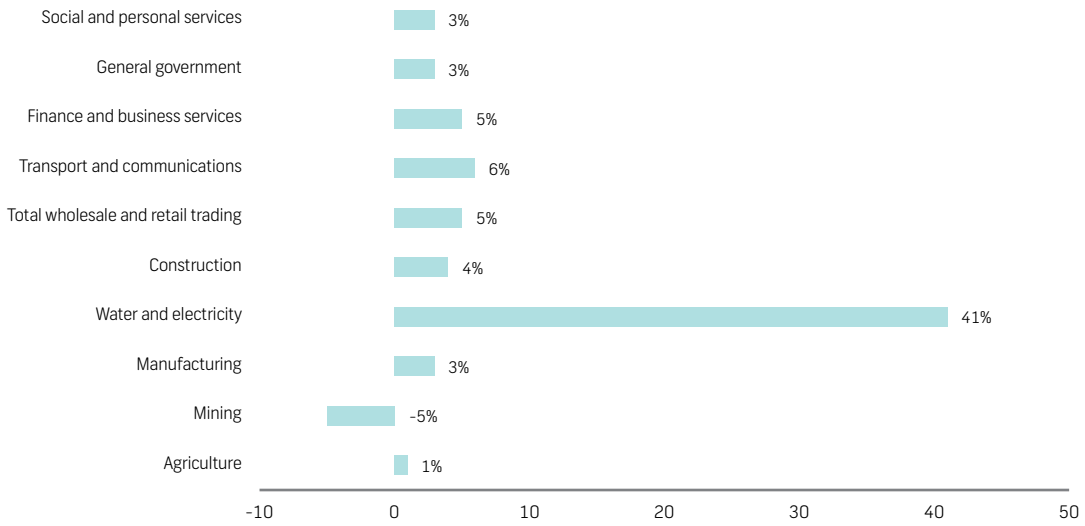
*GDP growth (%)*




*Source: IMF, Global Economic Prospects, 2020; Statistics Botswana; FNB Botswana*

Economic prospects could improve in the longer term if plans are successfully implemented to diversify beyond diamonds, grow the domestic market, promote business reforms and public-private partnerships, improve infrastructure gaps, and develop special economic zone growth models. Traditionally the Botswana GDP growth per sector is as follows:

*Botswana GDP by sector CAGR (2015-2019)*



## Our response to risk and opportunity in our operating environment

### COVID-19

FNBB implemented precautions to ensure that employees, customers, vendors and other stakeholders are protected from the spread of the virus. After the pandemic was confirmed within the SADC region, the Bank invoked its Pandemic Response Plan together with the Crisis Communication Plan and implemented its response plan including the following interventions:

- Established a COVID-19 Response Team to monitor escalation of the virus and continue to review our plan daily to assess organisational preparedness and implement the various response tactics
- Implemented a communication plan targeting different stakeholder groups to create awareness of the pandemic, apprise stakeholders of our interventions and encourage customers to use alternative digital service platforms
- Through the Pandemic Response Plan, allocated teams to the Bank's main sites and the disaster recovery sites, while some teams work from home
- Implemented IT readiness plan to enable remote working and increase customer service through digital platforms

To enhance hygiene protocols, the Bank:

- Provided hand sanitisers at all branches, offices and most ATMs
- Intensified disinfection protocol for all ATMs
- Implemented a one-metre distancing rule for ATM and branch queues
- Increased the frequency and intensity of cleaning the Bank's premises, including deep cleaning where relevant
- Procured protective wear for all frontline and sales teams to enhance protection

During the phased relaxation of the COVID-19 lockdown, the Bank:

- Maintained and increased hygiene, protective wear and social distancing protocols at all of its premises, including ATMs
- Introduced temperature screening for employees and customers and electronic registration of visitor data
- Implemented a staggered return-to-work process, with 50% of employees continuing to work from home
- Recruited a Safety and Health (SHE) Officer from 1 June 2020 to support the Bank's COVID-19 response

### COVID-19 Relief

To offer support to our stakeholders whose circumstances worsened due to COVID-19, the Bank provided:

- Cash flow and transactional relief to eligible customers (retail and SMMEs)
- Financial support to the Government of Botswana
- Community interventions through the FNBB Foundation
- Strategic partnerships to support specific interventions

To help the business minimise the impact of COVID-19 on our financial performance, we:

- Relieved distressed business customers by providing loan moratoriums or restructuring loans during the lockdown
- Continue to extend credit prudently to existing customers who are unable to meet short-term financial obligations
- Accelerated our customer-centric strategy across our Retail, Commercial and RMB platforms to retain our valuable existing customers and attract new customers
- Continue to promote the shift to safe, efficient, cost-effective digital platforms
- Rationalised non-essential business activities without compromising customer service

*CEO's review*

# Business model

## RESOURCES AND INPUTS...

### FINANCIAL

- Net advances of **P14,687 billion**
- Deposits of **P23,172 billion**
- Shareholders' equity of **P3,598 billion**
- **17.42%** CAR

### MANUFACTURED

- **24** branches
- **169** ATMs
- **69** ATMs with Deposit
- **> 8 000 POS** devices
- **Bespoke** IT infrastructure
- **144** Cash Plus agents

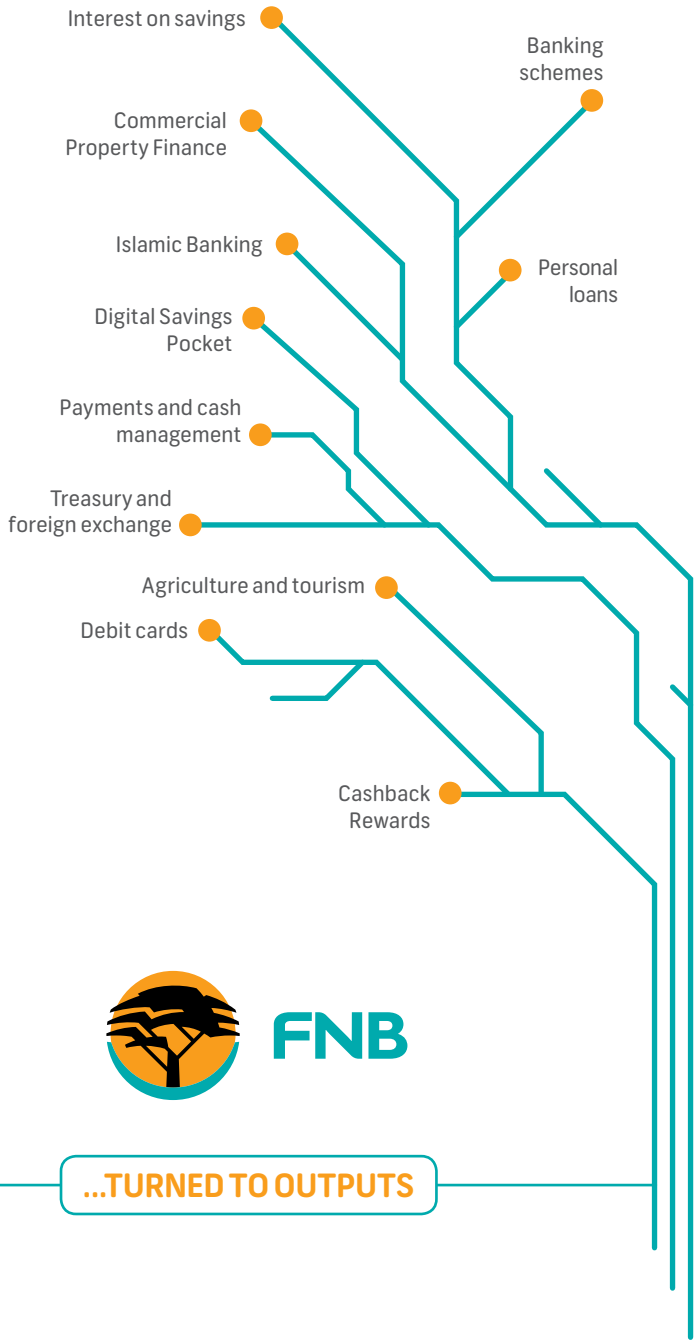
### HUMAN

- **1 513** employees
- **P414 million** wage bill
- **18 years** combined Board and management experience

## OUR ACTIVITIES...

- FNBB operates through a segmentation model, which puts customers at the centre of all we do.
- Following its business optimisation drive, FNBB dissolved the WesBank segment during the second half of the financial year. The WesBank offering was incorporated in to the three remaining segments being;
  - Retail
  - Commercial
  - RMB
- From 2021 onwards, reporting will be monitored only for the remaining segments.
- The Bank offers an array of products and services that cut across all segments but customised to suit each segment's needs and profile.

*Supporting these segments is the Channels division, which manages the banking platforms/channels. These include the branch network, alternative and self-service delivery channels (agency banking – Cash Plus, ATMs and ATMs with Deposit) and digital banking platforms (Online Banking, Cellphone Banking, eWallet, FNB App).*




## ...TURNED TO OUTPUTS

### INTELLECTUAL

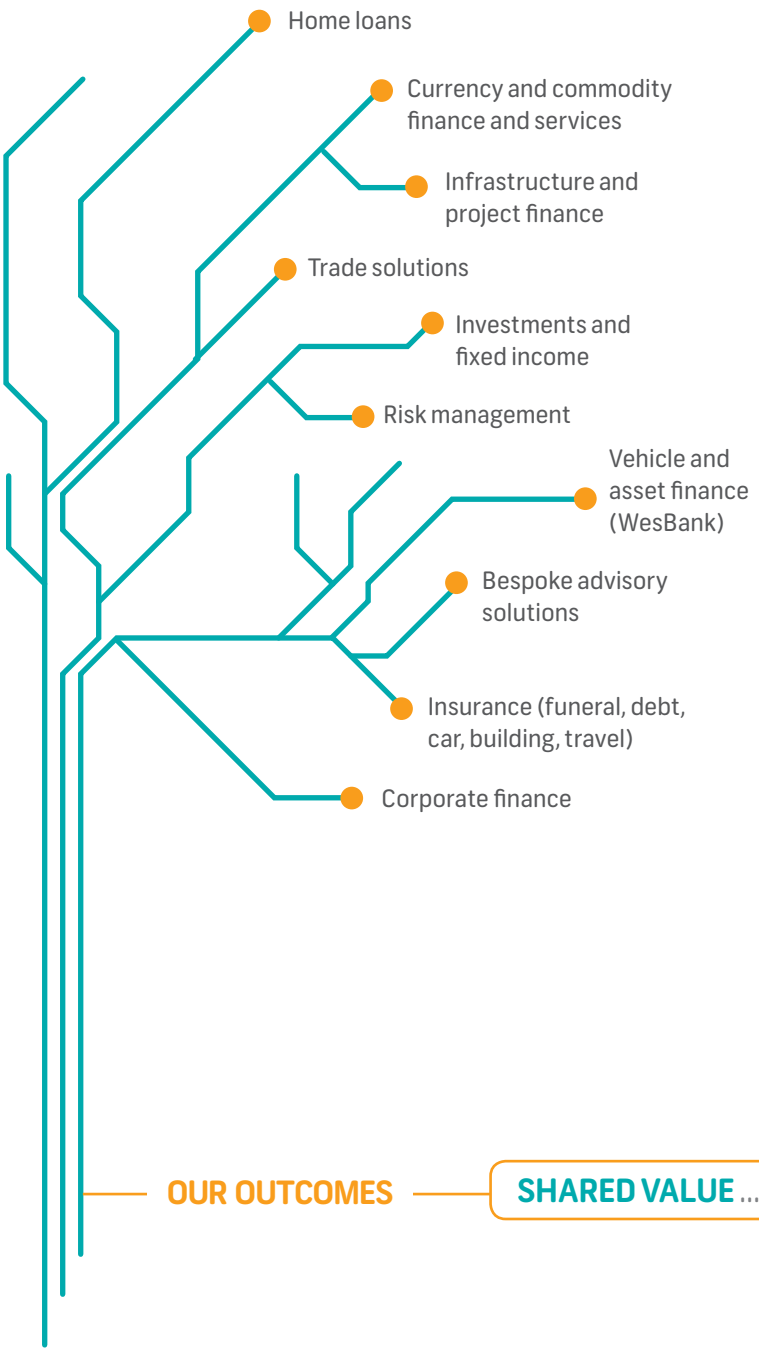
- Banking licence
- Strong internal control systems, and risk and compliance frameworks
- Awards: Best Trade Finance, Forex Provider, Best Custodian, Most Innovative Commercial Bank in Botswana, Best Bank in Botswana by *Euromoney* Awards for Excellence

### RELATIONAL

- **579 765** customers
- ECSI score (2019: 79%; 2020: ECSI postponed due to COVID-19)
- **P57 million** in CSI spend

### NATURAL

- Responsible lending principles aligned to the FNBB's Environmental and Social Risk Assessment Policy




## HOW IT WORKS

Income after credit impairments less Expenses less Taxes = Profit after tax less 1% FNBB Foundation contribution less dividends to shareholders = Equity for growing and sustaining FNBB

- *Excellent service to customers*
- *Relevant, cost-effective banking products*
- *Economic progress for our customers*
- *Employee recognition and reward*
- *Career progression*
- *Job opportunities*
- *Economic development for Botswana*
- *Socioeconomic development*
- *Responsible citizenship*
- *Return on investment*
- *Share price growth*
- *Stable financial sector*
- *Regulatory compliance*

**OUR OUTCOMES**

**SHARED VALUE** ...within the FirstRand Group

# Our stakeholders

The Bank engages with the following stakeholder groups.

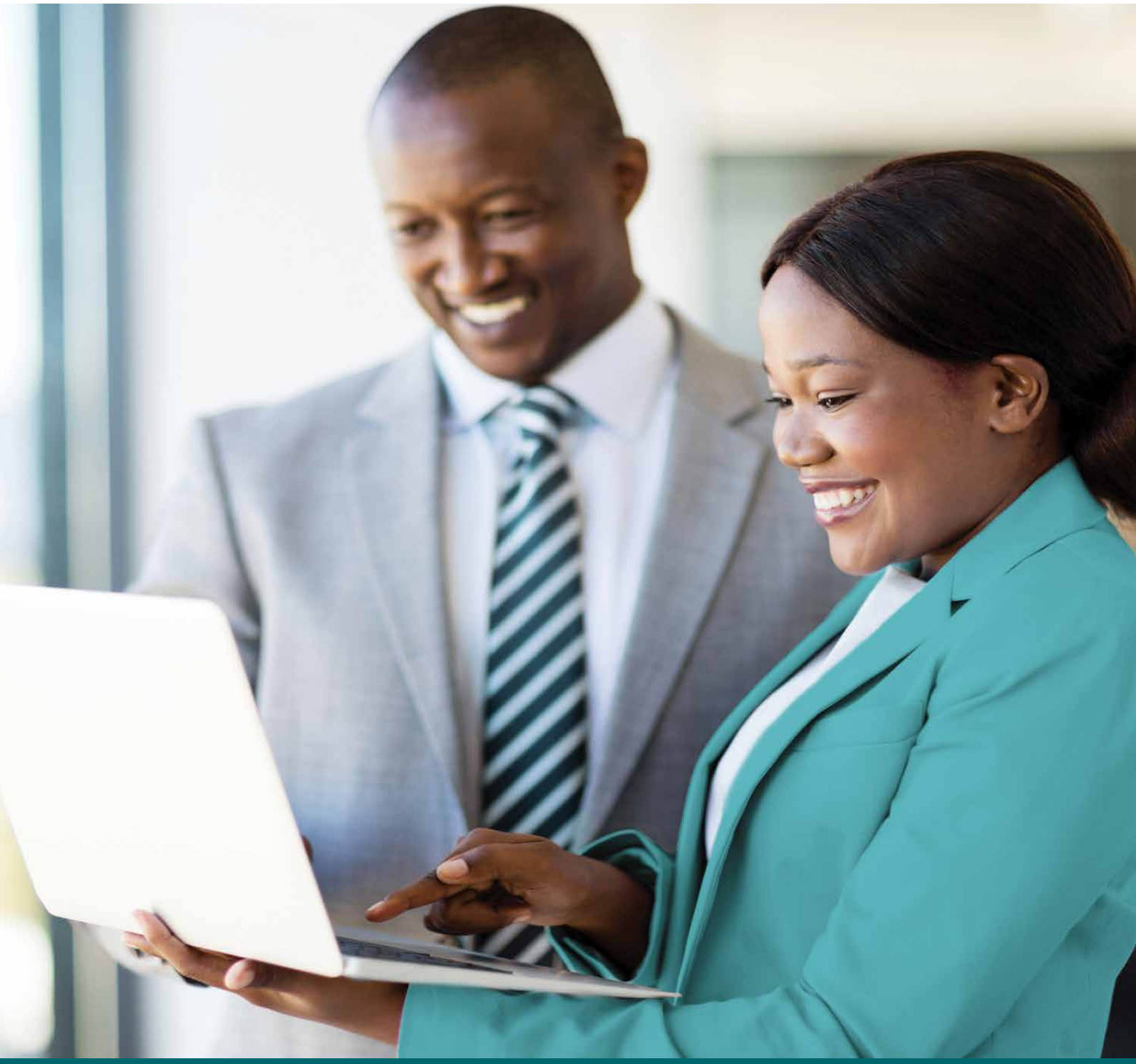
| Stakeholder | Expectations, needs and concerns | Engagement |
|---|---|---|
| **Customers** | Customers need consistent, convenient, accessible and cost-effective banking with quick turnaround times. They expect reliable product or service propositions they can trust (i.e., what was sold to them will work in the way FNBB explained it). Value for money products and services are essential to customers and they expect solutions to address their needs (relevance). | FNBB provides customers with innovative product solutions through platforms such as Cellphone Banking, Online Banking and the FNB App for convenient banking at the tip of their fingers. Various customer education initiatives are carried out to help customers understand the products and services offered. Financial literacy programmes are also in place to help customers better manage their money and bank better. |
| **Employees** | Employees expect FNBB to provide job security, flexibility and appropriate reward and recognition. They need engagement that is underpinned by trust and integrity and want to be aligned with FNBB's values as an organisation. Employees also expect development and future growth opportunities. | The Bank offers employees a robust talent management programme, an employee wellness programme, and learning and development opportunities such as scholarship and graduate development programmes. |
| **Shareholders** | Shareholders expect sustainable risk-adjusted returns, transparency, accountability and good governance. They are interested in FNBB's sustainability and require an understanding of the Bank's strategy and its structure for continuity (succession planning). | Shareholders are engaged regularly through results announcements, annual reports, Annual General Meetings and Bank updates. |
| **Regulators** | Regulators require good corporate governance and proactive adherence to regulatory requirements. They expect FNBB to keep up with trends and protect the integrity of the financial industry. FNBB needs to consider the regulations of Botswana, and those of its holding company in South Africa. | The Bank complies with regulations governing financial services in Botswana and engages in consultations with the regulator when solutions to regulatory issues are sought or new legislation is considered. |
| **Suppliers** | Suppliers want fair payment terms, on-time payment and business opportunities. They expect fairness, transparency and equitable treatment. There is an expectation that there should be special dispensation for youth and citizen-owned suppliers in providing business opportunities and guidance for growing their businesses. | FNBB follows a transparent tendering process and assesses tenders on multiple aspects in determining value. The Bank is deliberate in engaging youth and citizen-owned suppliers as part of Shared Value. Upon onboarding new suppliers, the Bank takes them through procurement training. |

| Stakeholder | Expectations, needs and concerns | Engagement |
|---|---|---|
| **Media** | The media's main concerns are sound two-way relationships, transparency and quick turnaround times to questions. | The media is engaged through feedback and networking forums. The Bank responds to press enquiries in a timely manner, participates in interviews and invites the media to various corporate events. Our Journalism Academy plays a valuable role in upskilling local journalists. |
| **Communities** | FNBB is expected to extend inclusion in financial services to communities and support financial literacy. Communities want FNBB to be sustainable in the long term so they can benefit from the employment and the financial inclusion provided by the Bank. Communities also want to share in FNBB's profits through corporate social investment. | The Bank's community support and empowerment is conducted through the FNBB Foundation. The Bank facilitates financial inclusion by taking banking to underserved communities through Cash Plus and Bank On Wheels services.<br>*CEO's review* |
| **Organised labour** | Unions require engagement and compliance to labour laws and want to be consulted on business process development and change that can impact employees. | FNBB regularly engages with unions on salary reviews, people issues and industry trends. The Bank aims to harness a relationship with unions for the betterment of its employees. |
| **Government** | Government wants to bank the unbanked (inclusivity in the financial industry) and provide good governance and sustainability (for the Bank and its communities and natural environment). As FNBB is the biggest bank in Botswana, there is an expectation that it will lead the industry and take on more responsibility. | FNBB engages with Government on policy development and forms public private partnerships with Government. The Bank contributes to employment creation, localises outsourced services (local job opportunities) and participates in the community through more than just banking (FNBB Foundation and sponsorships). |

## Dispute resolution

A formal Complaints Management Policy governs customer-related disputes and ensures effective, efficient and expeditious resolution of issues. The policy is regularly reviewed by the Executive Committee and updated where necessary. It is readily available to all employees, representatives and third parties involved in marketing, providing or administering the Bank's products or services or interacting with customers.

The Legal Risk Framework makes provision for the Bank to be represented by an approved panel of entities in the event of litigious disputes with customers or former employees.



# What drives **our business**

FNBB's robust and transparent risk reporting process enables key stakeholders, including the Board and risk committees to:

- Gain an accurate, complete and reliable view of the Bank's risk profile
- Make appropriate strategic and business decisions
- Evaluate and understand the level and trend of material risk exposures and their impact on the Bank

This is accomplished by establishing clear risk ownership at business department level, and creating effective combined assurance partnerships between Business, Risk Management, Compliance, Internal Audit and External Audit functions, thereby assuring shareholders' interests.

Such a risk-focused culture is achieved through:

- A market and business conduct programme supported by effective governance structures
- A combined assurance process to integrate, coordinate and align risk management across the three lines of defence, including External Audit
- Robust risk management policies, frameworks and processes

## Approach to risk management

By aligning the risk management structure and business performance with the Business Performance and Risk Management Framework (BPRMF), the Bank achieves a single view of risk across its organisation. This ensures a consistent approach to risk management across the Bank.

The Bank's approach to risk management comprises three lines of defence, as illustrated below:

| | |
|---|---|
| First line of defence | FNB Botswana management is responsible for risk management and implementation of risk strategy. |
| Second line of defence | Risk Management functions (including Compliance) set policies across the Bank and monitor to ensure that implementation of risk principles complies with regulations and legislation. |
| Third line of defence | The Board, Internal Audit and External Audit provide additional assurance on the effectiveness of risk management in the organisation. |

This approach ensures that risk competencies are integrated into all management functions and business areas to support the Bank's operations by providing checks and balances. These contribute to sustainable achievement of performance objectives by managing or mitigating adverse outcomes and reputational damage. The Bank's aim is not to eliminate risk entirely, but to minimise risk where possible.

During the COVID-19 period the Bank amended and digitised several of its processes to ensure the same quality of service to its customers. These processes were risk assessed accordingly to protect the Bank's stakeholders, thus highlighting maturity in process agility and risk management.

## Operational Risk Management Framework

The Risk, Capital Management and Compliance Committee approved the Operational Risk Management Framework in November 2019. The framework is ancillary to the BPRMF and sets out key risk management principles and practices for the effective management and mitigation of operational and IT risk, including:

- Risk identification and assessment, including definition of key risk indicators (KRIs)
- Definition of risk measures, operational risk appetite and limits
- Monitoring of risk exposures against defined measures, operational risk appetite and limits
- Management of operational risk data quality for risk data aggregation and risk reporting purposes
- Reporting of risk exposures, process breakdowns, limit breaches and material malfunction to management, risk management and governance structures
- Specification and monitoring of corrective actions
- Acceptance of risk exposures given defined operational risk appetite levels
- Financial accounting and regulatory reporting process

## Materiality determination process

To determine material risks and opportunities for FNBB, the Board and Executive Management conducted a review and approval process, including:

- Identifying relevant matters based on their ability to affect value
- Evaluating the importance of relevant matters in terms of their known or potential effect on value creation
- Prioritising the matters based on their relative importance
- Determining the information to disclose about material matters

## Material risks and opportunities

| Material matter | Description | Mitigating actions |
|---|---|---|
| **Economic and political landscape** | Botswana's economic environment and policies impact FNBB and its market. Housing regulations directly impact mortgages provided to customers. GDP growth, the sovereign's credit rating, and business confidence impact our customers' financial position. Even though Botswana is considered the most stable country among 140 in terms of macroeconomic environment by the 'Global Competitiveness Index'[1], Government policy directly influences FNBB's market size and opportunities.<br><br>COVID-19 and the world's response to the pandemic have heightened economic risk. This is due to the increased likelihood of a prolonged global recession, the disruption of global supply chains and associated impacts on Botswana's primary mining and tourism industries, and an anticipated rise in bankruptcies of businesses that fail to recover. | • Engaged with Government on policy development and implementation<br>• Participated in private sector initiatives to form supportive partnerships with Government<br>• Provided COVID-19 financial relief to customers<br>• Promoted shift to cost-effective digital platforms<br><br>*CEO's review* |
| **Regulatory compliance** | FNBB operates in a highly regulated industry, with evolving regulations. Investments in compliance systems, processes and training are required to ensure compliance. Non-compliance may incur penalties and the loss of the Bank's licence to operate.<br><br>The quality of a country's financial system is a cornerstone of economic development. For financial institutions to contribute to a sound financial system, they need to comply with regulatory requirements of liquidity and solvency. | • Participated in industry and business workshops to guide regulatory compliance<br>• Ensured compliance risk management<br>• Undertook remediation of onsite findings<br><br>*Governance report* |
| **Credit** | The financial position of many customers is worsening as economic conditions deteriorate, resulting in an increase in bad debts, also referred to as non-performing loans (NPLs). Credit risk is compounded by factors such as protracted legal processes for credit recovery, and expiry of ceded insurance policies. | • Undertook routine credit valuations<br>• Increased credit collections<br>• Managed expired insurance policies |
| **Business continuity and efficiency** | Deteriorating economic conditions place pressure on operational performance and efficiency.<br><br>The IT data centre is the backbone of FNBB's operating and business continuity management. Regulations set minimum standards to ensure continuity of the financial services industry.<br><br>FNBB relies on outsourced service providers in the banking ecosystem who could negatively impact operational efficiency if they are not subjected to due diligence and fail to deliver on service level agreements. | • Annual documentation review (BIRA/BIA and BCPs) incorporating the RDARR/BCBS 239 requirements<br>• BCM Policy is in place<br>• Emergency management – training of emergency officials concluded<br>• Upgraded IT data centre to address business continuity configuration stability |

| Material matter | Description | Mitigating actions |
|---|---|---|
| **Information technology (IT)** | The evolving technology environment creates opportunities for FNBB to improve its internal IT infrastructure and processes through automation, big data analysis and artificial intelligence. These advances improve turnaround times for customers and assist in delivering services and products consistently and reliably. They also contribute to the enhancement of compliance and controls.<br><br>Customers want safe, convenient and immediate access to banking services and products. FNBB needs to be at the forefront of technology to fulfil these customers' needs, particularly given increased competition from traditional and non-traditional competitors such as fintechs.<br><br>Adoption of digital technology increases the use of mobile banking, which depends on adequate Wi-Fi access. This requires partnerships with mobile providers and Government investment in information communication technology (ICT) infrastructure. | • Concluded disaster recovery test and addressed gaps to optimise IT infrastructure<br>• Optimised network configurations and vendor Service Level Agreements (SLAs) to ensure network stability<br>• Upgraded print server infrastructure to ensure print platform stability<br>• Invested in Wi-Fi boosters for Cash Plus agents |
| **Fraud and cybersecurity** | The threat of fraud and cybercrime is increased by the need to conduct more work and transactions digitally during the COVID-19 period. A weak economy and socio-political conditions increase the likelihood of external and internal fraud. Current fraud trends include "change in banking details" and eWallet fraud. | • Implemented customer and employee training in data security<br>• Increased collaboration with law enforcement<br>• Managed adherence to processes<br>• Put information security policies in place |
| **Customer centricity** | Our customers are at the centre of everything we do. To retain existing customers and attract new customers we focus on understanding their evolving needs and providing convenient, cost-effective and reliable services and products that address their needs. Our ability to provide excellent service to our customers relies on the availability and efficiency of technology infrastructure.<br><br>To effectively manage the lending and deposit books, we focus on understanding our customers' businesses and the opportunities and risks within their business sectors in Botswana. | • Invested in a range of product and service enhancements<br>• Implemented actions to improve customer service<br><br>*CEO's review* |

| Material matter | Description | Mitigating actions |
|---|---|---|
| **Employee wellbeing and engagement** | Engaged and committed employees are essential to FNBB's customer centricity. The Bank has policies and processes to reward and recognise excellence. Training and succession planning develop employees and address risks associated with the scarce and specialist skills required to advance banking in a new technology era. The Bank engages routinely with employees and seeks to create an environment that supports a good work-life balance. | • Improved Employee Value Proposition (EVP) by introducing working from home, work crèche, extra maternity and paternity leave, and online training initiatives<br>*CEO's review; HR report* |
| **Societal change** | Societal opinions about savings and wealth leave approximately 28%[2] of Batswana unbanked, placing them at risk when they retire. This provides an opportunity for FNBB to make a significant contribution to societal upliftment by providing flexible offerings. | • Availed affordable and accessible banking channels such as Cash Plus and Bank On Wheels to support financial inclusion.<br>*CEO's review; Governance report* |
| **Climate change and natural disasters** | Climate change and natural disasters, such as severe droughts, have an impact on our customer base, especially in the Agriculture and Tourism industries. Botswana's tourism and Agriculture sectors contribute significantly to economic growth in Botswana. | • Assisted customers to manage risks related to natural disasters and climate change with innovative services and products related to green initiatives |

[1] *World Economic Forum – The Global Competitiveness Report 2019. ww3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf*
[2] *IMF 2019 Financial Access Survey*

## Risk appetite

Risk appetite is set by the Board. The Bank's Risk-Return Framework informs organisational decision-making and is integrated with its strategic objectives. Business and strategic decisions are aligned to risk appetite. At a business department level, strategy and execution are influenced by the availability and price of financial resources and required hurdle rates and targets.

Although COVID-19 introduced unexpected and unusual disruptions and risks to the Bank, these were managed within our risk tolerance levels. No undue risks outside risk tolerance levels were taken during the year.

## Risk culture

The Bank recognises that effective risk management requires the maintenance of an appropriate risk culture underpinned by:

- Setting the tone at the top – leadership that is ethical and 'fit and proper' setting strategy, risk appetite and implementation of appropriate risk practices
- Appropriate risk and compliance governance structures for the implementation of policies and frameworks
- Embedding of Process Risk Control Identification and Assessment (PRCIA) tools and risk management monitoring tools
- Embedding of Basel Committee of Banking Supervision Principle 239 (BCBS239) to ensure optimal risk reporting
- A culture that supports risk maturity
- Staff training to ensure alignment

FNB

# Strategy

## FNB Botswana's primary strategic aim is to create shared value for its stakeholders.

### 2020 Strategy

FNBB's underpinning Vision 2020 was to be a customer-centric bank delivering solutions and best service to our customers competitively and efficiently. The Bank's primary emphasis for the three-year roadmap was on driving operational efficiencies, with a strong focus on process improvement, system and infrastructure stability and improved efficiencies to enrich the customer experience and value proposition.

To achieve this vision, the Bank implemented four key focus areas:

- Improve operational efficiencies to extract maximum value from the existing operations and customer base
- Introduce products and services from the FirstRand Group that enhance our customer value proposition and position the Bank to operate efficiently
- Build strategic partnerships with external parties to develop solutions tailored to market needs
- Invest in non-traditional banking solutions to diversify the Bank's revenue streams

During the first half of the year, we embarked on a realignment process to ensure that the Bank's strategy remained relevant to our customers in the changing financial services environment.

### Highlights of the Vision 2020 Strategy journey

- FNBB embarked on a process re-engineering and optimisation drive that resulted in the optimisation of nine business functions, including a model alignment of WesBank, which now operates within the segments rather than as a stand-alone operation. The Bank also successfully centralised all back office operations from customer touchpoints. This freed up frontline employees to have more meaningful conversations with customers and improved service turnaround times.
- The Bank's focus on driving customers to alternative channels resulted in the introduction of Cash Plus, zero rating (no data charges) on the FNB App and enhancements to merchant services such as Cash@Till and eWallet@POS.
- Key partnerships were developed and nurtured:
  - MYSC: for the disbursement of the Youth Grant and the Youth in Business Value Proposition bundle, which includes transactional, investment, insurance and lending products
  - Water Utilities Corporation: creation of the *186# USDD mobile portal for bill enquiries, payments and other services
  - BURS: e-filing platform for collections of taxes, custom duty and refunds
  - An increase in vendors on the *174# mobile payments platform
  - Customer lifestyle discount rewards: an initiative for customers to receive up to 35% off the purchase of products and services at participating merchant partners when using their FNB debit or credit card
- To demonstrate commitment to digitisation, FNBB provided free Wi-Fi for customers at all branches and Head Office. This resulted in increased uptake of the FNB App and growth in Online Banking registrations and utilisation.
- In a quest to address customer service gaps, the Bank implemented processes to ensure instant resolution of top three customer queries.
- To diversify revenue streams, the corporate entity focused on optimising the insurance business. This strategic focus led to a merger of the agency and brokerage functions (FNIA and FNBIB) and introduction of our signature products:
  - Moemedi funeral product
  - Mogwebi – an insurance coupon product for SMEs
  - Retrenchment Cover

## 2025 Strategy

The end of the 2020 financial year marked the completion of 2020 Strategy, giving way to our five-year strategic roadmap, 2025 Strategy, which was approved by the Board in June and launched in July 2020. The 2025 Strategy was developed after extensive engagement with key stakeholders *Chairman's Review*, and new realities emerging from COVID-19 have been considered.

The overarching theme of the new strategy is Digital Transformation, designed with a key objective to harness data and advanced technology to:

- Build digital talent and a digital organisation
- Digitise operations and automate processes
- Digitise customer relationships
- Explore new digital growth opportunities and ecosystems

At the centre of this strategy is Shared Value, underpinned by FNBB's desire to work in collaboration with communities to create social and economic value for all stakeholders. To operationalise the strategy, the Bank developed the strategic key focus areas of Solutionist People, Operational Efficiencies, Customer Experience, and Value Protection. The objectives and key deliverables for each strategic focus area follows:

**Solutionist People:** To empower people to drive high performance by:

- Building a high-performance culture with organisational alignment to strategy and superior execution, in which our people consistently live the FirstRand Promises
- Ensuring a comprehensive targeted talent management programme that enables growth and development
- Creating an accelerating environment where:
  - Employees are enabled to work from home and adopt flexible working hours
  - Wellness (both physical and psychological) is a priority
  - The Bank provides a one-stop shop for employees' personal lifestyle needs
  - There are creative spaces (vibrant, serene and energising) where employees can collaborate and innovate to enable execution of strategy
- Creating a culture of servant leadership where our people lead through service, regardless of title

**Operational Efficiencies:** Connecting people to systems and processes to accelerate operational efficiencies through:

- Facilitating digital transformation through process optimisation and automation
- Developing an integrated cutting-edge platform that creates exponential value to our customers, employees and community
- Leveraging business intelligence to inform business decisions
- Enabling continuity of core banking operations, infrastructure and systems, third party and supplier management, and business continuity management

**Customer Experience:** Delivering exceptional customer service consistently through:

- Delivering superior customer experience at each customer service point by ensuring availability and uptime of services and platforms. The Bank will also put in place processes to enable instant resolution of customer requests
- Enabling customers to interact with the Bank on their platform of choice – ensuring all products and services are available on all channels and points of presence
- Building lifetime partnerships by providing tailored integrated financial solutions that address customer needs and provide solutions to the entire customer value chain and ecosystem
- Providing a marketplace platform to connect businesses to business, customers to customers and customers to businesses

**Shared Value:** FNBB is committed to working with communities to create social and economic value for all stakeholders. The focus areas for the strategy period will be:

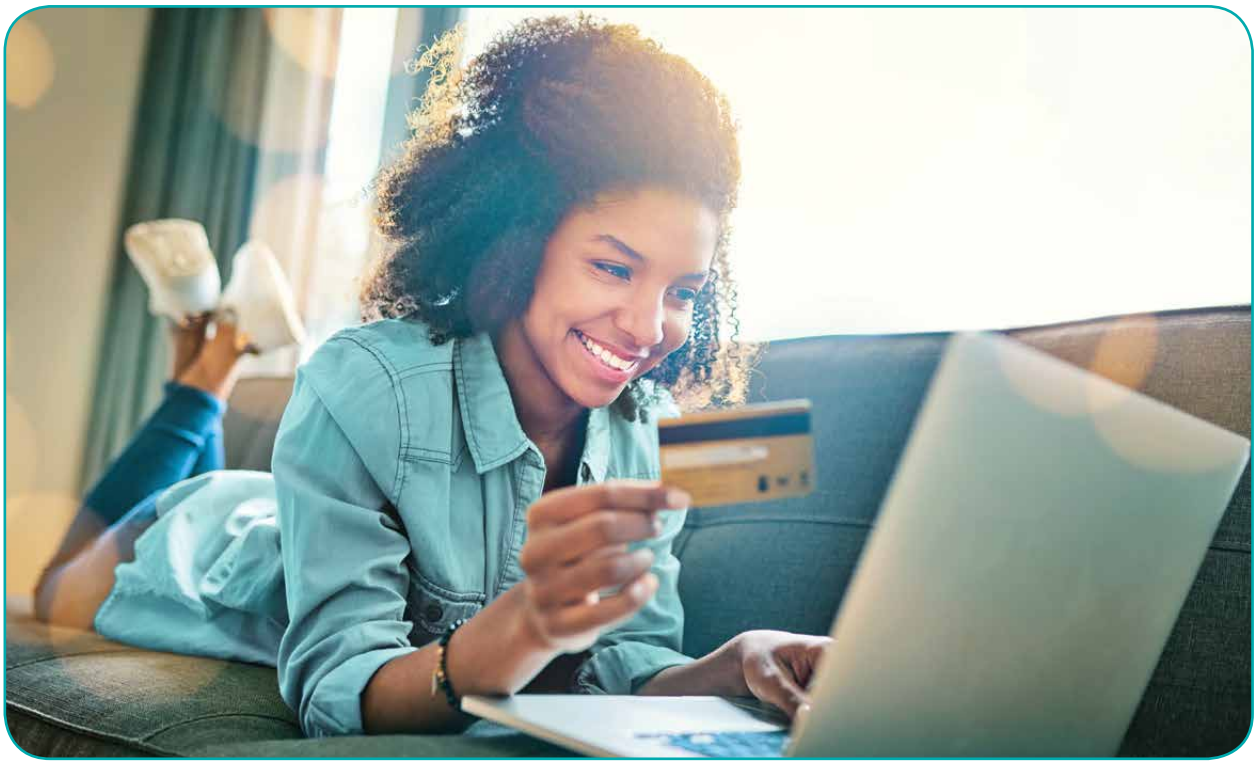
- Elevation of the creative industry
- Transformation of cooperatives
- SMME empowerment and mentorship
- Participation in national environment, social and human development projects

To ensure that the shared value philosophy is embedded and implemented in each strategic focus area, the Bank has established a Shared Value function, with dedicated resources to manage and monitor Shared Value against key performance measures (KPMs) and report regularly to the Executive Committee.

**Value Protection:** SMART responsible allocation of resources to achieve great returns:

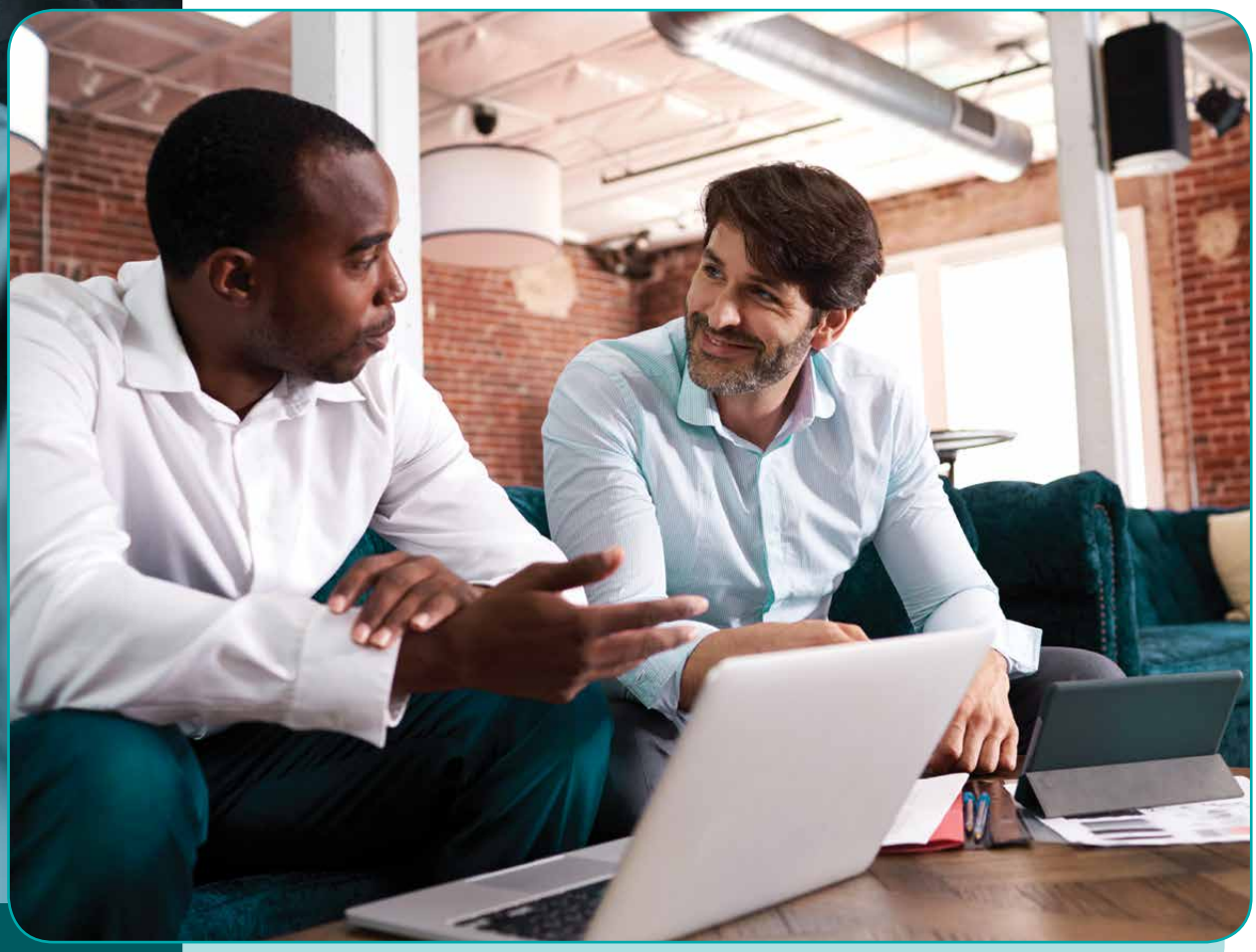
- Ensuring consistent through-the-cycle financial performance
- Engaging in long-term planning to build business resilience and continuity planning
- Providing financial solutions beyond banking to diversify the organisation's revenue streams
- Ensuring effective corporate stewardship through prudent risk management, compliance and governance

| Strategic perspective | Strategic intent | 2025 key strategic measures |
|---|---|---|
| **Solutionist people** | To empower people to drive high performance | Employee engagement measured through the Group Engagement Survey (GES)<br>Organisational performance |
| **Operational efficiencies** | Connecting people to systems and processes that accelerate them | Process improvement and rate of digitisation<br>Cost reduction |
| **Customer experience** | To deliver exceptional service, consistently | Customer experience index inclusive of:<br>• Brand perception<br>• Net promoter score<br>• External Customer Satisfaction Index (ECSI)<br>Internal process improvement in:<br>• Turnaround times<br>• System uptime<br>• Query resolution |
| **Value protection** | SMART responsible allocation of resources to achieve great returns | Net income after cost of capital (NIACC) measured through the Bank's risk return framework<br>Risk maturity framework |
| **Shared value** | Working together with communities to create social and economic value | To develop a shared value index measuring:<br>• Adoption of business philosophy in core operations<br>• Resource allocation<br>• CSI and FNBB Foundation activities |



# Leadership **reports**

At FNBB, we believe in leadership that drives our vision and inspires our people to strive for excellence, not only within the organisation but also in the communities we serve.



# Chairperson's review

Shared value is a conscious decision to consider all of our stakeholders in each of our strategic goals. As a trusted partner, it is our responsibility to measure our performance against the promises we make to our stakeholders.

**Balisi Mohumi Bonyongo**
*Chairperson*

I am pleased to report to our stakeholders that FNBB Botswana performed commendably in a challenging and complex operating environment. We maintained the Bank's stable financial foundation, grew our customer base and continued to uphold the primary strategic aim of creating shared value for our stakeholders.

The banking sector operates in a constantly changing environment. During 2020, FNBB responded to multiple risks and opportunities presented by:

- The financial impact of slower economic growth and higher unemployment on our customers
- Rapid increases in the adoption of digital technology to connect, communicate, bank and do business more efficiently and cost-effectively, and to mitigate the accompanying threat of cybercrime
- Increasing competition for retail customers from non-traditional financial service providers
- The sudden emergence of COVID-19 in the last quarter of our financial year, which compounded the financial strain many of our customers were experiencing

*Operating context*

## Strategy development

The Board's paramount responsibility is to drive the strategy of the Bank to deliver strong growth, efficiencies and positive performance. By so doing, we create value for our shareholders, while taking into consideration the legitimate interests and expectations of all stakeholders.

In anticipation of the completion of the Bank's 2020 Strategy, we began the 2025 Strategy development process in October 2019. There was extensive consultation with various stakeholders including customers and staff members. Our progress was interrupted by COVID-19 and the realisation that the firm foundation established by our 2025 Strategy, while still stable, was less certain than before the pandemic. We reassessed our position between April and June 2020 and recalibrated our strategy to take this new reality into account.

The Board approved the 2025 Strategy on 19 June 2020 with Digital Transformation as its overarching theme. Its key objective is to harness data and advanced technology in order to build digital talent, a digital organisation, digitise operations, automate processes, digitise customer relationships and explore new digital growth opportunities and ecosystems. *Strategy.*

The strategy will be carefully monitored against key performance indicators to enable continuous assessment of its effectiveness.

### Shared value

It is in the nature of business to focus on profit growth as a means of protecting or improving shareholder value. Good governance demands that we ask ourselves whether this approach profits the other stakeholders who contribute to our growth and sustainability, these being our customers, our employees, the business partners we rely on and the communities we serve. In response to this question, we have rooted the Bank's strategy in the creation of shared value. This means that we must protect shareholder value and generate new value for all our stakeholders. In the process, we must demonstrate that the shared value we create is real and tangible. Our efforts, whether it is developing strategy, improving processes or leveraging technology, must serve this ultimate purpose.

We want our stakeholders to feel and see that we are doing our best for them, their families and their businesses as we generate value from the money they entrust to us. Similarly, our employees must feel valued at work so they, in turn, translate stakeholder engagement into trusting relationships based on the knowledge that the Bank is acting in the best interests of all stakeholders.

Our customers are the main reason we exist. We live to understand their financial services needs and offer solutions that are relevant to their circumstances, whether they are businesses or individuals looking to finance their goals or protect and grow their assets. When we serve our customers and their ecosystems well in a manner that does not expose them or the Bank to undue risk, we remain competitive and grow sustainably. This, in turn, creates shared value for all our stakeholders.

Our adoption of digital technology enables us to continually improve customer service. By encouraging our customers to shift from physical branches to digital platforms, we make it possible for them to bank from the comfort of their homes or offices. This improves customer convenience, reduces costs and increases the security of banking over time.

Shared value is a conscious decision to consider all of our stakeholders in each of our strategic goals. As a trusted partner, it is our responsibility to measure our performance against the promises we make to our stakeholders.

### Changes in the board

In line with the mandatory annual election of a Chairperson of the Board, I was appointed Chairperson with effect from 6 February 2020. Through a unanimous decision, the Board agreed not to appoint a Deputy Chairperson. On behalf of the Board, I wish to acknowledge the experience and wisdom of my predecessor, John Macaskill. I wish to also thank the outgoing Deputy Chairperson, Sifelani Thapelo, for his contribution to the Board. John and Sifelani both remain Independent Non-Executive Directors of FNBB.

Naseem Lahri was appointed an Independent Non-Executive Director in August 2019 and was subsequently appointed a member of the Audit and Remuneration Committees in February 2020. Naseem brings extensive experience in business leadership, finance and strategy to FNBB. On behalf of my colleagues, I welcome her to the Board and look forward to her contribution to our shared purpose.

The Board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence. To ensure that diversity is maintained when new directors are appointed, the Board is guided by the Board Governance Framework.

*Governance*

## Acknowledgements

My appointment as Non-Executive Chairperson coincided with the advent of COVID-19. Although I assumed the role during a turbulent period, I firmly believe, and am excited by the prospect that there is as much opportunity as there is risk in navigating this significant change in our industry.

I thank my fellow Board members for their generous support and wise counsel during our many meetings and engagements to ensure that the COVID-19 risks were adequately addressed, while maintaining the normal running of the Bank. On behalf of the Board, I thank Steven Lefentse Bogatsu, the Executive Committee and our employees for delivering sound performance in unpredictable circumstances. The continuous support we receive from our customers, service providers and other partners is greatly appreciated.

As Botswana commences the difficult process of recovering from COVID-19 and resumes the implementation of Vision 2036 to diversify and grow the economy, the country will look to its partners in the private sector to demonstrate new value creation. FNBB will take up this challenge by securing the Bank's longer-term sustainability, and in the process, fulfilling our promise to be a trusted partner committed to building shared value.

I am confident that we are exceptionally well positioned for this role. Within our Board and executive leadership, we have an extensive brains trust, comprising not only experienced leadership in banking, business, governance, law, IT and HR, but also institutional memory of previous economic and financial crises, and knowledge of how to overcome them.

**Balisi Mohumi Bonyongo**

*Chairperson*

# Chief Executive Officer's review

FNBB focused on protecting and growing value for the Bank and our many stakeholders during a period of turbulence and uncertainty.

**Steven Lefentse Bogatsu**
*Chief Executive Officer*

## Executive summary of the year

FNBB focused on protecting and growing value for the Bank and our many stakeholders during a period of turbulence and uncertainty. We maintained a strong balance sheet, underpinned by high-quality assets and robust policies and systems to protect them. We have adequate capital reserves with multiple layers of additional buffers in place to withstand any shock, and we manage our capital and liquidity limits very prudently.

Our decision to rein in the Bank's credit appetite in recent years, in response to increasing customer indebtedness and non-performing loans in our Commercial segment, was validated. Although we experienced higher loan impairments due to COVID-19, and expect this trend to continue in 2021, our conservative approach is mitigating this impact and will result in a short-term reduction in credit extension.

We heightened our cost consciousness during the year, limiting our capital investment to product and service enhancements that improved customer experience and maintained our competitiveness.

Our financial performance, while subdued by COVID-19, reflects several positive developments. These include significant advances in our key 2020 Strategy levers of customer centricity, digitisation, operational efficiency and employee value proposition.

### Digital transformation

With risk comes opportunity, and alongside the challenges, the pandemic has had the positive effect of accelerating the momentum of these strategic levers as we transition into our 2025 Strategy.

FNBB, as part of the FirstRand Group, has benefited from market-leading technology innovation. However, rapid advances in digital technology, spurred to some degree by COVID-19, are narrowing the competitive gap faster than anticipated. This means that while technology can no longer be considered a competitive advantage, its enhancement of customer service is what differentiates market leaders in banking.

The Bank continued to focus on migrating customers to digital self-service platforms and was rewarded with increased uptake and penetration levels across its Cellphone Banking, Online Banking, the FNB App and online forex platforms. The increased momentum in the shift to digital platforms was achieved by identifying impediments to digital banking and helping customers overcome them. In the case of high data costs, we negotiated with all local mobile network operators – BTC Mobile, Orange and Mascom – to zero rate data for FNB App usage, allowing customers to transact on the FNB App without incurring data charges, and we invested in Wi-Fi boosters to enhance Cash Plus agents' connectivity.

The trend gained further momentum after the COVID-19 lockdown as most of our employees worked from home and our customers, many of whom would have continued to rely on branches, shifted increasingly to digital self-service platforms.

## Our response to COVID-19

As a corporate citizen of Botswana for almost 30 years, with more than 1 500 employees serving over half a million customers and hundreds of suppliers who rely on our support, we took the responsibility of combatting COVID-19 very seriously. We decided it was necessary not only to address the impact of COVID-19 on our Bank and stakeholders but to join hands as a nation and fight the threat it presented to Botswana businesses, communities and the economy.

We worked tirelessly to restructure our operations, where necessary, to improve our efficiencies, keep our employees safe and offer relief to our customers and communities.

*Operating context*

We coordinated our actions through the following pillars, each of which targeted a specific stakeholder grouping, to ensure a comprehensive response:

| Stakeholder pillar | Our response |
|---|---|
| **Our human capital** | In addition to the necessary health and safety measures *Operating context* the Bank:<br>• Invested in technology to enable employees to work from home and provided transport and meal allowances to essential service employees who continued to work from our Head Office and branches<br>• Protected employees' jobs, continued to pay their full salaries and did not impose any mandatory leave<br>• Established a COVID-19 helpline to engage with employees and maintain their morale as we worked together to support our customers, and arranged 24-hour counselling through our health partners |
| **Our customers** | As a trusted partner, the Bank extended fee moratoriums and reductions on certain digital transactions to allow customers to continue banking. We restructured extensive debt exposures to accommodate customers' restricted cash flows. Specific relief measures included:<br>• Instalment relief for retail customers' home, personal and vehicle and asset finance loans, and SMME customers' commercial property finance, vehicle and asset finance and term loans<br>• 100% discount on payments made on the FNB App and mobile banking and cash withdrawals through the Cash@Till service during April, offering a 25% discount on these transactions during May and June<br>• Optimised functioning of our Cellphone Banking, Online Banking and FNB App platforms, which allow customers to buy electricity and airtime, pay bills and process payments, to encourage more customers to bank from home rather than branches |
| **Our communities** | In line with our shared value approach, the Bank donated P10 million to support the Government's COVID-19 interventions, including:<br>• A P5 million donation to the COVID-19 Relief Fund to assist the Government and the Ministry of Health and Wellness combat the pandemic<br>• The remaining P5 million funded through our FNBB Foundation, with a focus on:<br>  ◦ Providing support services and supplies to health and other essential services workers<br>  ◦ Providing food and other necessities to underprivileged community members<br>  ◦ Providing shelter and other necessities to survivors of gender-based violence<br>  ◦ Supporting the local creative arts industry and SMMEs |
| **Our strategic partnerships** | The Bank developed strategic partnerships to support local businesses and SMMEs involved in the production of essential medicine and personal protective equipment used to combat COVID-19, including:<br>• The issuing of a P40 million working-capital facility to a local medical equipment supplier of COVID-19 testing kits and lung function testing machines<br>• Partnerships with SMMEs to disinfect public areas and public transport zones<br>• Partnerships with local innovators to explore ways of curbing the pandemic |

## Employee value proposition

As the primary implementers of our customer centricity strategy, our employees are our most important asset. We focus on keeping our employees engaged and empowered to continually improve customer experience.

### Working from home

There is ample research to show that working from home delivers the benefits of productivity improvement and cost reduction. In a digitally connected world where people can work where and when they want, working from home reduces the time employees spend commuting, improves their work-life balance and, consequently, increases productivity.

The Bank initiated a working from home programme in July 2019 with the goal of having 50% of the workforce in home offices by mid-2021. The COVID-19 lockdown reduced that timeline to two months as all employees in non-customer-facing functions were equipped with the necessary infrastructure to work from home. After the lockdown was lifted, 55% of our employees continued to work from home, creating excess space and saving office-related costs.

### Kids' Lounge

The majority (55.4%) of our employees are between the ages of 30 and 39 and many have young families. Providing crèche facilities at work improves productivity by removing complex logistics of childcare, reducing absenteeism and overtime costs, and giving parents the assurance that their children are safe and secure. We are working on building a crèche facility (Kids' Lounge) for our employees, which will be available for all employees, during the 2021 financial year. This facility will also be available to our employees who work from home and need to be free of distractions.

### Employee development

The Bank offers employees extensive learning and development opportunities. These include graduate development, skills development, talent development and leadership development programmes, scholarships for high-performing candidates to pursue undergraduate or postgraduate studies, and opportunities for top performers to gain work experience at leading companies in the region or participate in development interventions at world-class business schools.

Between 2019 and 2020, we implemented an online learning platform that offers 2 400 courses in a range of skills relevant to the Bank. Online learning is cost-effective and enables us to exponentially increase the upskilling of employees.

*HR report*

## Marketing

Assisting our customers to overcome concerns about Online and Cellphone Banking has been key to our digital transformation. We conducted a nationwide customer education drive dubbed FNB Ya Mperekela Tour to promote the shift to digital banking platforms.

As FNBB stakeholders, the media plays an important role in promoting responsible financial management and increasing the visibility of our brand promise: to help the communities where we operate and create a better world. The Bank hosted several engagements to strengthen our media relations, including a feedback session and an editors' dinner to launch FNBB's first Report to Society. For the past five years, FNBB has sponsored the Journalism Academy, a programme that empowers local journalists with skills in financial and business reporting.

The Bank hosted its 26th FNBB Budget Review Seminar following the budget speech of the Honourable Minister of Finance and Economic Development. The event featured presentations by a panel of experts on issues linked to the National Budget, including the critical theme of a transformative and innovative fiscus.

The Bank also continues to support youth and grassroots sports development through sponsorship of the Botswana Tertiary Student Sports Association (BOTESSA) as well as the Botswana Football Association's (BFA) Junior National Teams. The sponsorships have been ongoing since 2018.

## FNBB Foundation

The FNBB Foundation continued to implement shared value initiatives to support communities through its focus areas of youth empowerment, environmental sustainability, sports and recreation, arts and culture, education and social welfare.

Our Staff Volunteer Programme continues to grow and make a valuable contribution to our communities. Funding of Staff Volunteer projects was increased from P50 000 to P75 000 per project annually in 2019, making it possible for our employees to do more for the less privileged. The Bank also introduced two days' paid annual leave for employees to use in volunteer projects of their choice.

As part of the Bank's COVID-19 relief interventions, the Bank supported frontline workers, partnered with SMMEs and offered support to the creative and performing arts industry.

## Acknowledgements

Our performance in difficult circumstances bears testimony to the exceptional quality of our Board, my Executive leadership team, our employees and all the partners who sustain our business. On behalf of the Bank, I congratulate you all and express my sincere appreciation for your excellence and dedication.

## Outlook

We remain committed to our responsibilities of delivering unmatched customer experience and preserving the financial stability and competitiveness of our Bank to continue creating shared value.

We emerged from the 2008 financial crisis wiser and stronger. I am confident that our institutional memory and the value that resides in our leadership, our employee teams and our customer base will support our recovery from COVID-19 and move the Bank forward into the new world of financial services.

I assure our stakeholders that together we will implement the 2025 Strategy and build new shared value for the future.

**Steven Lefentse Bogatsu**

*Chief Executive Officer*

# Chief Financial Officer's review

The Bank maintained a robust capital position and recorded notable financial gains from the consistent implementation of its strategy.

**Luke Woodford**
*Chief Financial Officer*

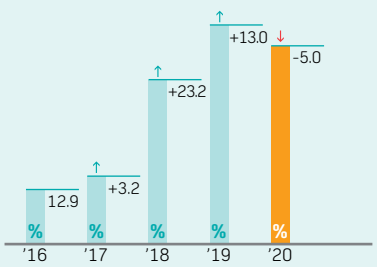
## Introduction

FNBB continued to deliver a resilient performance with a quality return profile (Return on Equity 20.1% and Return on Assets 2.5%). The 5% reduction in Profit After Tax (PAT), compared to the previous reporting period, was primarily driven by COVID-19. The consequent economic pressures resulted in significant increases in credit impairment charges to position the Bank appropriately and prudently for both an increase in defaults and a decrease in the value of collateral.

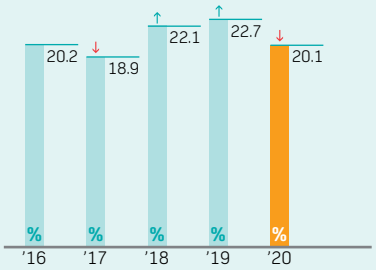
As a customer-centric Bank, FNBB delivers integrated financial services that will ensure the preservation of value remains a core strategic focus. The Bank has broadened its financial services offering through new products, as well as enhancing the capabilities of its digital channels to further develop its relationship with its core transactional customers. The continued success of this strategy is reflected in the Non-Interest Revenue (NIR) growth registered during the reported period.

## Highlights

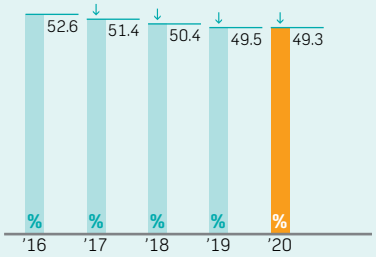
*Profit Before Tax*



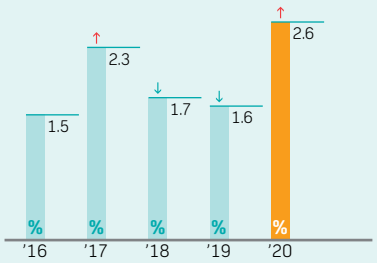

*Return on Equity*



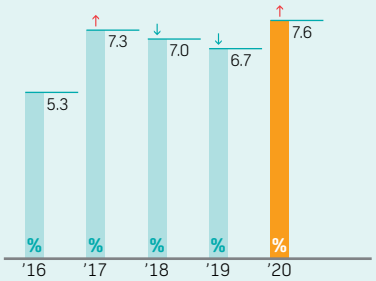

*Cost to Income*



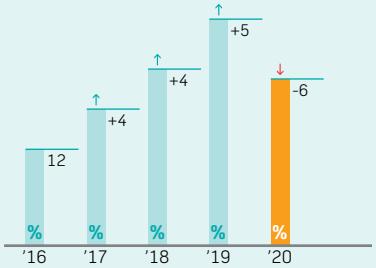

*Credit Loss Ratio*



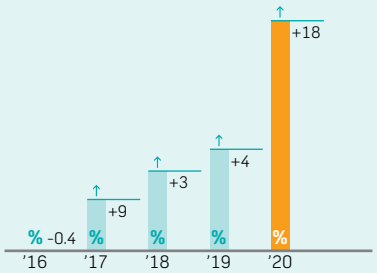

*NPL as a % of Gross Advances*



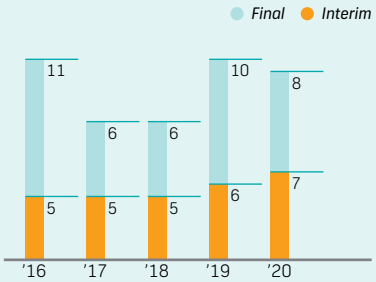

*Gross Advances*



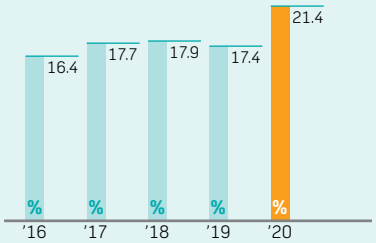

*Deposits*




*Dividends*

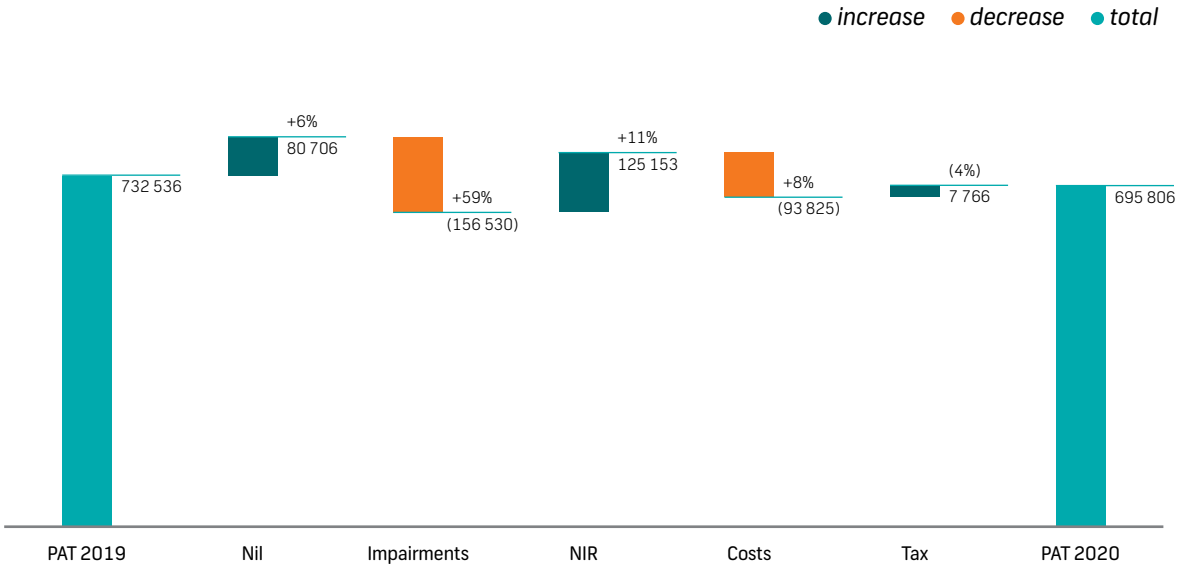



*CAR*



## Income statement

The graph below unpacks the major income statement components of the Bank's performance, which was underpinned by pressure on top-line revenue and the required provisioning due to the increase in credit risk caused by COVID-19.




Interest income growth of 2% was largely driven by the core investment portfolio, which saw investment income growth of 12% year-on-year. Despite the cumulative bank rate[1] cut of 75bps during the year, the net interest income on advances remained flat. This was made possible by a change in the portfolio mix as well as gross advances that averaged at higher levels before experiencing a sharp decline towards the end of the period.

Interest expense declined by 14% year-on-year, largely underpinned by the temporary structural adjustment in market liquidity. Additionally, the bank rate cuts reduced pricing on the money market curve across the industry, especially on term deposits.

The impairment charge for the year increased by 59% year-on-year with a charge of P421 million and an overall credit loss ratio of 2.6%. FNBB recognised the economic impact of COVID-19 and undertook to restructure a significant portfolio of loans to afford customers cash flow relief and assist them in weathering the crisis. To cater for the expected downward pressure on customer risk profiles and realisable values of collateral, the Bank increased provision coverage ratios through an in-depth review of all key credit risk parameters. The coverage ratios across all stages increased year-on-year, stage 1 from 1.4% to 1.5%, stage 2 from 18.6% to 19.9% and stage 3 from 55.8% to 72.5%.

NIR increased 11% year-on-year, driven by fee and point-of-sale commission income growth of 13% and 15% respectively. This was supported by increased volumes across the Bank's digital and electronic channels but most noticeably in merchant transactions. Both transactional volumes and values increased due to the improved connectivity of our digital channels as well as zero rating the FNB App across all networks. FNBB continued to provide help and broadened its financial inclusion by launching a new channel called Cash Plus, which brings services to remote locations and offers convenience to our customers.

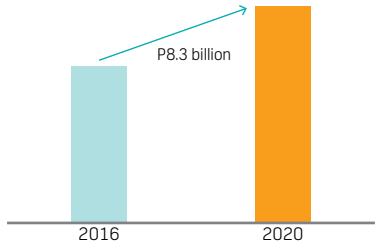
The cost-to-income ratio, which remained below 49.3%, reflects FNBB's continued steadiness in balancing cost management initiatives with strategic investments. Employee benefit costs increased by 6% year-on-year. This cost is being closely monitored in the context of COVID-19, with adjustments to the Bank's discretionary remuneration structures.

[1] *The interest rate at which a nation's central bank lends money to domestic bank.*

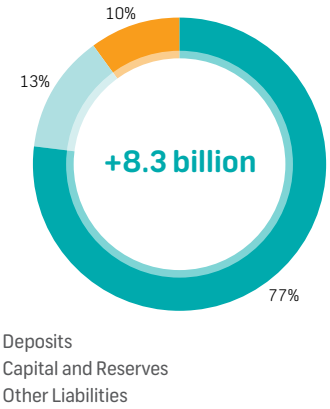
## Statement of financial position

The following charts demonstrate the execution of sustainable balance sheet strategies over the past five years. The funding of assets has predominantly been via the strong deposit franchise.

*Total Assets*



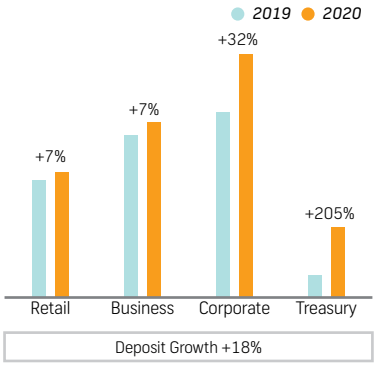

*How statement of financial position growth was funded*




### Funding and liquidity

The Bank's objective is to optimise its funding profile within structural and regulatory constraints to enable its businesses to operate in an efficient and sustainable manner. Liquidity buffers are maintained through the active management of high-quality liquid assets (HQLA), which are available as protection against unexpected events.

The customer deposit franchise recorded growth of 18% overall, driven by growth above 5% across the three customer segments. This was due to excess market liquidity and structural reforms in the monetary policy as implemented by the Bank of Botswana in response to COVID-19. FNBB's funding structure has benefitted from the issue of Tier II Capital amounting to P196 million, which has elongated the funding profile and enhanced the resilience of the balance sheet.

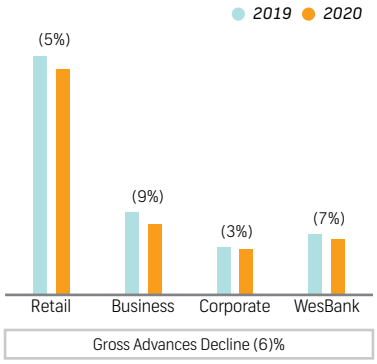



| Deposits | June 2019 | June 2020 | Year-on-year |
|---|---|---|---|
| | P'm | P'm | % |
| Call and Term | 11 508 | 9 433 | (18) |
| Current Accounts | 6 879 | 12 284 | 79 |
| Savings Accounts | 1 204 | 1 455 | 21 |

### Deployment of funding

Efficient deployment of cash and short-term funds resulted in the Bank increasing its investment portfolio by over 100%, from P4.1 billion in the prior year to P9.5 billion in the current year. The surplus cash position followed increased deposits, reduced advances disbursements, and careful management of the investment portfolio, to ensure liquidity risk is well within approved thresholds.

FNBB continued to exercise caution in its credit origination throughout the year, which has improved its ability to face the uncertainties ahead. Gross customer advances declined by 6% year-on-year to P16 billion, with all customer segments experiencing reductions. The absence of new business growth because of lockdowns and other COVID-19 restrictions led to sharp amortisation of the portfolios, together with a cessation of the working capital cycle as businesses preserve liquidity and secure affordability in a "wait and see" approach.



## Advances and impairments

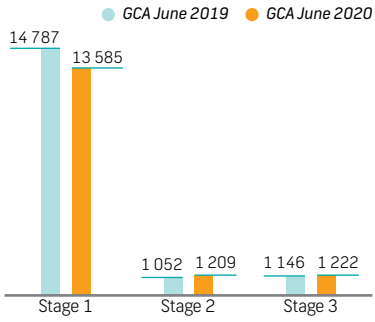
To offer support to our customers through the economic uncertainty caused by COVID-19, the Bank provided cash flow relief to customers via debt restructuring. This cash flow relief was designed to enable individuals and businesses to withstand immediate cash flow pressures presented by COVID-19.

The Bank continued to register credit defaults over the period with the stage 3 (non-performing loan or NPL) portfolio increasing by P77 million year-on-year. The retail portfolio, which is impacted predominantly by the labour market, also experienced an increase in defaults. The home loan portfolio has been underperforming for the last five years and has continued to slow in line with trends in the residential property market and the effects of the pandemic.

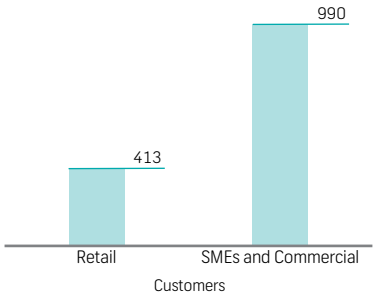
The total advances impairment coverage ratio increased from 6.3% in the prior year to 8.3% in the current year, reflecting the expected downward pressure on customer risk profiles and realisable values of collateral. The Bank increased provision coverage ratios through an in-depth review of all key credit parameters.

| Advances | June 2019 | June 2020 | Year-on-year |
|---|---|---|---|
| | P'm | P'm | % |
| Stage 1 Gross Advances | 14 787 | 13 585 | (8%) |
| Stage 2 Gross Advances | 1 052 | 1 209 | 15% |
| Stage 3 Gross Advances | 1 146 | 1 222 | 7% |
| Gross advances | 16 985 | 16 016 | (6%) |
| Stage 1 ECL | 210 | 202 | (4%) |
| Stage 2 ECL | 195 | 241 | 23% |
| Stage 3 ECL | 640 | 887 | 39% |
| Total ECL | 1 046 | 1 330 | 27% |
| Stage 1 coverage | 1.4% | 1.5% | 5% |
| Stage 2 coverage | 18.6% | 19.9% | 7% |
| Stage 3 coverage | 55.8% | 72.5% | 30% |
| Total ECL/gross advances | 6.2% | 8.3% | 35% |

*Advances Staging P'million*



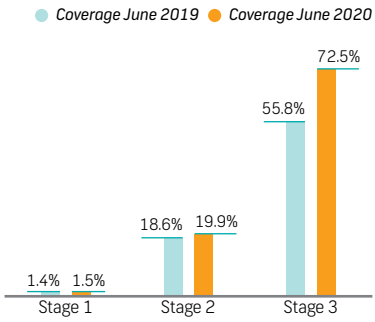

*COVID-19 Restructures P'000*




Customers

| | |
|---|---|
| Retail | 2 207 |
| SME and Commercial | 1 268 |

*Provision Coverage Ratios*



## Capital management

The Bank's capital management strategy ensures an optimal level and composition of capital and effective allocation of financial resources, including capital and risk capacity, resulting in a sound return on equity and a sustainable dividend distribution to shareholders. The capital planning process is conducted on a forward-looking basis and considers earnings volatility. Through this approach, compliance with both the internal and regulatory capital adequacy requirements can be assured, shareholders' returns can be safeguarded, and the Bank can maintain the ability to continue as a going concern even under condition of severe stress.

In the context of the prevailing economic conditions, the Bank has adopted a prudent approach to balancing an efficient capital position with the need to retain sufficient capital for unexpected fluctuations in earnings volatility. This has resulted in an increased capital adequacy ratio and the conservation of capital while considering a medium- to long-term horizon.

| CAR | 2016 | 2017 | 2018 | 2019 | **2020** |
|---|---|---|---|---|---|
| | % | % | % | % | **%** |
| Regulatory minimum | 15.00 | 15.00 | 15.00 | 15.00 | **12.50** |
| Actual | 16.38 | 17.67 | 17.94 | 17.42 | **21.37** |

| Dividends | 2016 | 2017 | 2018 | 2019 | **2020** |
|---|---|---|---|---|---|
| | Thebe | Thebe | Thebe | Thebe | **Thebe** |
| *Interim DPS* | 5 | 5 | 5 | 6 | **7** |
| *Final DPS* | 6 | 6 | 9 | 10 | **8** |
| Total DPS | 11 | 11 | 14 | 16 | **15** |
| Dividend cover | 1.8 | 2.0 | 1.8 | 1.8 | **1.8** |

## Reflections and looking ahead

Given the current outlook for the Botswana economy, we expect credit extension to remain limited, with households constrained by pressures on discretionary income and deferral of capex cycles by businesses until the economic fallout from the COVID-19 pandemic stabilises. Further, with rates remaining low and credit default pressure remaining high, the operating environment for financial services will continue to be challenging.

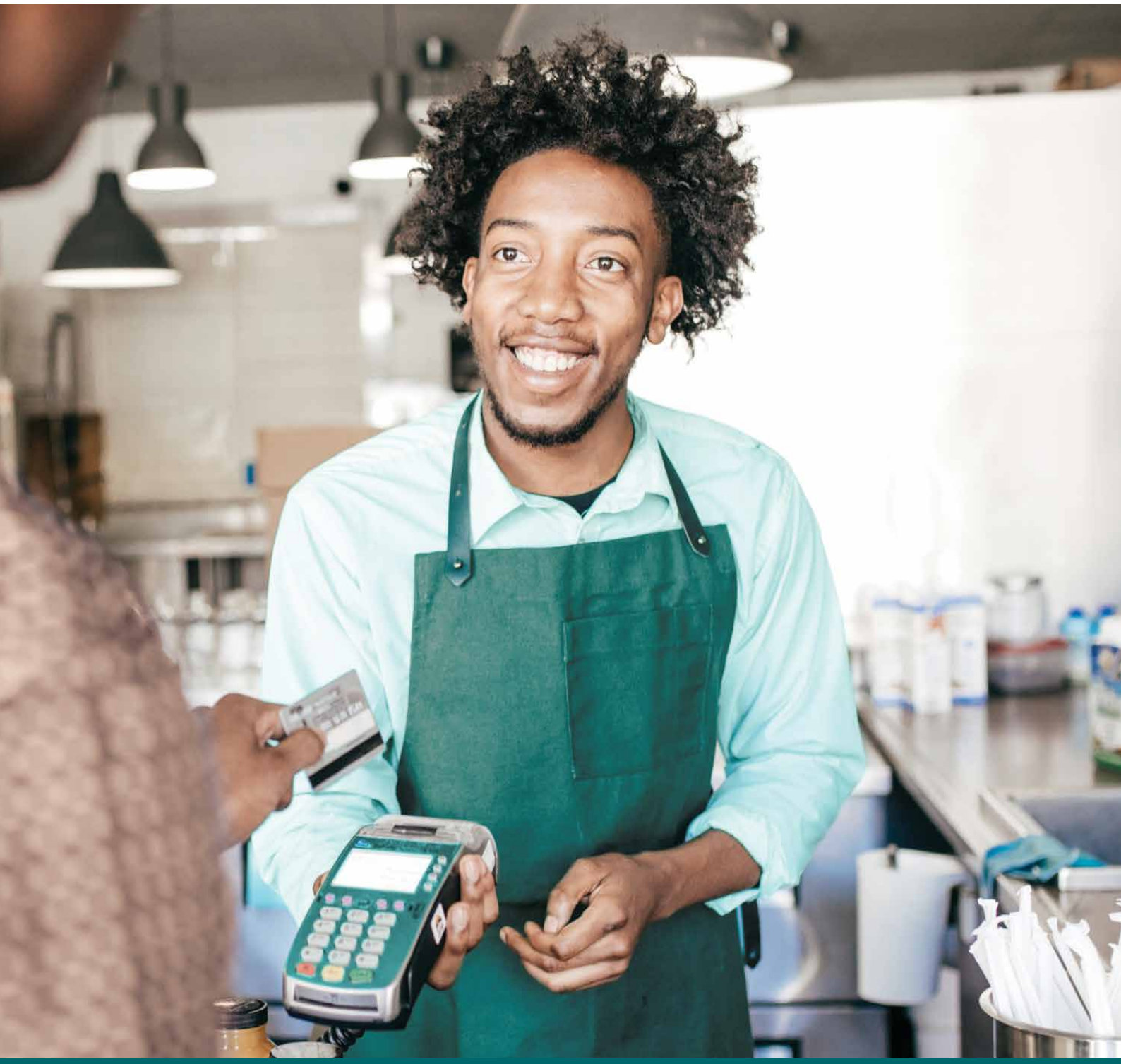
Much of the Bank's success can be attributed to its forward-thinking approach to digital transformation and innovation, which will remain a central focus. Most of the Bank's workforce has been enabled to work remotely with a view to long-term flexible working arrangements. This strategy also facilitated the rapid introduction of responsible social distancing practices in line with the COVID-19 protocols.

One effect of the pandemic has been the acceleration of the customer's journey into digital banking. The FNB App and Online Banking registrations grew notably with customers being further empowered to serve themselves in the form of convenient, value-added services. Cyber security remains paramount, given the technological uptake in the market, and the Bank has invested significant resources in this area to provide safe platforms on which customers can transact. FNBB will continue to invest in the consumer payments ecosystem with the rollout of further POS devices and contactless cards, as well as further investment in the POS infrastructure.

FNBB will continue to optimise and standardise its operational processes with a view to enriching job roles and functions and providing a strong foundation for further development of technology and automation across the Bank. Major initiatives such as the implementation of robotic process automation, machine learning and optical character recognition are under consideration. The enhanced back office processes will translate into an overall improvement in customer experience. This acceleration of the digital and remote working strategies has been and will continue to be underpinned by strict governance and risk protocols.

The Bank remains a strong proponent of good governance and corporate citizenship. The Bank's financial stability is paramount. Provided that is not compromised, the intention remains to accommodate customers needing assistance during the COVID-19 crisis. After its success in extending banking services to more remote locations and multiple access points, the new Cash Plus channel will be further rolled out in line with our approach to financial inclusion. It is fundamental to our strategy to build a shared future of prosperity through enriching the lives of our customers, employees and communities. This is the foundation for a sustainable future and will preserve the Bank's enduring commitment to create long-term value.

**Luke Woodford**
*Chief Financial Officer*



# Segment performance

# Segment performance



## Overview

FNBB provides a full range of banking services and products through Retail, Commercial and Corporate and Investment Banking (RMB) segments in Botswana.

The Retail segment primarily services individual customers and exists to build lifetime partnerships with these customers by offering innovative solutions that match their needs.

FNBB Commercial segment offers world-class solutions that support a business through its lifecycle. As trusted business partners, our bespoke solutions and targeted customer value propositions deliver the ultimate customer experience.

RMB is the Bank's Corporate and Investment Banking segment. As part of RMB's international network, the Bank has the capacity to be a market leader, offering solutions across multiple currencies and jurisdictions.

## Market overview

- Botswana's GDP growth slowed to 3.0% in 2019 (2018: 4.5%) as the regional drought persisted, an election year reduced Government's spending focus and global demand for Botswana's primary export, diamonds, was impacted by persistent US-China trade tensions and COVID-19. GDP is forecast to contract by -10.5% in 2020 due to COVID-19.
- Contraction in the mining and trade sectors (estimated at -30% and -20% respectively) will curtail business and further impact unemployment, which is currently above 20%. Botswana remains highly dependent on diamond production and the trade sector includes tourism and wholesale, which typically contribute significantly to GDP. This will reduce disposable incomes and household expenditure.
- Limited business growth and increasing unemployment have kept customer growth in single digits in recent years, making customer retention, attraction and diversification key focus areas for the Retail and Commercial segments.
- An increasing shift from physical branches to digital banking platforms enables banks to service customers more efficiently and cost-effectively. However, customer uptake of these digital platforms is hampered by high data costs.
- While there have been no new entrants to the Botswana banking sector for a decade, one of the large commercial banks was rebranded and competition for customers in the non-banking mobile money market has increased.
- Secondary market trading remained active ahead of the Bank of Botswana rate cut to 4.25% in June 2020 and bond trading is expected to remain robust in a lower interest rate environment. The recessionary growth pattern anticipated in 2020, coupled with stubbornly low inflation dynamics and subdued demand and output prospects, all point to a view that the bank rate will trend lower to 3.75% in the short to medium term.
- Many local businesses preserved liquidity by delaying planned business growth activities and investments. Due to subdued trade volumes, customer transactional volumes were significantly reduced during the lockdown period, including foreign exchange transactions, as only essential services could import or export goods.
- On the other hand, there was a gradual increase in use of loan facilities by more resilient businesses, and RMB extended working capital facilities and other forms of credit relief to customers experiencing liquidity challenges during the lockdown.

## Segment-specific risks

### Retail

The Retail Banking customer faced several challenges, of which the most material was the impact of the COVID-19 lockdown during the final quarter of the financial year. This translated to operational risk as banking products and services could not be offered in the conventional way. Therefore, the Bank was challenged to be innovative in balancing customer centricity and business risk. The Retail segment demonstrated resilience during this time and remained within the Bank's risk appetite and thresholds.

### Commercial

The Commercial segment faced increased financial and credit risk due to the impact of COVID-19 on the operating environment and business customers. Revenue was impacted by rate cuts and increase in impairments due to security haircuts and additional provisioning in the portfolio.

### RMB

RMB operated in an evolving market that presented several complexities. These required robust strategies to navigate changing customer needs and market conditions, while the trading divisions faced increased currency and interest rate volatility. Market conditions worsened after the emergence of COVID-19.

| Risk area | Segment specifics |
|---|---|
| **Operational** | **Retail, Commercial and RMB:** As an essential service provider required to continue operating during the lockdown, the Bank addressed the COVID-19 risk by:<br>• Allocating employees across different work spaces such as Head Office, branches, disaster recovery site and working from home<br>• Providing Personal Protective Equipment (PPE) and hand sanitisers for staff members<br>• Implementing social distancing at our premises by providing guidelines to customers to minimise the risk of contracting and/or spreading the virus<br>• Encouraging customers to use digital platforms and upskilling additional employees to manage increased call volumes at the Contact Centre<br>• Introducing a work from home model with each segment retaining 25% of employees in the office as directed by the Government of Botswana<br>• Engaging with customers through electronic platforms and providing the necessary education on the use of digital platforms<br>• Launching the cash flow relief programme, which was designed to help customers to apply for loan repayment holidays |
| **Liquidity** | **RMB, Retail and Commercial:** The key liquidity driver for the Bank was the growth in transaction balances, especially in the RMB segment where there was 32% growth. Retail and Commercial deposits grew by 7% each. |
| **Regulatory** | **Retail, Commercial and RMB:** A new product approval committee was established in the Bank's operations to ensure a structured and managed approach to regulatory compliance when new products or enhancements are introduced or when existing products are discontinued. |

| Risk area | Segment specifics |
|---|---|
| **Financial** | **Retail:** To assist customers who were impacted financially by COVID-19 and increase use of digital platforms, the Bank waived some digital banking platforms' fees. While this impacted margins in the final quarter, it is expected to have the longer-term benefit of retaining customers and supporting the drive to digitise banking services.<br><br>**Commercial:** A 75bps decline in the bank rate and COVID-19 related market volatility impacted margins, particularly in the second half of the financial year.<br><br>**RMB:** The segment experienced a slowdown in use of overdraft facilities and lower transactional volumes during the last quarter of the year. However, diversification into other non-interest services supported business resilience. The segment waived fees on unused point-of-sale devices for customers who had their operations closed during COVID-19 lockdown. |
| **Credit** | **Retail, Commercial and RMB:** Credit risk was heightened by COVID-19 and the Bank sought to mitigate the impact across all segments. The Bank introduced a credit relief programme across all segments, where customers applied for a loan repayment holiday. The programme was utilised by some Commercial customers particularly those in high-risk sectors such as mining, tourism and hospitality; RMB customers in real estate and investment banking businesses and Retail customers from diverse industries.<br><br>As part of the credit risk mitigation, the Bank tightened the credit approval processes. New business origination was done selectively with existing customers and those with greater potential for a primary banking (as opposed to multi-banked) relationship. Before granting credit, the Bank ensured, especially for Commercial and RMB customers, a deeper understanding of cash flow forecasts as well as actions taken by customers to preserve cash and contain costs.<br><br>COVID-19 related credit risk resulted in higher credit costs due to additional provisioning, especially in the Commercial portfolio. |
| **Forensic** | **Retail:** The Bank has a large segment of the debit card market that is vulnerable to compromise of card data. We focused on educating customers through different media platforms about potential incidents of card data compromise and continued to tighten our internal financial controls to combat debit card application fraud.<br><br>**Commercial:** The segment improved controls to curb emerging risks and fraud trends, and the segment's processes are reviewed regularly to iron out gaps and monitored for effectiveness.<br><br>**RMB:** Risk management workshops and education of customers on emerging risk and fraud trends enabled the segment to protect its customers and minimise incidents of fraud. |
| **Market** | **Retail, Commercial, RMB:** Despite a competitive environment, the Bank continued to attract deposits through robust digital platforms, primarily Online Banking and POS. |

## Customer attraction, retention and value creation

The Bank's Customer Value Management (CVM) strategy uses data analytics to understand customer behaviour and offer relevant solutions that meet specific customer needs. During 2020, the Bank conducted targeted CVM campaigns to inform customers of digital platforms and encourage the migration from physical branches to self-service channels that are available 24/7. This was done via direct messaging and in-branch digital ambassadors.

*Banking channels*

### Retail

Through our consistent drive to simplify our customers' lives and assist them to fulfil their goals, the segment embarked on several initiatives including;

- A wealth management pilot for customers to engage with financial goal-based planners and receive advice on investment instruments and portfolio diversification
- Through the annual Swipe and Win campaign, which seeks to encourage a card vs. cash behaviour, the segment reached out to communities in Francistown, Maun and Palapye, taking banking to the people and providing financial literacy. The Bank also provided entertainment to customers by collaborating with New Capital cinemas and taking movies to the communities
- Customer engagements such as Premium nights allowed two-way communication with customers, and the pilot of a real-time customer feedback system captured customer feedback at branches to improve insight into customer needs and concerns

- Interest payment on the digital Savings Pocket product to promote a savings culture by demonstrating to customers that even small incremental saving habits yield long-term benefits

### Workplace Banking

The Retail segment collaborates with Commercial and RMB segments to meet and reach Retail customers at their workplaces and provide a range of financial services, including financial literacy presentations and tailor-made solutions that suit the dynamics of different workplaces.

### Commercial

The Commercial segment offers innovative banking solutions to businesses in the market at every stage of their lifecycle, from start-up to mid-corporate. The product offering includes interactive platforms to facilitate day-to-day business transactions as well as credit extension to aid growth of customer businesses. The segment extends lending to key sectors in the economy such as agriculture, tourism and manufacturing, which contribute to economic diversification.

Our transactional banking solutions such as eCommerce, Integrations, Payment Gateways and POS@Till have delivered maximum value to our customers through convenience and ease of doing business. The value created for our customers includes:

- Customer Interest optimisation through cash management solutions
- Reduction in cost of handling cash through various collection of platforms
- Our POS Integration has provided seamless reconciliation for customers
- 24/7 access to banking services beyond traditional banking hours

The impact of COVID-19 on our customers has accelerated the relevance of eCommerce as a revenue stream and a means of business continuity, hence an increase in uptake is expected. Constant improvement of our platforms unlocks efficiencies which enable provision of first-class service to our customers.

### Protecting businesses from risk

Through our comprehensive insurance solution offering, which is mainly targeted at SMMEs, cover is extended to businesses to cushion them against the risks. We realise the need for our customers to have protection over their income streams and guaranteed business continuity. Our tailor-made insurance products are inclusive of workman's compensation, fire and assets cover.

### Enabling SMMEs

Total customer growth of 12% year-on-year, with particular reference to new customer acquisition, is mainly driven by the SMMEs in the segment. In addition to growing our customers' businesses, the Agency Banking model of Cash Plus, which we have rolled out

across the country, provides an opportunity for businesses to diversify their revenue streams. By making it possible for customers to do their banking from retail stores, the platform has created a new trade ecosystem and a gateway to revenue growth especially for SMMEs.

The segment continues to partner with relevant stakeholders to help train and mentor small businesses. The strategic partnerships with MYSC and the Local Enterprise Authority Pitso have been ongoing for the past two years and the Bank will continue leveraging these partnerships to empower and grow SMMEs.

The Bank is working towards launching an incubation project for SMMEs, which will provide coaching and mentorship for our SMMEs, and allow for transfer of business skills. These skills are expected to improve longevity and business acumen for the Bank's SMME clientele.

## RMB

Through RMB's innovation and solutionist thinking approach to business, the segment is consistent in providing bespoke solutions for customers and most importantly exhibited agility with respect to helping their customers respond to COVID-19 complications. Below are several interventions that RMB embarked on to partner with customers in their growth and expansions plans:

- Driving economic sustainability
  The segment worked with the real estate sector to facilitate expansion of retail facilities. These customers continue to invest in the local market to provide world-class retail shopping experiences. Investment in places like Francistown city will go a long way toward reviving the local economy that still show some strain from mine closures. These investments are expected to attract new businesses to the city and create jobs.
- Strategic partnerships for efficient solutions
  The Bank focused on building strategic partnerships with insurance houses to build value for insured customers through optimised collections that ensure policies are up to date and reconciled on time. Collection and reference validation solutions continue to optimise RMB customers' businesses, driving efficiencies in their cash management and reconciliation operations.
- Building a resilient pension fund industry
  Through its Custody division, RMB has used its global partnerships to facilitate smooth movement of assets for major pension fund customers, retaining asset value and causing little disruption to portfolio performance, to the benefit of pension fund customers.

## COVID-19 help for customers

### Retail

The Retail segment reached out to the Bank's customers in several ways to cushion the COVID-19 impact.

- Through customer value management initiatives, the segment reached out to customers to engage, update and educate on COVID-19 messages as well as other bank services. For instance, customers were apprised of some benefits resulting from the volatility of currencies like the Rand and how they can leverage those benefits.
- Customers were kept entertained through online lockdown parties via Facebook, which showcased local artists. Customers appreciated these engagements, as shown by the growth in the weekly viewership of the parties.
- The segment assisted customers through the cash flow relief programme (loan payment holiday) to the value of P343 million. Customers accessed the help via the FNB App and Cellphone Banking.

### Commercial

The COVID-19 pandemic has impacted customers' ability to continue transacting as a result of disruption in the supply value chain, border closures and movement restrictions. Through COVID-19 relief the Bank assisted 514 customers to the value of BWP 1.1 billion, through the extension of moratoriums. Of the total customers receiving assistance, 278 (54%) were SMME customers. The moratorium enabled our customers to preserve cash flow and stay afloat. Temporary lending facilities were also extended to cushion customers' cash flows and enable them to deliver essential services.

Virtual engagement sessions were held with customers at industry level, for example tourism, to fully appreciate the impact of COVID-19 on their businesses.

### RMB

RMB's first response to the pandemic was to prioritise funding support to customers who were closely involved with the acquisition of much-needed medical equipment, ensuring lending facilities to those customers were approved in record time so they could deliver on time to Government. In addition, the segment restructured lending facilities for affected customers, allowing more relaxed payment terms and moratoriums for qualifying customers. The balance sheet support on reviewed facilities and working capital extensions was in excess of BWP 500 million during this period.

RMB also works closely with Retail and Commercial segments to facilitate provision of facilities and services to employees of RMB customers. This became essential during the pandemic as these customers needed the Bank to provide cash flow relief to employees who had reduced benefits.

## Banking channels supporting our segments

### Bridging the financial divide

Botswana's unbanked population stands at 28%. During the 2020 financial year, the Bank focused on using its alternative channels such as Cash Plus and Bank on Wheels to further close the financial divide.

### Banking closer to home made easier – Cash Plus

Cash Plus, also known as Agency Banking, involves partnerships between the Bank and retail stores (Cash Plus agents) to provide financial services to customers. Customers benefit from the convenience of being able to deposit and withdraw cash or buy prepaid electricity or airtime where they shop, while agents are able to provide value-added service to customers and manage their cash more effectively.

With 45 000 transactions (Month-on-Month), Cash Plus's performance is proof the channel meets a previously unfilled need, particularly in rural Botswana where financial services are not easily accessible. Officially launched in September 2019 at an agent store in Gabane, Kweneng district, the turnover of Cash Plus was P33 million as at 30 June 2020.

During the national lockdown in April, ATM transaction volumes declined, whereas Cash Plus use peaked, demonstrating the value customers derived from the ability to access money for basic needs close to home.

### Taking the Bank to customers – Bank on Wheels

Bank on Wheels, a fully equipped mobile branch, travels around the country to remote locations, taking banking to communities and providing financial services. In addition to saving customers the expense of travel and ensuring safety, Bank on Wheels allows the unbanked to start their financial journey in a more secure, rewarding manner.

### Cash Plus and Bank on Wheels synergies for financial inclusion

Reaching the remotest parts of the country, both Bank on Wheels and Cash Plus have helped the Bank reach a financially undeserved market. While Bank on Wheels attracts customers upon arrival, Cash Plus ensures retention by onboarding a Cash Plus agent who continues servicing customers when Bank on Wheels leaves. The synergy between the two channels supports the acquisition and retention efforts of the segments and ensuring Batswana can access banking services within their proximity no matter where they are in the country.

### eWallet

eWallet continues to be market leader in the mobile money space, further driving financial inclusion through 144 Cash Plus agents and 238 ATMs (including ATMs with Deposit) nationwide. Customers, FNB and non-FNB alike, get access to their money more easily and affordably. Remittances can be sent safely to family in remote areas and farmers and landowners can pay employees without fear of their cattle or crops being left unattended for long periods of time. Businesses are able to pay employees conveniently through eWallet Bulk Send for Business, thereby contributing to fraud reduction.

The launch of eWallet reversal, a function that allows the reversal of an eWallet transaction sent to an incorrect number on Cellphone Banking, has been well received in the market. Once a pain point for customers, they can now instantly reverse incorrect eWallets in the palm of their hands, providing peace of mind and saving money on calls to resolve the problem. As a result, eWallet related complaints have significantly reduced on the Bank's customer complaints management system. This is another way the Bank is innovating to meet customers' evolving needs and remain the market leader.

## Branch footprint

While the Bank continues on its 'bricks to clicks' journey, a brick and mortar branch will remain a necessity, particularly among the pre-Gen Xers who are tech weary and prefer human interaction. With 24 branches across the country and two Premium suites in Orapa and Phakalane, customers can access banking services conveniently. The impact of COVID-19 has not affected the Bank's ability to offer help. With strict adherence to safety measures, from hand sanitising to disinfecting branches, each branch is fully equipped to serve customers. The 24-hour digital zones also ensure customers are able to access their money (withdraw or deposit) after banking hours.

The geographical spread of FNBB branches gives customers a one-stop shop for their transactional, investment, insurance and lending needs. Additionally, if they do not have internet but wish to transact digitally, they are able to do so with free FNB Wi-Fi in branch.

Regardless of their geographical address, FNB customers enjoy all FNB products and services in their area and the associated benefits, e.g., free Wi-Fi in branch, Cashback Rewards, etc. Where a physical branch is not available, Bank on Wheels bridges the gap, as does Cash Plus.

## Putting the Bank in customer's pockets: digital banking

'Putting the bank in your pocket' became an even more literal statement this year. With customers able to bank on the FNB App with no data charges on all mobile networks (Zero-rated app) and free Wi-Fi in branches, use of the platform increased substantially, resulting in 65% take-up at the end of June. Compelling platform enhancements such as Forex Online, which allows customers to pay into international accounts within 24 hours on Online Banking, and Pay2Cell, which enables customers to make a payment via mobile number instead of account number on the FNB App, resulted in a digital banking platforms surge.

In the time of COVID-19, health and safety has become paramount. These continual platform enhancements add value to both individual and business customers by helping them bank more safely and securely away from the banking halls, not to mention conveniently and cost-effectively. By banking digitally, customers gain even more value through the Cashback Rewards programme and Bank Your Change. These initiatives also benefit the Bank by increasing the likelihood of customer retention.

The table below shows growth in penetration and usage of our digital platforms (FNB App, Online and Cellphone Banking) between March and May, which can be attributed to the following:

- As part of COVID-19 protocols, the Bank encouraged customers to bank digitally between April and May. This was done through extensive communication campaigns via SMS and various communication platforms.
- The Bank partnered with all Botswana's mobile networks to enable customers to bank on the FNB App without incurring data charges (Zero-rated app). This resulted in increased usage of the App.
- With fewer customers visiting the branches in April and May, the branches took this opportunity to call and onboard customers into digital banking platforms.

| | March 2020 | April 2020 | **May 2020** |
|---|---|---|---|
| Utilisation | | | |
| FNB App | 54% | 58% | **65%** |
| Online Banking | 52% | 64% | **62%** |
| Cellphone Banking | 83% | 95% | **96%** |
| Penetration | | | |
| FNB App | 12% | 12% | **14%** |
| Online Banking | 19% | 20% | **21%** |
| Cellphone Banking | 72% | 74% | **74%** |

### Helping the customer 24/7, over the phone

To provide superior experience and quicker solution of customer queries the Bank is currently piloting a 24-hour Contact Centre, with the hope to officially launch it in the latter part of 2020. The 24-hour Contact Centre is expected to add value by enabling customers to activate their FNB App and Online Banking profiles over the phone, a task that would ordinarily require a visit to the nearest FNB branch or ATM. With this service customers can start their digital banking journey safely, securely, 24/7.

### Transaction Volumes by Banking Channel

| Number of transactions (thousands) | 2019 | 2020 | % Change |
|---|---|---|---|
| ATM and ATM with deposit | 34 532 529 | **35 636 780** | 3.2 |
| Online Banking | 41 695 721 | **49 412 552** | 18.5 |
| FNB App | 3 999 704 | **16 482 363** | 312.1 |
| Cellphone Banking | 94 871 673 | **113 913 602** | 20.1 |
| POS machine (Cash@Till/card swipes) | 18 686 023 | **19 557 252** | 4.7 |
| Cash Plus agents | 111 843 | **189 662** | 69.6 |
| Total | 193 897 493 | **253 192 211** | 21.3 |

## Future focus

### Retail

FNBB will continue to deepen its understanding of, and response to, the evolving needs of its customers by providing seamless access to products and solutions that match their needs.

To remain close to our self-service customers, we will deploy customer relationship tools and Customer Value Management initiatives based on data analytics and supported by the Cashback Reward programme. The Bank recognises that to promote the shift to digital banking, we need to meet our customers halfway by helping them manage data and access costs. As a result, this past year we focused on zero-rating data fees and we will be providing data bundles.

In the current economic environment, and in line with our support of moves to decrease indebtedness in Botswana, we will reduce the size of loans and provide more flexible loan repayment options. We will also continue to promote insurance and investment products that encourage our customers to save money and protect their assets.

### Commercial

The Commercial segment's future focus is geared towards moderate asset growth in sectors with a positive outlook, while developing opportunities across our existing customer base. With 50% of our income earned from non-interest revenue, we will focus on growing revenue generators such as our cash-to-card campaign, SMME value proposition, POS integration and e-commerce platform support.

We will increase our participation in strategic public sector projects and the value chains of customers to achieve asset growth in our Upper and Lower Commercial customer sub-segments. In our Lower sub-segments we will pursue growth in short-term lending products by participating in Government's loan guarantee programme and our customers' supplier development programmes.

As 60% of WesBank's commercial business is project-based, the Commercial segment will focus on the asset finance needs of projects in sectors such as construction that have not been disrupted by COVID-19. We will maintain a cautious approach to Lower Commercial customers who have been impacted by current operating conditions.

## RMB

RMB's focus in 2021 is customer centricity. We will create real customer value by doing business based on our customers' needs and allowing this to guide our growth.

RMB will continue to deliver seamless banking experience underpinned by a robust digitisation strategy. The strategy encompasses increased and enhanced self-service banking channels and use of robotics to optimise business processes and create efficiencies that allow us to serve our customers better.

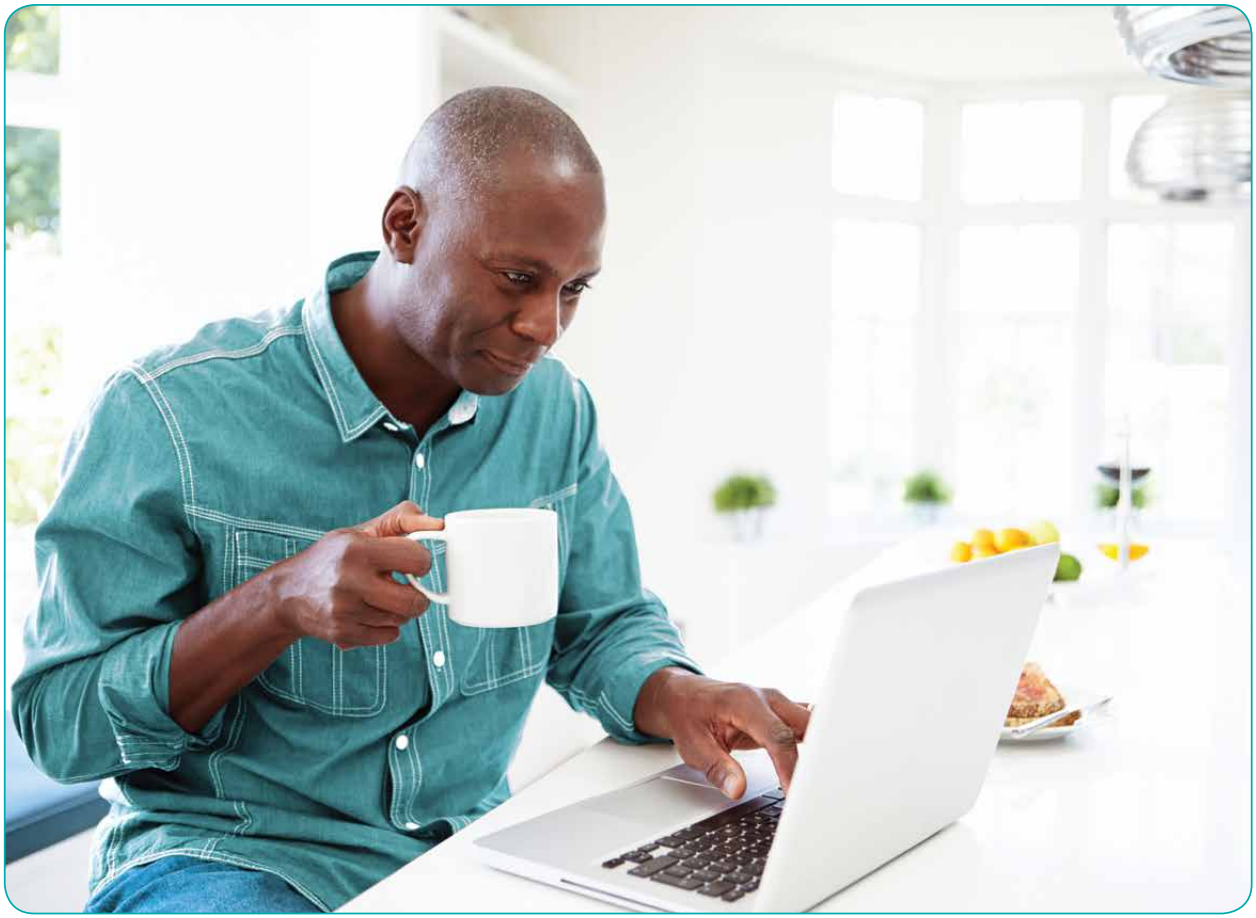
We will partner with customers to deliver innovative solutions that enable them to:

- Continue to do business in changing operating environments
- Meet the evolving demands of their own customers

Defending our core sectors and existing customer base will be central to our business in 2021. By unlocking opportunities in new markets and creating more value-added services, we will continue to grow our business by diversifying our revenue streams.

## Banking Channels

Banking Channels will continue to be a focus area as they strive to help segments achieve their acquisition, retention and diversification ambitions.



# Human Resources

## FNBB enjoys the service of 1 513 dynamic, agile and innovative employees who serve 579 765 customers across Botswana and make it possible for the Bank to remain competitive and grow.

| | Unit | 2019 | 2020 | % Change | |
|---|---|---|---|---|---|
| Total employees (permanent and non-permanent) | Number | 1 554 | **1 513** | (3) | ↓ |
| Male employees | Number | 534 | **532** | (0.4) | ↓ |
| Female employees | Number | 1 020 | **981** | (4) | ↓ |
| Non-permanent employees | | 162 | **113** | (30) | ↑ |
| Learners in Retail segment Leadership Academy | Number | 0 | **45** | 100 | ↑ |
| Learners in Commercial segment training programme | Number | 0 | **9** | 100 | ↑ |
| Most recent Group Engagement Survey (GES) | % | 81[2] | **75[1]** | | ↓ |
| Overall employee turnover rate | % | 8.36 | **3.80** | (54.5) | ↓ |
| Invested in skills development | P'million | 6 175 | **5 992** | (2.96) | ↓ |
| Employee training hours | Number | 36 098 | **24 645** | (32) | ↓ |
| Bursaries to employees | Number | 11 | **14** | 27 | ↑ |
| Women in executive and senior management positions in FNBB | % | 60 | **60** | 0 | ← |

[1] *Conducted in 2018*
[2] *Conducted in 2016*

## How we performed

The Bank focused on productivity improvement through business process re-engineering, strengthening leadership skills, increasing employee engagement, and enhancing performance management processes, while taking care of employee wellness.

The Bank recognises that engaged and committed employees are central to outstanding customer service. Therefore, the Bank aims to create an environment that supports well-rounded employees with a good work-life balance. Notable examples of initiatives to improve employee experience in 2020 were our flexitime and working from home arrangements:

- Flexitime allows employees to start and finish work between a flexible range of agreed hours, provided they work a set number of hours each day.
- A work from home programme gained momentum during the COVID-19 lockdown. Employees who were enabled to work from home will continue with this arrangement even after COVID-19 outbreak stabilises. The Work From Home policy has recently been approved as a working guide to the employees.

### Talent management

#### Graduate development programme

Five graduate trainees were recruited for training in eCommerce, Business Intelligence and Predictive Analytics, Marketing Insights, Credit Analytics, and Digital Banking.

Additionally, the Bank introduced a First Spark Career Accelerator Programme where 10 graduates who completed their studies during the past two years were given the opportunity to develop practical skills and competencies over 12 months within the Bank. After completing the programme, the graduates will be released back into the labour market to forge careers of their choice within the banking fraternity or elsewhere. The graduates are currently hosted within the Bank's Credit, Corporate Banking, Finance, Risk, and Business Intelligence units.

#### Retaining our talent within the business leadership

The Bank renewed its Employee Value Proposition (EVP) to ensure it makes provision for reward and recognition of good performance. Achievers were offered opportunities for secondment to high-performance companies in Botswana and the region through the Africa Expansion Programme, and to development initiatives in partnership with world-class business schools.

### Employee wellness

Our employees work and live in highly pressurised environments that contribute to stress, burn-out and mental health-related illnesses. ICAS, our Employee Assistance Programme (EAP) provider, reports a rising trend of mental health-related cases in Botswana and globally.

The EAP remains the centre of our Employee Wellness Programme (EWP). It helps employees address psychosocial and mental/psychological health matters, equipping them to operate at an executive functioning level and contribute to a high-performance business.

The Bank is working on the construction an Employee Wellbeing Centre, inclusive of a crèche (Kids' Lounge) which is expected to be completed in the 2021 financial year.

*CEO's review*

## Employee engagement

The Bank participates in the Group Engagement Survey [GES] which runs every two years with the objective of enhancing business performance through enabling engagement, alignment and agility in people. In the previous two years, the performance in the strategic dashboard was as follows:

| Item or Category | FNB Botswana 2018 | FNB Botswana 2016 | FNB African Subsidiaries 2018 | Difference from South African Norm* 2018 |
|---|---|---|---|---|
| Alignment | 82% | 84% | 81% | 74% |
| Customer/Client Service | 75% | 79% | 74% | 72% |
| Engagement | 75% | 81% | 77% | 66% |
| Agility | 71% | 74% | 70% | 63% |
| Innovation | 65% | 69% | 63% | 60% |

*Norm* – International Companies doing business in South Africa.*

Subsequent to the GES results, the Bank introduced the Pulse survey as a tool to continue gaining feedback from teams particularly around the past weak GES performance areas. The Pulse tool is also used to inform employees about programmes they may not be aware of. The Pulse survey pointed out some similar areas of common interest for employees i.e., employee engagement, reward, leadership and mental wellness. The EWP, through ICAS, then conducted a mental wellness session with several employee teams in October 2019. The programme would have been implemented across the entire Bank by June 2020 but had to be suspended due to COVID-19 regulations.

Further to our engagement initiatives, the Bank introduced a 'Kgotla' forum in each business unit/segment, which is led by a democratically nominated Kgosi (Chief) and supported by a Mma Kgosi (Queen). This is an informal staff engagement platform designed for regular consultation and/or the exchange of views on various issues affecting staff welfare in their respective areas.

## Promoting progressive thinking

### Productivity at work

The Bank has embarked on a productivity project that reviews key processes to optimise performance efficiency and effectiveness in the Bank. This project has led to several process improvements that strengthened customer service in various business segments by improving cost efficiencies and reducing service turnaround times.

A robust performance management system is being implemented and its impact on employee performance will be evident in the next performance cycle.

### Remaining relevant in an evolving workspace

The Udemy for Business online learning platform was implemented in 2020. The platform offers 2 400 courses ranging from IT, Sales, Credit and Marketing to Strategy Development and Leadership Skills. Through this online learning solution, the Bank has thus far allocated online learning licences to 400 employees. Of those, 279 employees completed 21 421 lectures and viewed 95 467 minutes of educational video content. The top five completed courses were: Emotional Intelligence – Master Anxiety, Fear & Emotions; Leadership: Practical Leadership Skills; Productivity and Time Management for the Overwhelmed; Microsoft Excel – Excel from Beginner to Advanced; and The Business Intelligence Analyst Course 2020.

Part-time scholarships valued at P1 million were awarded to high-performing employees to facilitate their undergraduate or postgraduate studies.

Leadership development was offered to junior, middle and senior management to empower leaders to manage their teams and their own performance.

The Bank invested P6 million in the following training and development initiatives:

- 1 067 employees completed technical skills development training
- 444 employees completed leadership development training
- 183 employees received training in skills such as Personal Effectiveness, Emotional Intelligence, Business Writing, Customer Service, Change Management and Product Knowledge

## Work-life balance

### Best volunteer award

The award encourages employee participation in community volunteer work and outstanding volunteers are recognised annually. The Best Volunteer Award for 2019 was awarded to a staff member from the Commercial segment for sponsoring a young man to upgrade his qualifications and assisting his family.

### Volunteer Champion Training

To encourage employee participation and community engagement, the FNBB Foundation started a 'Volunteer Champion' initiative, where each FNBB segment/business unit nominates a representative to lead their volunteering activities. The role of the Champions is to promote corporate citizenship within each department.

All employees are encouraged to spend a minimum of 16 hours each year in individual or team volunteering projects. This initiative aims to create shared value and beneficial linkages between FNBB staff and the community.

## Future focus

The Human Resources (HR) department's focus in 2021 will be digitising learning and development, leadership development, employee engagement, performance development and the implementation of high-performance culture practice. Employees will be offered a range of online learning opportunities in the fields of HR, banking, finance, leadership and personal mastery. The HR offering will be streamlined and improved through an HR business partner (HRBP)/coordinator hub model. This model will allow HR business partners to service the entire Bank from a centre of excellence where HR functions are optimised. This way, HRBPs are not deployed as dedicated resources to a specific area but rather take and resolve HR-related service requests from any function in the Bank.

The online learning initiative will support the attraction, retention and development of skills aligned with bank of the future. Other supportive initiatives include leadership development and an enhanced Employee Value Proposition, which includes subsidised employee study and non-monetary lifestyle incentives.

We will focus on achieving our mission of empowering people by providing vibrant spaces and using our cutting-edge platforms to create sustainable shared value for all.

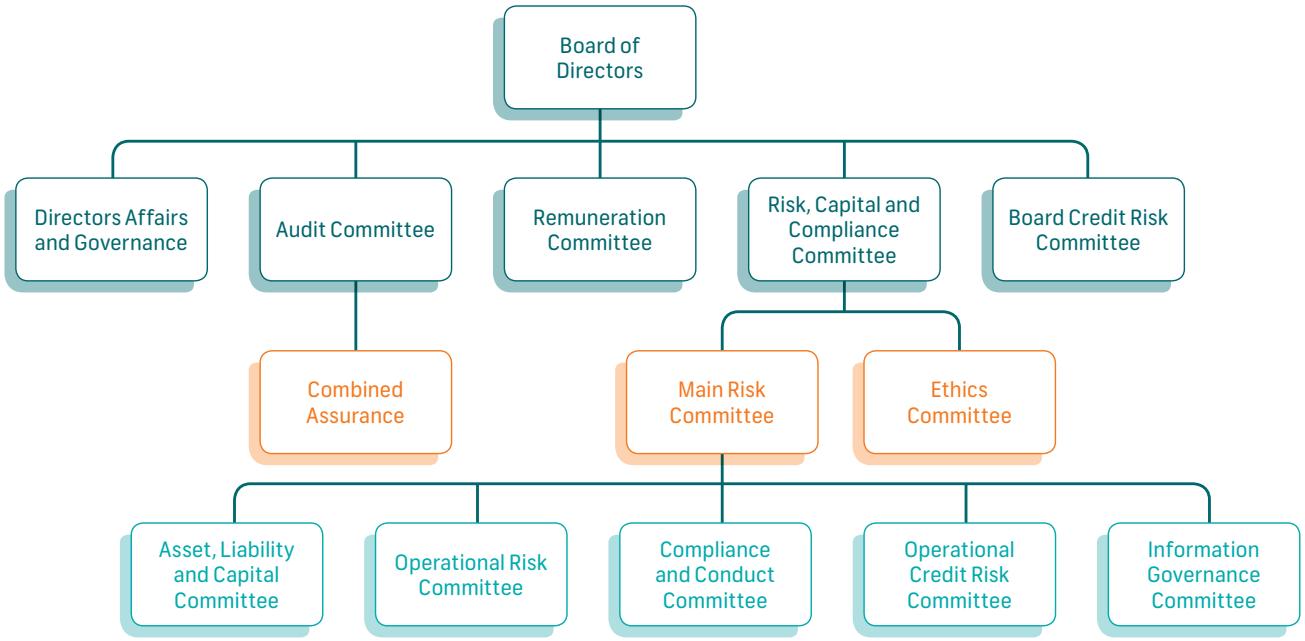
These initiatives are expected to improve GES.


# Governance and **remuneration**

# Governance

The Board believes that excellent corporate governance is fundamental to ensuring a sustainable and successful business. To the Board, corporate governance is more than a set of frameworks, principles and rules. It means abiding and living by values and structures that enable the Bank to facilitate and foster good relationships between the Board, customers, employees, shareholders and all stakeholders.

## Governance structures



# Board of Directors

**From left to right:**

*Back row:*

Nelson Mokgethi ● Steven Lefentse Bogatsu ● Michael William Ward ● Balisi Mohumi Bonyongo

*Front row:*

Jabulani Richard Khethe ● Doreen Ncube

**From left to right:**

*Back row:*

Ephraim Dichopase Letebele ● Sifelani Thapelo ● Naseem Banu Lahri ● Markos Davias

*Front row:*

John Kienzley Macaskill

## Balisi Mohumi Bonyongo (52)

### Independent Non-Executive Director (Chairperson)

BEng (Hons) Mineral Engineering (University of Leeds), MBA (UCT), SEP (London Business School)

Appointed to Board: February 2019

**RCCC, DAGC**

Balisi is the former Managing Director of Debswana Diamond Company, which is identified as the world's leading diamond producer by value and volume. During his distinguished 26-year career with Debswana, Balisi held various senior management and executive roles, including Corporate Strategy Manager, Jwaneng Mine General Manager and Debswana Chief Operations Officer. Balisi is currently Council Chairperson of the Botswana International University of Science and Technology and a Member of the Botswana Vision 2036 Council. He joined the FNBB Board in February 2019 as a Non-Executive Director.

## John Kienzley Macaskill (70)

### Independent Non-Executive Director

BCom (University of Pretoria, AEP (UNISA)

Appointed to Board: March 2014

**AC, DAGC**

John started his career with Barclays National Bank in 1972 and remained with the bank through its transition to FNB in 1987 and he has remained with the FirstRand Group for his entire career until his retirement in September 2013. Formerly CEO of FNBB (1996 – 2003) and Chairperson of the Board (2017 – 2019), he has held various senior positions within the FirstRand Group in South Africa, London and Hong Kong. His career in financial services spans human resources and international corporate and retail banking. John also serves on the Boards of FNB Moçambique SA and First National Bank Zambia Limited.

## Sifelani Thapelo (55)

### Independent Non-Executive Director

LLM (University of Cambridge) Corporate Law, Finance and Securities Regulation

Appointed to Board: March 2002

**DAGC, REMCO**

Sifelani has extensive litigation experience and currently holds the position of Senior Partner in his law firm based in Francistown. Sifelani is a member of the Cambridge Commonwealth Society, Alumni of the International Development Law Organisation and a member of several other boards.

## Michael William Ward (65)

### Independent Non-Executive Director

Appointed to Board: August 2009

**RCCC, BCRC**

Mike opted early in his life to pursue a career as an entrepreneur and has over 30 years' experience of business in Botswana and sub-Saharan Africa, mainly but not solely in commercial security. He is credited with creating one of Botswana's first home-grown public companies, Inco Holdings, which was listed in 1992. He remained as both CEO and the largest shareholder until a controlling interest was acquired in 2003 by an international group to become G4S, now one of Botswana's largest employers. From 2003, Mike acted as regional director responsible for developing businesses in many countries in Africa, firstly with the G4S group until 2008 and subsequently with ADT South Africa. Mike brings to the FNB Botswana board his entrepreneurial acumen and his knowledge of the business environment in both Botswana and the region.

## Nelson Mokgethi (71)

### Independent Non-Executive Director

Masters in Development Economics (Williams College), BA (Economics) (University of Botswana and University of Swaziland)

Appointed to Board: August 2009

**DAGC**

Nelson is the Director of Dikarabo Event Ventures, where he consults for the African Development Bank to produce infrastructure data reports and trains infrastructure data collectors from African countries under the African Infrastructure Knowledge Programme. After obtaining his first degree, Nelson rose through the ranks of the Finance Ministry's Division of Economic Affairs to become its Deputy Secretary. In 1992, he was appointed Secretary for Budget Administration in the Division of Budget Administration until his retirement from public service in 2004. Nelson has been a director of several organisations, including Botswana Accountancy College, Botswana Railways, Air Botswana, Botswana Public Officers Pension Fund, Public Procurement and Asset Disposal Board, Bank of Baroda, MVA Fund and CEDA. He currently serves as Chairperson of BPOMAS Property Holdings (Proprietary) Limited.

## Doreen Ncube (61)

### Independent Non-Executive Director

MSc (Management) (Arthur D Little Management Education Institute), BA (Admin) (UBLS)

Appointed to Board: July 2015

**BCRC, RCCC**

Doreen has worked in the banking sector for 22 years and has extensive experience in financial planning, risk management and compliance. She began her career with the Ministry of Commerce and Industry in 1990, where she rose to Senior Industrial Officer and was a member of the

Central Tender Board. After a brief spell with Shell Oil Botswana as an Assistant Marketing Manager, she joined Bank of Botswana in 1991, where she occupied several positions, including Senior Bank Examiner within the Financial Institutions Department and Deputy Director of the Banking Supervision Department, before being appointed Head of Compliance at Barclays Bank Botswana Limited in 2002. She served as Head of Risk Advisory Services and Regional Head of Compliance for Southern Africa Barclays Businesses before her retirement in 2012. She was a former board member of the Botswana Medical Aid Society where she chaired the Board's Finance Committee.

## Markos Davias (39)

### Independent Non-Executive Director

CA(SA), BCom (University of Johannesburg)

Appointed to Board: December 2017

**AC, RCCC**

Markos began his career 16 years ago as a Trainee Accountant at Deloitte. He joined Rand Merchant Bank as Head of Finance – Global Markets and was later appointed CFO of RMB. Markos is currently the CFO of FNB, Johannesburg, South Africa, where he is responsible for the full strategic and operational finance function for FNB in South Africa. He brings to the Board his considerable skill in corporate and investment banking, business strategy, statutory, regulatory and managerial finance, and risk management.

## Ephraim Dichopase Letebele (60)

### Independent Non-Executive Director

MSc (Strategic Management) (University of Derby), BCom (UB)

Appointed to Board: December 2017

**BCRC**

Ephraim is a Chartered Secretary, an Accounting Technician of the Botswana Institute of Chartered Accountants and an Associate of the Southern Institute of Chartered Secretaries and Administrators. His career began in the public service in 1979 where he served in various capacities for 26 years. His last tour of service was as Accountant General in the Ministry of Finance and Development Planning. In 2005 he was appointed the first CEO of the Botswana Public Officers' Pension Fund (BPOPF), where he served for 8 years. In 2010 he established Ramokoroga (Pty) Ltd, a property development and sub-letting business which he serves as a Non-Executive Director.

Ephraim previously served on the boards of Mascom Wireless, Botswana Accountancy College, BPOPF, Bank of India (Botswana), Prescient Holdings (Botswana) (Pty) Ltd, Prescient Fund Services (Botswana) (Pty) Ltd and Prescient Management Company (Botswana) (Pty) Ltd. He currently serves on the Ramokoroga (Pty) Ltd board.

## Jabulani Richard Khethe (57)

### Non-Executive Director

BCom (University of Pretoria), MBA (Bond University), MMDip, Executive Management Development Programme (GIBS and INSEAD)

Appointed to Board: September 2005

**AC, REMCO, DAGC**

Jabu retired as CEO of FNB International Africa in April 2017 and has extensive banking, insurance and leadership experience with financial institutions in South Africa. He is a member of the boards of several of the FirstRand Group's African subsidiaries in Namibia, Mozambique and Nigeria.

## Naseem Banu Lahri (45)

### Independent Non-Executive Director

MSc Strategic Management (University of Derby), BCom (UB), ACCA (Botswana Accountancy College)

Appointed to Board: August 2019

**AC, REMCO**

Naseem is a well-rounded Fellow Chartered Certified Accountant (FCCA) and strategist with 20 years' working experience, including two years in an audit firm, 17 years in the mining industry and 1 year in insurance. In May 2018, Naseem became the first Motswana woman to lead a diamond mining company, Lucara Diamond Corporation. Prior to that she was CFO of the company and had been in different leadership positions at Debswana Mining Company for 10 years.

## Steven Lefentse Bogatsu (48)

### FNBB CEO, Executive Director

ACCA, MSc Strategic Management (University of Derby)

Appointed to Board: 2015

In April 2015, Steven became CEO of FNB Botswana, a bank in which he has held several senior leadership roles. This followed two years as CEO of FNB Swaziland and previous positions as CFO and Director of Product Houses at FNB Botswana, responsible for Property Finance, WesBank, Credit Card, International Trade and Custody. Prior to joining FNB, Steven trained at Ernst & Young and worked at Kgalagadi Breweries as Group Internal Auditor, Management Accountant and Project Accountant; at Barclays Africa Finance as a Financial and Business Analyst; and at Stanbic Bank Botswana as CFO. Alongside his banking career, Steven has held directorships on several boards, including the Local Enterprise Authority and Botswana Medical Aid and Med Rescue International.

| | |
|---|---|
| **AC** | Audit Committee |
| **BCRC** | Board Credit Risk Committee |
| **DAGC** | Directors' Affairs and Governance Committee |
| **RCCC** | Risk, Capital Management and Compliance Committee |
| **REMCO** | Remuneration Committee |

## Corporate Governance

As corporate governance custodians of a listed entity and a duly registered company under the laws of Botswana, the Board has legal and regulatory obligations aimed at ensuring its effectiveness. The Companies Act as amended, BSE Listing Requirements, the Banking Act and related guidelines such as the Guideline on Appointment of Directors, and the King IV Report on Corporate Governance all form part of a governance framework that guides the Board in the discharge of its duties.

## King IV Report

In an effort to align with international best corporate governance practices, the Board has adopted the King IV Code. The Board is proactively incorporating the principles as contained therein and submits as much as possible to the 'Apply and Explain' requirement as expressed in the code. The incorporation and application of the King IV principles is discussed further on pages 88-89.

## Strategy, performance and reporting

The Board takes overall responsibility and accountability for the success and sustainability of the Bank. Its role is focused primarily on exercising sound leadership and independent judgment when considering the Bank's strategic direction and overall performance, while always considering the best interests of all stakeholders.

As part of its duties, the Board is responsible for establishing strategic objectives, goals and key policies, identifying and monitoring key risk areas and key performance indicators of the business, approving strategy and budgets and regularly reviewing progress against strategic objectives as well as reports for external publication.

## Key Board considerations and future focus areas

### Key Board activities 2020

Strategic focus areas:

- Effective governance
- Effective risk management
- Capital adequacy ratio
- Going concern assumptions
- Solvency testing

Strategic initiatives:

**Review of financial and operational performance reports:**

- Approving credit facilities exceeding certain limits that require Board approval
- Approving an issue of unsecured subordinated notes up to the value of P200 million to rebalance capital in line with changing requirements
- Setting maximum limits for unsecured retail advances
- Approving traded market risk limits
- Approving macroeconomic assumptions to support various financial and operational assessments

**Monitoring and approving regulatory reports including:**

- Going Concern and Solvency Test Review in line with Section 58(3) of the Botswana Companies Act of 2007 as amended Cap 42:02
- SARB Regulation 40(4)(a)(iv) compliance related to going concern
- Adoption of frameworks used for the Annual Financial Statements and Annual Integrated Report, including adoption of a materiality definition for integrated reporting
- SARB Regulation 39 and King IV annual Self-assessments ensuring that appropriate corporate governance structures are in place

**Approval of:**

- Annual Financial Statements and Integrated Report
- Dividends
- 2021 budget
- 2025 Strategy
- Changes in Board Sub-Committee composition
- Board Governance Framework
- Appointment of new board members
- Policies and frameworks as discussed on page 81
- 2020/2021 training plan
- Appointment of new Company Secretary
- Board and Board Committee Charters

### Continued and ongoing focus areas of the Board

- Providing oversight on 2025 Strategy implementation
- Impact of COVID-19 on Bank operations
- Rebuilding the Bank's resilience through robust risk management frameworks
- Delivery of Shared Value to all the Bank's stakeholders

## Board composition and tenure

The Constitution of the Bank provides for a maximum of 13 and a minimum of 4 directors. The Board currently comprises 11 Board members, the majority of whom are of Non-Executive Directors and independent.

Pages 66 and 67

The Board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence. To ensure that diversity is maintained when new directors are appointed, the Board is guided by the Board Governance Framework.

**Average tenure**
**6 years**

**Average age**
**57 years**

**Female:Male**
**2:9**

**Batswana: Other national**
**7:4**

## Independence

The DAGC oversees the assessment process for directors' independence and provides a recommendation to the Board for approval. Independence is determined against the criteria and recommendations set out in King IV as well as in the Companies Act.[1]

The financial services sector is complex and suitably qualified directors with the requisite skills and business experience are rare. As such, the Bank has directors with a tenure longer than nine years. A King IV independence assessment was performed on directors with a tenure of more than nine years. The Board is satisfied that the Independent Non-Executive Directors who have served continuously for nine years or more can act independently in decision-making in the best interests of the Bank. The Board Governance Framework is a key consideration when selecting directors.

[1] *Independent Non-Executive Directors are the Directors who are not employed by the Bank or any of the companies in the FirstRand Group and have not been employed by them in the previous three years.*

## Rotation

Directors are appointed through a formal process. The nomination process and shortlisting of candidates for interviews has been delegated to the DAGC. In addition to candidates' skills, experience, availability and likely fit, the Committee considers demonstrated integrity and proven leadership and other directorships and commitments, to ensure candidates will have sufficient time to discharge their role effectively.

*DAGC report*

All Non-Executive Directors are subject to retirement by rotation and re-election by shareholders on an annual basis. The Constitution provides for a third of the directors to retire and, if eligible, offer themselves for re-election at every Annual General Meeting (AGM). This re-election is not automatic. It is subject to set performance and eligibility criteria. The Constitution ensures a staggered rotation of Non-Executive Directors with a view to retaining valuable skills and maintaining continuity of knowledge and experience in the Board.

At the November 2020 AGM, the following directors will retire by rotation: Ephraim Letebele, Markos Davias and Nelson Mokgethi. The following, being eligible, will offer themselves for re-election: Ephraim Letebele and Markos Davias. Nelson Mokgethi will not offer himself for re-election.

In terms of the Board Governance Framework, the retirement age for Non-Executive Directors is 70 and may be extended after an annual review process if unanimous agreement is reached by the Board that the skills and experience of a director are still required.

In terms of the Bank's Constitution, election of the Chairperson and Deputy Chairperson of the Board is conducted annually. The annual election of a Chairperson is mandatory, and the annual election of a Deputy Chairperson is optional. The Board unanimously elected Balisi Bonyongo as Chairperson and unanimously agreed not to elect a Deputy Chairperson.

## Delegation

The Board Governance Framework sets out matters specifically reserved for determination by the Board and those matters delegated to its committees and to management. The functions exercised by the Board and those that are delegated are subject to ongoing review to ensure the division of functions remains appropriate.

Each Board and Management Committee acts within agreed written terms of reference (Charters) that are reviewed and updated regularly. The Chairperson of each Board Committee reports back to the Board on the deliberations of Committee meetings at every Board meeting. Furthermore, the Chairperson of each Committee is required to attend the AGM to answer questions raised by shareholders.

The Board is satisfied that the delegation of authorities as set out in the Board Governance Framework contributes to role clarity and the effective exercise of authority.

## Company secretary

The Company Secretary is responsible to the Board for ensuring adherence to sound corporate governance principles and compliance with prescribed procedures.

Gaone Setlhake was appointed as the Company Secretary of the Bank on 6 February 2020. The Company Secretary maintains an arms-length relationship with the directors. All directors have unrestricted access to the advice and services of the Company Secretary in all aspects of the Board's mandate.

An assessment of the performance of the Company Secretary is undertaken annually, as part of the Board evaluation process. The Company Secretary was assessed, among other things, on competence, suitable qualification and experience to advise the Board on good governance. Furthermore, the Board evaluates whether the Company Secretary discharged the responsibilities of the role effectively for the period under review. The 2020 assessment confirmed that the Company Secretary was appropriately skilled and discharged the responsibilities of the role effectively during the period under review.

## Independent advice

In terms of the Bank's Constitution, members of the Board are entitled to seek independent advice, if required, and at the Company's cost, during the execution of their fiduciary duties and responsibilities. Members also have direct access at all times to the Group's external auditors and all members of Executive Management.

The Company Secretary is responsible for facilitating the sourcing of independent professional advice at the request of any director who requires advice in the discharge of his or her responsibilities. The Board is satisfied with the effectiveness of these arrangements.

## Meeting attendance

| Directors | Board | AC | BCRC | RCCC | DAGC | REMCO |
|---|---|---|---|---|---|---|
| Executive Directors | | | | | | |
| SL Bogatsu[1] | 4/4 | 4/4 | 10/12 | 4/4 | 3/3 | 2/2 |
| Non-Executive Directors | | | | | | |
| MG Davias | 4/4 | 4/4 | | 4/4 | | |
| Independent Non-Executive Directors | | | | | | |
| BM Bonyongo* | 4/4 | 2/2 | | 2/4 | 1/3 | |
| S Thapelo | 4/4 | | | | 3/3* | 2/2 |
| MW Ward | 4/4 | | 12/12 | 4/4* | 3/3 | |
| JK Macaskill[2] | 4/4 | 4/4* | | 3/4[1] | 3/3 | |
| N Mokgethi | 4/4 | | | | 3/3 | |
| D Ncube | 4/4 | | 12/12* | 4/4 | | |
| JR Khethe | 4/4 | 4/4 | | | 3/3 | 2/2* |
| ED Letebele | 4/4 | | 12/12 | | | |
| N Lahri | 3/4 | 3/4 | | | | 2/2 |
| D Kgosietsile[3] | 1/4 | 1/4 | | | | |

* *Chairperson.*

[1] *Standing Invitee – The Executive Director is a standing invitee in all sub-committees. In relation to Board Risk Committee, he attends with the CFO and Director Credit, who represent him in cases where he is not present.*

[2] *Invitee.*

[3] *Retired at November 2019 AGM.*

## Development and evaluation

### Development

The Board has a comprehensive development programme. The annual plan for ongoing training focuses on the governance of risk and the needs identified during the annual assessment process. The training programme has been designed to be facilitated by in-house experts. Training is provided in the various areas of the business, coupled with training by external service providers. The 2020 training plan was approved by the Board.

### Evaluation

It is both a King IV recommendation and SARB Regulation for evaluations to take place. Self-assessments of governance and the compliance function of the Board and Board Committees was conducted in February 2020 in terms of SARB Regulation 39.

The DAGC, with the assistance of the Company Secretary, is responsible for ensuring that the evaluation of the performance and effectiveness of the Board, the Committees and individual directors is conducted annually. The Board evaluation which includes evaluation of Board, Chairperson, Executive Director, Company Secretary, independence assessments, peer assessment and skill assessment were conducted in August 2020. The outcomes are deliberated at DAGC and escalated to the Board meeting and the Chairperson of the Board discusses the outcome of director assessments with each individual director.

Overall, the performance of the Board and its Committees is satisfactory, with improvement specifically noted in Board composition and succession planning.

**AC** Audit Committee
**BCRC** Board Credit Risk Committee
**DAGC** Directors' Affairs and Governance Committee
**RCCC** Risk, Capital Management and Compliance Committee
**REMCO** Remuneration Committee

## Executive team

### Luke Woodford
**Chief Financial Officer (CFO)**

CA, FCMA, Accelerated Development Programme (Wharton Business School)

Luke Woodford has been the of CFO of FNB Botswana since February 2018. He has worked for the FirstRand Group for over 10 years in various roles, including CFO of FNB Tanzania and CFO of FirstRand India. Prior to his international roles, Luke worked in the Home Loans division of FNB SA, where he was integrally involved in the credit and collections processes following the 2008 global financial crisis.

### Matshidiso Kereteletswe
**Chief Operating Officer (COO)**

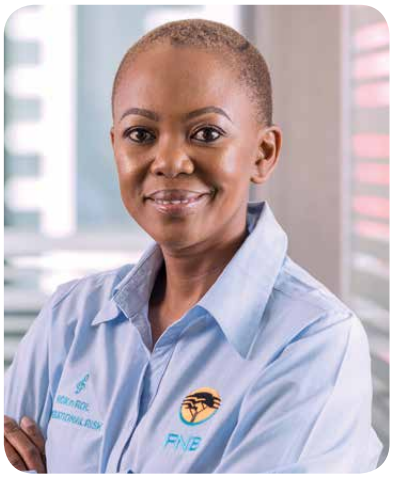
BSc Computer Science (Technical University of Nova Scotia), Certificate in Banking (BIOB), MBA (De Montfort University), Leading with Finance (Harvard University)

Matshidiso Kereteletswe has been the COO of FNB Botswana since 2018. Among other responsibilities, her mandate includes overseeing the day-to-day operational activities of the Bank, ensuring efficient customer service and playing a lead role in the implementation of the Bank's strategy. Before joining FNBB, she held executive positions at the then Barclays Bank and Stanbic Bank. She has more than 15 years' experience in the banking industry. Before joining the banking sector, Matshidiso worked for the United Nations Children's Fund (UNICEF). She is a member of the Institute of Electrical and Electronics Engineers (IEEE) and Association for Computing Machinery (ACM).

### Ngoni Chikore
**Chief Information Officer (CIO)**

BSc Computer Engineering (University of Arkansas), CDCP and COBIT 5 certified

Ngoni Chikore is an Information Technology practitioner with over 16 years' experience in the field. He has worked in various industries, ranging from mining and parastatals to services and banking. After 13 years as Group IT Infrastructure Manager at Debswana, Ngoni joined the Botswana Innovation Hub as Head of IT Programmes. Before joining FNB Botswana as CIO, Ngoni was Head of IT at Bank Gaborone.



## Lesego Thupayagale

### Chief Risk Officer (CRO)

BA (UB), Senior Management Development Programme (Stellenbosch University)

Lesego Thupayagale has 19 years' experience in the banking sector, including treasury, balance sheet management, risk and compliance. As CRO, she is responsible for legal risk management, fraud risk management, operational risk management and information risk reporting management. She was previously responsible for compliance and Anti-Money Laundering risk management. Under her leadership, FNB Botswana has achieved compliance with necessary AML legislation. A firm believer in growing talent, she currently heads the Investing in Human Capital Strategic Stream, which has launched key employee initiatives. Lesego is currently pursuing a coaching course with the Graduate Business School (UCT). In addition to mentoring young professionals, she pioneered an arts competition in her home village to address unemployment and substance abuse.

## Lolo Molosi

### Treasurer

MSc Financial Economics (Exeter University), BSc Economics and Environmental Science (UB)

Lolo Molosi is FNB Botswana's Treasurer and provides leadership and strategic balance sheet management direction for the Bank. In her 11 years with the Bank, Lolo has held several positions, including Deputy Treasurer, Head of Sales – Global Markets, and Client Portfolio Executive for the Corporate segment. Prior to that she worked for Barclays Bank and Bank of Botswana. Lolo is an honouree of the UCT/FirstRand ADP Personality Award 2017 and the University of Botswana prestigious award for academic performance excellence.

## Sean Pugh

### Director, Credit

BMgmt (UKZN Business School of Technology), several leadership and management courses

Sean Pugh is a seasoned credit professional with a career spanning 32 years in different leadership capacities within the FirstRand Group. He is responsible for monitoring and implementing the FNB Botswana Credit Risk Management Policy by achieving set performance standards and compliance with the credit regulatory requirements. Sean heads a portfolio that spans credit origination, ongoing risk, collections and credit risk portfolio management.

## Olebile Makhupe

### Director, RMB

Global Banking Programme (Columbia Business School), BANKSETA Regional Immersion Programme

Olebile Makhupe heads RMB Botswana, the Corporate and Investment Banking segment of FNB Botswana, and is in charge of the Bank's Merchant Services business. Her extensive banking experience includes roles in several countries across various banking disciplines, such as strategy development and execution, leadership, business management, governance and risk management. Olebile's extensive financial services experience includes disruptive financial technologies such as marketplace lending, technology-based financial consulting (robo-advisers), blockchain technology and digital transformation strategies.

## Kgopodiso Justine Basiami

### Acting Director, Commercial

Acting Director, Commercial BA (UB), Associate Diploma in Banking (BIOB), Executive Development Programme (UCT)

Justine Basiami has been with FNBB for 22 years. Starting off as an Executive Graduate Trainee her illustrious career in the Bank includes, Corporate Manager WesBank, Head of Private Clients, Deputy Director WesBank and Director of WesBank. It was at WesBank where she was the face of the brand and worked extensively with the Motor Vehicle Dealers and Equipment Suppliers to drive the Partnership strategy and attain a significant market share that led to the growth of the WesBank Brand. Justine is an associate member of the Botswana Institute of Bankers. Her experience in modern general banking spans across relationship management, branch and strategic business unit management, marketing and product development. She is currently overseeing the Bank's Commercial portfolio in an acting role.

## Boitumelo Mogopa

### Director, Retail

BCom (UB), FCCA, Executive Development Programme (Harvard Business School)

Boitumelo Mogopa is the Director of the Retail segment. Boitumelo's outstanding career in banking and finance spans 22 years, during which she has developed an understanding of business strategy and implementation. Prior to heading the Retail segment, she was CFO for three years and saw FNB Botswana claim its position as Botswana's largest bank by all measures, a position the Bank still holds. Having developed deep insight into customer behaviour, Boitumelo pioneered the introduction and launch of the Premium Segment at FNB Botswana. Given the uncertainty and new complexities in banking and business, Boitumelo is deploying the skills she gained from the Harvard Business School Executive Development Programme to build competency in Design Thinking.

## Lerato Chana Sekgororoane

### Director, Channels

BA Social Sciences (UB)

Chana joined FNB Botswana in 2014 as Head of Channels and was promoted to Director of Channels in 2015. Chana has 23 years of experience in the banking industry. She is responsible for managing all 24 branches across the country, the Self-Service Delivery Department encompassing all FNB ATM/ADT devices pan-Bank, the Digital Banking Department (which focuses on the FNB electronic banking platforms) and the newly introduced FNB Alternative Channels (Cash Plus and Bank on Wheels). Her team of 540 employees is responsible for serving customers across the country and international customers seeking banking services in Botswana.

## Sethunya Molodi

### Director Compliance

LLB (University of Botswana), Diploma in Trial Advocacy (National Institute for Trial Advocacy, US) ACIS (The Chartered Governance Institute of Southern Africa)

Sethunya has been the Director of Compliance for FNB Botswana since 1 November 2019. In her role, Sethunya is responsible for providing the Bank with effective compliance management strategies and tools and methodologies to drive and embed compliance culture within the Bank. Sethunya has developed expertise in law and company secretaryship, investor relations management, corporate governance and stakeholder management over her 13 year's work experience. She previously worked at National Development Bank, Botswana Medical Aid Society and Botswana Post as Head of Legal and Company Secretary. Prior to her new role, Sethunya served as the FNBB Company Secretary from 2016. She is a Chartered Company Secretary and an Associate Member of the Chartered Governance Institute of Southern Africa.

## Bonang Kwape

### Director, Human Resources

MA Industrial Psychology (Roosevelt University), BA Psychology and Mass Communication (University of Missouri)

Bonang Kwape is FNB Botswana's Director of Human Resources as of October 2019. She provides thought leadership and strategic direction in driving individual and organisational performance, and leadership and strategic balance sheet management direction for the Bank. Her experience over more than 20 years spans private and public entities in different countries and cultures. She has worked in Botswana, South Africa and the United States as well as on numerous projects throughout the African continent. Bonang has held different positions in transport and logistics, healthcare and utilities and has held management consulting roles in various industries.


## Peo Porogo

### Acting Director, Marketing & Communications

BA Business Administration (UB), Management Development Programme (UCT and Stellenbosch University)

Peo Porogo oversees brand and marketing strategies for FNB Botswana (inclusive of RMB and WesBank) with the mandate to position the FNB Botswana brand to compete effectively in a highly competitive and mature banking industry. Peo has over 13 years' experience as a Marketing & Communications professional and has held various positions in the telecommunications, fast-moving consumer goods (FMCG) and banking fields.

## CEO succession planning

The Executive Director is employed on a standard employment contract, similar to the terms of all other employees. The Board approved a succession plan for the CEO role, which identified candidates based on their readiness to take over the role. The principles considered were:

a) emergency/ready now candidate
b) medium-term (ready in 1-3 years)
c) long-term (ready in 3-5 years)

A deliberate and comprehensive development plan for the candidate identified to succeed the CEO was developed and implemented.

## Committee Reports

*All Committees reviewed their responsibilities as set out in their terms of reference and mandates and are satisfied that they have fulfilled them during the year.*

Each Committee acts within agreed and Board approved written terms of reference that are reviewed and updated regularly. The Chairperson of each Committee reports back to the Board on the activities and decisions taken at committee meetings.

### Audit Committee (AC)

| | | |
|---|---|---|
| Mandate | The Committee's objective is to assist the directors to discharge their duties relating to the safeguarding of assets, the operation of adequate systems and controls, and the assessment of going concern status, ensuring the relevant compliance and risk management processes are in place to review the work performed by the external auditors and the Internal Audit function, and to review financial information and Integrated Reports that are provided to shareholders and other stakeholders.<br><br>The Committee has an independent role with accountability to the Board and shareholders. The Committee does not assume the functions of management, which remain the responsibility of the Executive Directors, officers and other members of senior management. | **Members as at 30 June 2020**<br><br>JK Macaskill – Chairperson<br>M Davias<br>NB Lahri<br>JR Khethe<br>SL Bogatsu – Standing invitee |
| Key activities for 2020 | • Reviewed significant internal and external audit findings and monitoring progress reports on corrective actions required to rectify reported internal control shortcomings<br>• Considered quarterly financial reports from Executive Management:<br>  ◦ Reviewed and monitored capital and ascertained that expenditure was adequately budgeted, controlled and monitored<br>  ◦ Reviewed and approved the Internal Audit Plan for 2020/2021<br>  ◦ Reviewed a documented assessment, including key assumptions prepared by management of the going concern status of the Bank, and confirmed that the Bank will be a going concern for the foreseeable future<br>  ◦ Determined that the Bank's financial statements accurately reflect its financial position and the Bank maintained effective accounting practices and policies<br>  ◦ Recommended to the Board approval of the 2021 budget<br>  ◦ Scrutinised accounts outside normal clearing periods in terms of the Account Management Reconciliation Policy (ARMP)<br>  ◦ Recommended financial reporting as required by the Botswana Accountancy Oversight Authority (BAOA)<br>• Recommended to the Board in terms of regulatory and statutory reporting:<br>  ◦ Approval of the Annual Financial Statements and Integrated Report<br>  ◦ Signature of the solvency certificate in terms of section 58(3) of the Companies Act<br>  ◦ Dividend recommendation<br>  ◦ Signature of SARB Regulation 40(4) letters<br>• Review and recommendation of the AC Charter to Board for approval<br>• Considered and monitored the effective functioning of internal controls which were deemed effective in all material respects during the year under review, including the skills and resources of the Internal Audit and Finance functions<br>• Considered the High Court ruling regarding tax assessment matter related to withholding taxes and capital allowances<br>• Considered competitor and segment risk reports<br>• Monitored progress on implementation of the Risk-Return Framework | |
| Continued and ongoing focus areas | • Impact of COVID-19 on the Bank's financial position<br>• Monitoring of the going concern review, the capital adequacy ratio and audit findings | |

## Board Credit Risk Committee (BCRC)

| | | Members as at 30 June 2020 |
|---|---|---|
| Mandate | The Committee has an independent role in making decisions within its delegated mandate and makes recommendations on credit decisions for applications above 10% of the Bank's unimpaired capital to the Board for consideration and final approval.<br><br>The Committee does not assume the functions of management. This remains the responsibility of the Executive Directors, officers and other members of senior management. | D Ncube – Chairperson<br>ED Letebele<br>MW Ward<br>SL Bogatsu – Standing invitee |
| Key activities for 2020 | • Interrogated processing of credit facilities to customers together with the RCCC<br>• Approved large exposures and monitored them on an ongoing basis as part of an annual review of facilities<br>• Ensured exposures are sufficiently backed by collateral provided by counterparties and covenants are adhered to<br>• Ensured all credit activities relating to large exposures were conducted within the risk strategy, policies and tolerance levels approved by the Board<br>• Maintained oversight of balance between advanced NPLs and impairment provisioning<br>• Updated reporting to the Board for deals greater than P100 million | |
| Continued and ongoing focus areas | • Assessment of COVID-19 impact on credit | |

## Risk, Capital Management and Compliance Committee (RCCC)

| | | Members as at 30 June 2020 |
|---|---|---|
| Mandate | The Committee's objective is to help the Board discharge its responsibilities for overseeing risk management across FNBB. Without removing itself from the primary responsibility, the Committee delegated the responsibility of managing the different risk types arising from the nature, complexity and risks inherent in its operations to specialist risk management sub-committees. The RCCC submits its reports and findings to the Board and highlights control issues to the AC. The responsibilities of the RCCC are determined by the following legislations:<br><br>• Banking Act, 1995 as amended (Cap 55:01) and Regulations relating to banks<br>• Botswana Companies Act of 2007 as amended Cap 42:02<br>• Global best practice guidelines<br>• Botswana Stock Exchange Act (Cap 56:08)<br>• Other relevant Acts | MW Ward – Chairperson<br>D Ncube<br>M Davias<br>BM Bonyongo<br>JK Macaskill – Invitee<br>SL Bogatsu – Standing invitee |

| | |
|---|---|
| Key activities for 2020 | • Considered inclusion of environmental impact considerations into policies<br>• Considered the progress in the BURS audit into transfer pricing agreements<br>• Considered reports form Executive Management on Regulatory Risk Management and Inspections<br>• Assessed KYC compliance and monitoring of processes to mitigate the effects of CIPA process changes<br>• Interrogated operational risk reports submitted by management<br>• Scrutinised the Business Continuity Management (BCM) and Information Technology Risk Report<br>• Considered asset and liability risk including:<br>  ◦ Depositor limits<br>  ◦ FirstRand liquidity facility<br>  ◦ Domestic medium-term note programme<br>• Considered credit risk report matters, including:<br>  ◦ Non-performing loans<br>  ◦ Credit exposures on specific outlier customers<br>  ◦ Islamic Banking credit exposure<br>• Satisfied itself on the Bank's standing in relation to the Frameworks and Policy universe<br>• Considered adoption of a Risk-Return Framework and undertook related training in November 2019<br>• Ensured progress as planned on information governance project (i.e., BCBS 239)<br>• Annual Review of Charter and recommendation to Board for approval<br>• Kept updated on Government spend and economic conditions<br>• Submitted to the Board for approval:<br>  ◦ Operational Risk Management Framework<br>  ◦ Funds Transfer Pricing Framework<br>  ◦ Procurement Policy<br>  ◦ Account Reconciliation Management Policy<br>  ◦ Recovery Plan<br>  ◦ The Bank's Credit Risk Appetite Statement for Commercial Corporate and Investment Banking (CCIB) and Retail Credit Risk<br>  ◦ Capital Management Framework, and specific capital minimum targets<br>  ◦ Internal Capital Adequacy Assessment Process<br>  ◦ Regulatory and Conduct Risk Management Framework<br>• Reviewed Credit Risk Appetite Policies for Commercial, Corporate Investment Banking and Retail segments<br>• Proposed approval for the Risk Data Aggregation and Reporting Framework, the Traded Market Risk and Framework and an upwards revision of the LCR to 80%<br>• Proposed new Traded Market Risk limits<br>• Maintained oversight of the progress mandate on the Group's (FirstRand Limited and its subsidiaries) SLA reviews<br>• Assessed business continuity in relation to COVID-19<br>• Reviewed and submitted to the Board for approval Regulation 39 governance assessments of the RCCC and the risk and compliance functions<br>• Ensured that systems and resources to combat cybercrime are continually assessed and amended as necessary for this ever-evolving risk. |
| Continued and ongoing focus areas | • Impact of COVID-19 on Bank operations<br>• Operational impact of Botswana's FATF listing<br>• Implementation of BCBS 239 and monitoring of the impact of IFRS<br>• Improvement of the Bank's fraud and IT risk controls<br>• Constant monitoring of cybercrime to ensure we stay ahead of cyber criminals |

## Directors' Affairs and Governance Committee (DAGC)

| | | |
|---|---|---|
| Mandate | The Committee's objective is to help the Board discharge its responsibilities for governance, Board and Committee structures, Board continuity, Executive remuneration, Board effectiveness and Executive succession.<br><br>The Committee reviews the structure and composition of the Boards of its subsidiaries. The Committee ensures that the Board complies with all applicable laws, regulations and codes of conduct and practices. | **Members as at 30 June 2020**<br><br>S Thapelo – Chairperson<br>JR Khethe<br>JK Macaskill<br>N Mokgethi<br>BM Bonyongo<br>SL Bogatsu – Standing invitee |
| Key activities for 2020 | • Considered the recommendations in the BAOA Assessment Report and noted the need for both the DAGC and AC to review the report's findings that related to King IV disclosure improvements, succession planning and Board composition<br>• Noted the REMCO review and recommendations on Board fees<br>• Considered applicants for Independent Non-Executive Directorship<br>• Considered the results of the Board self-assessment. No significant findings were noted<br>• Considered and approved CEO and Executive Management Succession Plans<br>• Reviewed the Governance Framework and recommended it to the Board for approval<br>• Reviewed the DAGC Charter and Board Charter for the Board's approval<br>• Shared a personal account trading statement with the Board to guard against share trades inside closed periods<br>• Received regulatory approval in August 2019 for the appointment of Ms N Lahri as Director and had oversight of her induction | |
| Continued and ongoing focus areas | • Board effectiveness and continuity<br>• Independence of Board members<br>• Recruitment of a director skilled in IT<br>• Board succession planning | |

## Remuneration Committee (REMCO)

| | | |
|---|---|---|
| Mandate | The Committee oversees the Bank's remuneration and ensures that practices align the interests of employees and shareholders. REMCO promotes fairness of remuneration by ensuring that the principle of equal pay for work of equal value is applied, and that remuneration is market-related and sustainable. | **Members as at 30 June 2020**<br><br>JR Khethe – Chairperson<br>S Thapelo<br>NB Lahri<br>SL Bogatsu – Standing invitee |
| Key activities for 2020 | • Considered the business and financial performance of the Bank<br>• Reviewed the proposed salary review for 2020/2021 in light of COVID-19<br>• Mandated management to commence union negotiations of non-managers' salaries<br>• Considered the macroeconomic factors likely to have an impact on salaries<br>• Resolved that in light of COVID-19, recruitment shall be frozen until further notice<br>• Considered and recommended to the Board no increase in Board of Director fees<br>• Considered the 2020 annual salary review principles for salary increase, bonus and share allocations<br>• Performed annual review of pay comparisons and benchmarking in the local market of salaries and variable pay (incentive/flexible options bonus and shares and retention packages for key resources)<br>• Considered the Pay Scale Project and in light of the COVID-19 impact, recommended the deferral of the project until further notice<br>• Considered the line by line remuneration of Executive Management<br>• Reviewed and recommended the REMCO Charter to Board for approval | |
| Continued and ongoing focus areas | • Close monitoring of COVID-19 impact on remuneration practices and principles.<br>• Improve remuneration disclosure, transparency and stakeholder engagement<br>• Evaluate remuneration best practices | |

## Other governance matters

### Ethics

In order to ensure proper governance of ethics within the Bank the following are in place:

- Ethics frameworks, policies and standards that guide staff and supply chain (suppliers, third-party vendors) on what is ethically appropriate conduct.
- The Ethics and Conduct Risk Committee, which exercises regular and proper oversight of the ethics performance of the Bank.
- The ethics performance is reported and disclosed through the Ethics Committee and matters escalated to the Executive Committee.

### Ethics frameworks, policies and standards

The FNBB Code of Ethics serves as the main guiding tool for ethics conduct. It is the foundation of all business conduct programs and provides principles, values and guidance on ethical issues within the Bank. The Code helps sensitise employees on the ethical considerations and minimises the likelihood of unethical behaviour occurrences.

The following Ethics policies were approved by the relevant governance forums:

- Whistleblowing Policy
- Conflict of Interest Management Policy
- Ethical Conduct in Financial Markets Policy
- Anti-Bribery and Corruption Framework
- Anti-Bribery and Corruption Policy
- Personal Account Trading Policy
- Supplier Code of Conduct Policy
- Fair Market Conduct Policy

### Ethics and Conduct Risk Committee

The main functions of the Committee are as follows:

- To monitor the Bank's activities in relation to ethics audits, fair treatment of customer relationships and coordinate critical events of ethical and reputational importance to the Bank.
- To draw matters within its mandate to the attention of Executive Members Committee.

### Reporting

There are regular independent assessments (internal and Group audits) that are conducted to assess the adequacy and effectiveness of the Bank's ethics management processes and structures. This is to ensure proper management of the Bank's ethical culture.

### High focus areas of the Ethics and Conduct Committee:

- Embedding and institutionalisation of the ethics culture by ensuring operationalisation of the policies and enhanced pan-bank training.
- Adoption and approval of the Market Conduct Metrics and Anti-Bribery and Corruption Key Risk Indicators and tracking of same.
- FX Global Code review and implementation.
- More collaboration with the HR department to mitigate the whistleblowing cases which are mostly of HR concern.
- Enhanced Treating Customers Fairly (TCF) monitoring and management.

*Whistleblowing cases 2020*

| Reportable actions | Total cases report | Open as at 30 June 2020 |
|---|---|---|
| Illegal or unlawful conduct | 2 | **0** |
| Unprocedural conduct/ improper conduct | 0 | **0** |
| Other forms of unethical conduct (e.g. victimisation, money laundering, fraud, syndicates and scams, conflict of interest) | 9 | **4** |
| Wasteful conduct (e.g. health, safety and environmental issues) | 0 | **0** |
| Total | 11 | **4** |

No material or repeated regulatory penalties, sanctions or fines for contraventions of or non-compliance with statutory obligations were imposed on the Bank or on members of the Board.

### Information technology governance

The Bank has a sound and effective Information Technology (IT) governance framework which include structures, governing bodies and processes. This framework is aimed at improving the overall management of IT and deriving improved value from investment in information and technology. It also enables the Bank to manage IT risks effectively and ensure that the activities associated with information and technology are aligned with the Bank's overall business objectives. The IT governance objectives are discussed below.

### Technology alignment to business objectives

Structures and processes are in place to ensure that technology investments, roadmaps and fitness of purpose are aligned to the business needs and strategy. This alignment is first and foremost customer centric and ensures that technology solutions are designed and operated to ultimately serve the customer needs in compliance with appropriate risk controls, technology architecture standards and regulatory compliance. This alignment is constantly being reviewed and updated to ensure relevance and validity to current challenges and situations. One such example is the requirement to innovate and increase customer service points country wide in order to address challenges associated with customer social distancing needs and supporting COVID-19 protocols. Recent business needs that have resulted in rapid technology change to align to challenges include enabling employee mobility and process digitisation to allow the Bank's employees to work from a location of their choice such as their homes.

## Responsible and secure utilisation of technology resources

The Bank has policies in place to ensure responsible usage of technology resources. These policies require employees to adhere to set out practices that protect information resources and mitigate exposures of information technology to threats such as cybercrime, loss of IT equipment, leakage and inappropriate access to privileged information. Regular training and awareness of staff members is conducted to ensure that employees stay updated and equipped to securely and responsibly manage information and technology resources.

## Technology risk management

IT risk management is at the core of the Bank's IT governance and management. The Bank fully appreciates the leverage and convenience as a result of deploying IT solutions for both employee and customer requirements. As such, the Technology Services Division of the Bank recognises the need to ensure a robust IT risk management framework that ensures that structures and controls to ensure business resilience, continuity and IT disaster recovery are in place. The risk management framework also ensures that the information technology team is adequately equipped with the appropriate staff capacity, skills, processes and tools to efficiently and effectively execute their roles for a high availability and safe technology environment for our staff and customers. Regular control testing such as the IT disaster recovery and IT back office health checks are conducted to provide assurances on the fitness of the technology resources to meet the business demand, compliance and customer expectations.

## Technology cost efficiencies

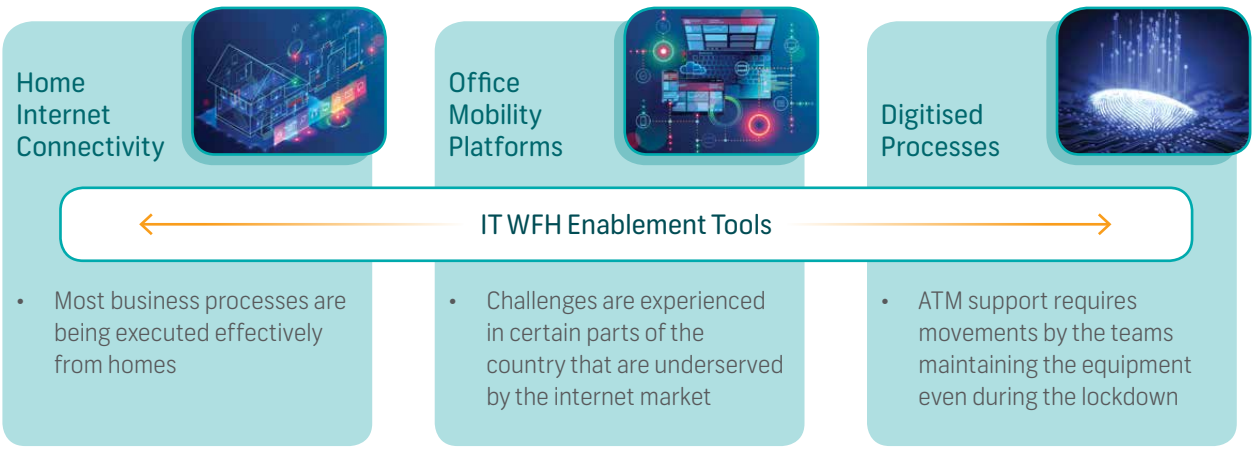
The Bank recognises the need to keep technology costs in check while ensuring that performance and fitness of purpose is not compromised. This is achieved by ensuring that the technology infrastructure is standardised and streamlined in order to leverage economies of scale as well shared resources for skill synergies. Monitoring and optimisation of key costs such as printing and telecommunication costs is also a key consideration which the Bank pays particular attention to.

## Technology regulatory compliance

The Bank regards technology regulatory compliance as a necessary enabler to providing sustainable and secure solutions to ensure and maintain the Bank, customers and shareholder value. We have embedded regulatory requirements in the IT governance framework to ensure that there is process execution alignment to regulation.

## Key IT governance focus areas

- Reduction in major incidents that are disruptive to the Bank's operation including customer service
- Optimisation of IT resilience by improving the Bank's disaster recovery set-up and recovery time objectives to meet evolving business and customer needs
- Adherence of all customer-facing platforms, such as ATMs, branches, Contact Centre, Point-of-Sale (POS) devices and all digital banking platforms, to the Bank's service quality objectives, such as high availability
- Alignment to the Group's (FirstRand Limited and its subsidiaries) technology architecture principles and platforms to leverage greater value for our customers through economies of scale and innovation footprint from Group.
- In early March 2020, the Bank's IT teams faced the challenge of enabling the majority of staff members to work from their homes under short timeframes. Fortunately, the Bank was already enabling staff members to work from anywhere as a pilot, and the COVID-19 Work From Home (WFH) objectives simply accelerated the wide-scale implementation of this initiative. The following shows the tools that were key to enabling staff to work from home:



### IT change management

A process was implemented to address IT and communication-related issues and improve the Bank's reaction to major incidents.

### Preventative IT governance measures

- No cyber fraud attempts were detected during the year but phishing remained a constant threat and continues to be monitored daily
- The Bank has sufficient IT resources for the foreseeable demands of the business and appropriate SLAs are in place to support the IT function. Tests to track the effectiveness of SLA performance indicated a 92.03% SLA compliance rate
- Several measures were implemented to manage and mitigate IT risk, including a disaster test conducted in February 2020 and a follow-up disaster recovery test in April 2020. All network links were successfully switched over to the disaster recovery site. The Bank conducted a follow-up disaster recovery test in April 2020 to verify remaining configurations, which affected only three of 71 tests, giving the February recovery test a success rate of 94%
- A project plan on data privacy was logged to align with the POPI Act (South Africa) and Data Privacy Act (Botswana)
- Biannual access reviews were scheduled for March 2020 to ensure access levels are commensurate with job functions
- There was a focus on addressing audit issues timeously and treating the appropriate root causes to avoid recurrences

### Planned areas of future focus

- Robotic Process Automation (RPA) – There are plans to introduce RPA to optimise certain processes that are mundane and repetitive to enhance Turnaround Times (TAT) and improve customer experience and satisfaction
- Enhanced digital platforms – The Bank will continue to innovate on its digital platforms to offer more convenience to customers as well as contribute to financial inclusion in all parts of the country. Additional customer banking self-service capabilities such as account opening are also a focus area
- High availability of IT services – Focus on optimising the current technology availability will continue. This will require close partnerships with the network services industry, such as mobile network operators (MNOs) and internet service providers (ISPs)

## Assurance

### Internal Audit (IA)

The Bank has an independent in-house Internal Audit function which operates in terms of an approved charter. Internal Audit's purpose is to be a proactive business partner, providing integrated, risk-based, objective assurance, insight and related advisory services. The scope includes independent assurance over the internal control systems and the Bank's regulatory and economic capital models, regulatory reporting, capital management, stress testing and the internal capital adequacy assessment process (ICAAP).

Internal Audit continually engages with combined assurance role players to obtain insights into business strategies and to ensure integration, coordination and alignment of assurance activities to maintain sufficient coverage of high-risk areas over the three-lines model. The collaboration enables Internal Audit to place reliance on work performed by other assurance providers subject to certain criteria being met, including competence, rigour and bias related to the execution of assurance work.

The audit plan is presented to the Audit Committee for approval and is revised and approved quarterly to remain agile and aligned to key risks in the organisation.

The Head of Internal Audit reports functionally to the Audit Committee Chairperson and administratively to the CEO, and has the mandate to communicate directly and freely on relevant matters. Internal Audit management is exposed to key business and governance meetings to engage proactively with business.

The Internal Audit team is supported by Group Internal Audit team at FirstRand. This approach supplements the in-country skills to perform specific technical and Bank-wide reviews and facilitates effective knowledge sharing. Where requisite skills are not available internally, Group Internal Audit co-sources these from external experts. An electronic group risk and compliance (eGRC) platform has been adopted, which maintains a database of audit findings and facilitates tracking and monitoring of management remediation efforts.

Internal Audit continues to engage with management in its efforts to remediate audit findings. Risk management's focus on validating these findings further enhances the implementation tracking process and ensures that all valid risk exposure is addressed.

### Combined Assurance Forum

The primary objective of combined assurance is to facilitate the integration, coordination and alignment of risk management and assurance activities within the organisation to optimise the level of risk, governance and control oversight on the organisation's risk landscape. The Combined Assurance Forum (CAF) ensures that the various assurance providers work as a collective to see that the right amount of assurance in the right areas is obtained from providers with the relevant skills and experience, in the most cost-effective manner. CAF meets quarterly and agrees on the key risk and control themes it will monitor across all segments/business units from time to time. Attendees include representatives from management and internal and external assurance providers. The combined assurance view of key risks and control themes is reported to the Audit Committee quarterly.

### External audit

The external auditors provide an independent opinion on the Annual Financial Statements. The external audit function provides reasonable but not absolute assurance on the accuracy of the financial disclosures within published thresholds of materiality. There is close cooperation between the internal and external auditors to ensure adequate coverage of all material areas of FNBB's business, sharing of information and minimisation of duplicated effort.

## Corporate citizenship

The Board emphasised the importance of being a responsible lender leading the market in financial literacy awareness and encouraging behavioural change.

The first comprehensive Report to Society produced in terms of the Botswana Stock Exchange Guidelines on Environmental and Social Governance Reporting was approved and issued in December 2019. The report detailed how we strive to live FNBB's brand promise of supporting the society within which we operate to create a better world, rather than focusing only on the goal of making profit.

As the first bank in the country to launch a foundation, FNBB contributes 1% of its profit after tax to the FNBB Foundation to facilitate CSI activities. The FNBB Foundation focuses on youth empowerment, environmental sustainability, sports and recreation, arts and culture, education as well as social welfare.

## Providing real help during the COVID-19 pandemic

FNBB Foundation and FNBB remained true to the mandate of offering real help to communities by extending relief during the COVID-19 pandemic. Heeding to the call of the Botswana Government for companies and individuals to help, FNBB Foundation dedicated P5 million to various initiatives aimed at minimising the impact on communities, support containment measures and minimise economic fallout.

Some of these initiatives include:

- Supporting frontline workers by donating 60 000 water bottles worth P246 000 to the Botswana Police Service and Botswana Defence Force during lockdown;
- Partnering with a local chain store, Sefalana Group to donate food hampers worth P1 million to the disadvantaged;
- Empowering local youth SMMes by partnering with KPS Hygiene Services to disinfect public spaces; and
- In support of the creative arts industry, which has been hard hit by the pandemic, FNBB launched a creative arts relief programme, 'Bodiragatsi Jwame, Lentswe Lame' (my art my voice), where artists stood a chance to win a share of P1.5 million.

*CEO's review*

*Disinfection of public spaces*

FNBB Foundation entered into a partnership with KPS Hygiene Services to disinfect public spaces around Botswana. The partnership included a cash contribution of P360 000 by FNBB Foundation and P140 000 cash equivalent by KPS (a youth-owned Motswana company). The Mayor of Gaborone, His Worship Father Maphongo, and the FNBB Foundation Board of Trustee Dr Lesedinyana Odiseng officiated at the ground-breaking ceremony held at one of the densely populated areas in Gaborone, Old Naledi. The disinfection took place in Greater Gaborone, Molepolole, Palapye, Kanye, Serowe, Mochudi, Francistown and Maun.

*Relief programme for creative artists*

Over 150 artists participated in the 'Bodiragatsi Jwame, Lentswe Lame' (relief programme for creative artists) from the following categories: Fashion, Short Film, Online Music Shows, Music, Literary Arts, Fine Arts, Comedy, Poetry and Dance. FNBB and FNBB Foundation have taken a deliberate decision to continue working with some of these artists on the Bank's internal and external initiatives to showcase their talent and earn an income. The Foundation further engaged Fashion category winners for example, to procure 2000 face masks for primary school pupils valued at P100 000.

This initiative is part of the Bank's flagship relief programmes aimed at supporting and providing real help to those affected by the pandemic in the creative and performing arts industry. FNBB Foundation aims to continue empowering creatives through its focus area of Arts and Culture.

## Contributing through our focus areas

The FNBB Foundation continued with its Solar Bag initiative, launched its first youth empowerment initiative called 'First Youth' and increased available funding for staff volunteer projects.

*Supporting sports at grassroots level*

In 2018, FNBB signed three-year sponsorship agreements with Botswana Tertiary Student Sports Association (BOTESSA) and the Botswana Football Association's (BFA) junior national teams valued at P3 million each. The sponsorship reaffirms the Bank's commitment to grassroots sports development in Botswana as well as youth empowerment, both of which have proven to be building blocks towards the goal of making Botswana a great sporting nation.

FNBB's support of BFA assists with the administration of under-17, under-20 and under-23 women's and men's national junior teams. This sponsorship has also gone towards the teams' participation and preparations for the COSAFA Men's and Women's Under-20 competitions and Under-17 FIFA Women's World Cup competition.

FNBB's support of BOTESSA has gone towards hosting the annual FNB BOTESSA Awards, FNB BOTESSA participation at the Universiade Napoli (FISU Games) Italy, preparation for Confederation of University and Colleges Sports Association (CUCSA) games and assists in the preparation of the FNBB BOTESSA National Championships.

These sponsorships continue to demonstrate the Bank's commitment towards development of sports in Botswana.


*Solar Bag Drive*

The FNBB Foundation maintained its support for the successful Solar Bag project. The project donates backpacks made with a solar panel that charges as students walk to school and provides light for night-time studying and reading. The Foundation administrators conducted monitoring visits to schools that received the solar bags in 2018 and 2019 to review the performance of the students and the status of the donated bags. The visits revealed that 13 of the 15 targeted schools improved their performance, with 12, or 80%, of the schools attaining a pass rate of 65% or more. This exceeded the Foundation's target of 70%.

*First Youth*

High levels of youth unemployment and indebtedness in Botswana are increasing the vulnerability of our country's future leaders. To support youth, the Foundation launched its youth empowerment initiative, 'First Youth', which entails a training programme for young entrepreneurs and life skills.

The Bank partnered with the MYSC for disbursement of the Youth Grant and the Youth in Business Value Proposition bundle, which includes transactional, investment, insurance and lending products.

*Staff Volunteer Projects*

FNBB encourages and motivates staff to give back to their communities however big or small. Through the Staff Volunteer Program, the Bank has allocated each staff member 16 hours which they are to utilise in any form of corporate social responsibility. Staff can utilise the hours as individuals or work in teams. From coordinating sanitary towel drives to providing skills transfer or offering mentorship services, the opportunities for staff do good are endless. In this past year, the Bank had a Community Service Day which engaged staff in a blood donation drive. A total of 200 pints of blood were collected from staff in Gaborone, Mahalapye, Francistown, Molepolole, Serowe and Maun.

The Foundation increased funding for staff volunteer projects to P75 000 per project annually. In this past year notable projects included the following:

*Vocational Skills at ShadiShadi Primary School*

Operations, Infrastructure and Security departments collaboratively embarked on a project to empower young learners at ShadiShadi Primary School in the rural Kweneng District. The team offered vocational and life skills, which would come in handy for the learners as they carve their career paths.

This project aimed to:

- Provide recreational activities for rural and development programme students boarding at ShadiShadi Primary School
- Facilitate vocational skills using materials from the environment
- Facilitate life skills

A total of 17 employees dedicated their time and resources to empower these learners. They visited ShadiShadi on a rotational basis to assist students and attended the handing-over ceremony. The project budget was P149 333, which was fully used and all objectives were met.

*Retail fashion and mentoring programme*

The Retail segment team set out to mentor and equip 10 upcoming designers on business skills. Fashion designers were trained in marketing, financial management, professional etiquette and mentored by a well-established fashion house.

The team was allocated P71 700, however, by recruiting partners and attracting co-funding to the value of R153 250, the final project was worth P224 950.

*Rail Park Branch career coaching*

In an effort to promote professional development, work readiness and entrepreneurship for youth businesses, the Rail Park staff coordinated a 12-week programme in partnership with Career Coaching Botswana after receiving P50 000 to run the project. Twenty five youth entrepreneurs took part in the program where they were trained on financial literacy, business finance, customer service, digital marketing, personal development, legal matters, and also given insights on the fundamentals of pitching their businesses.

*RMB School of Excellence*

With the objective of showing RMB's commitment to contributing to Botswana's knowledge-based economy, the segment embarked on a project that saw 50 high performing students in the Greater Gaborone area taken through a rigorous extracurricular development program to augment their classroom learning of business subjects. RMB staff mentored, coached and facilitated classes on the practical aspects of classroom lessons. Classes ranged from Personal Finance, Corporate Skills, Entrepreneurship as well as Business Basics.

FNB

## How the King IV Code is applied at FNBB

The below highlights the application status of the King IV Code by the Board. The intended purpose for application of the principles is to promote and harness ethical culture, good performance, effective control and legitimate business practices.

| Principle | Status of application | Comments |
|---|---|---|
| Principle 1:<br>The governing body should lead ethically and effectively. | Applied | • As part of the annual Board evaluations the Board members are assessed on ethics and integrity.<br>• Board members periodically attest to the Bank's code of ethics.<br>• Board members periodically declare their interests. |
| Principle 2:<br>The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture. | Applied | • Refer to page 81 under the Ethics Report.<br>• The Board has delegated to management the implementation of the code of ethics.<br>• All ethics policies have been approved by relevant governance forums. |
| Principle 3:<br>The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen. | Applied | • Refer to page 84 under the Corporate Citizenship Report. |
| Principle 4:<br>The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process. | Applied | • Refer to page 4 on Purpose of the Bank.<br>• Refer to page 19 – 23 on material matters.<br>• Refer to page 32 Chairman's Review.<br>• Refer to page 24 – 27 on Strategy.<br>• Refer to page 14 – 15 on business model.<br>• Refer to page 48 – 57 on segment performance.<br>• Refer to page 42 – 46 CFO's Report.<br>• Refer to page 84 on Corporate Citizenship. |
| Principle 5:<br>The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects. | Applied | • Refer to page 3 on overview of the Integrated Report and approval by Board.<br>• The Annual Financial Statements for the year ended June 2020 were approved by Board. |
| Principle 6:<br>The governing body should serve as the focal point and custodian of corporate governance in the organisation. | Applied | • Refer to page 68 – 88 Governance Report.<br>• The Board Governance Framework has been updated and ensures that the Board serves as custodian of corporate governance. |
| Principle 7:<br>The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively. | Applied | • Refer to page 69 – 71 on Board composition, independence and diversity.<br>• Refer to pages 66 – 67 on Board Member profiles. |
| Principle 8:<br>The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with balance of power and the effective discharge of its duties. | Applied | • Refer to page 70 on delegation.<br>• Refer to page 77 – 80 on Committee Reports.<br>• The Chairperson of the Board is not a member of the AC.<br>• The Chairperson of RCCC is not a member of AC. |

| Principle | Status of application | Comments |
|---|---|---|
| Principle 9:<br>The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness. | Applied | • Refer to page 71 on Board Evaluations. |
| Principle 10:<br>The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities. | Applied | • Refer to page 72 – 75 on Executive Team.<br>• Refer to page 80 on DAGC report (Executive Management Succession Planning). |
| Principle 11:<br>The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives. | Applied | • Refer to the Risk, Capital Management and Compliance Committee report on page 68 – 69.<br>• Refer to page 19 – 23 material matters. |
| Principle 12:<br>The governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives. | Applied | • Refer to page 81 – 83 Information Technology. |
| Principle 13:<br>The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen. | Applied | • Refer to the Risk, Capital Management and Compliance Committee report on page 68 – 69.<br>• Refer to page 19 – 23 on material matters. |
| Principle 14:<br>The governing body should ensure that the organisation remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term. | Applied | • Refer to Remuneration Report on page 90 – 95. |
| Principle 15:<br>The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and external reporting purposes. | Applied | • Refer to Assurance Report on page 83. |
| Principle 16:<br>In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time. | Applied | • Refer to the Stakeholder Report on page 17 – 18. |
| Principle 17:<br>The governing body of an institutional investor should ensure responsible investment. | Not Applicable | |

# Remuneration

## Background statement

*It is the view of the Remuneration Committee that the Bank achieved the stated objectives of its Remuneration Charter and its philosophy of fair and responsible remuneration.*

FNBB recognises that the people who work for the Bank are the primary sustainable source of competitive advantage in a modern service-based economy. FNBB wants to be a great business, helping to create a better world, and it is primarily through enduring rewarding relationships with our customers that we will achieve this.

### FNBB reward philosophy

The purpose of FNBB's reward philosophy and practices is to:

- Contribute to attracting and retaining talented and high-performing employees
- Reward and recognise innovation and performance
- Inspire and motivate people to outperform against the business strategy, targets and objectives

Our philosophy is based on four fundamentals:

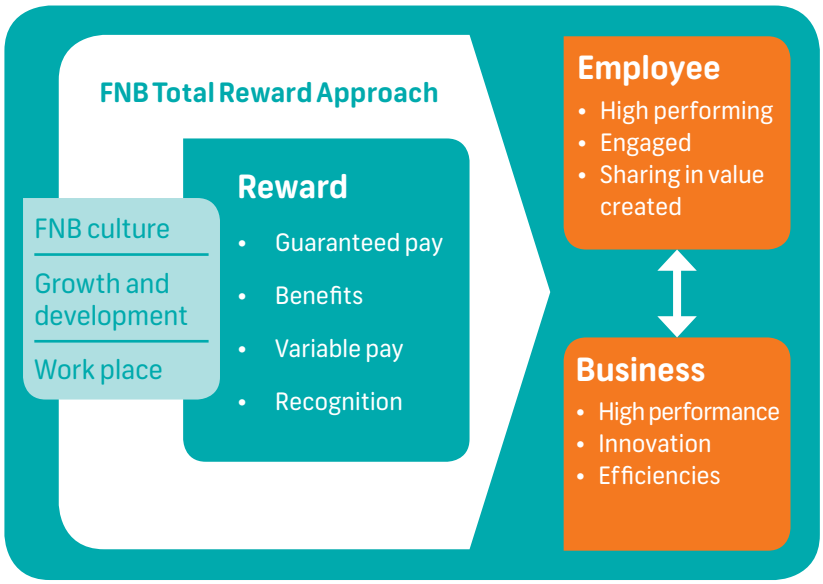
- **Total reward**
- **Managing and rewarding performance**
- **Competitive and fair reward**
- **Recognition and celebration**

### Total reward

FNBB believes employees work for more than monetary reward and that a total reward focus is needed, where all remuneration elements are included.

Our strongest intangible reward elements are as follows: great culture (i.e., strong leadership, accountability, and innovation focus), growth and development, and a positive work environment with great colleagues.

The Bank acknowledges the principle of total reward including guaranteed pay, performance bonus, incentives, recognition schemes and long-term incentive schemes.




### Managing and rewarding performance

While we are a people-centred organisation, we are uncompromising in our demand for high performance. Each employee is held accountable and is contracted to deliver work to an expected standard as our performance management approach aims to empower performance, rather than to discipline and control.

Key performance areas are contracted at the start of the performance period. They are scored using a five-point rating scale, and

each key performance area has a relative weighting. There are two formal performance reviews per annum and the final overall rating is recorded as a one-decimal rating. In addition, employees have a personal development plan.

We are committed to the principle of managing and paying for performance and believe all employees should have the ability to influence their earning potential through the value they add. Salary increases and bonuses are not awarded when performance is below expectation.

### Competitive and fair reward

Reward decisions are made fairly through robust and transparent processes. The Bank does not wish to have any unjustifiable pay differences in salary due to race or gender between employees in the same role (assuming same qualifications, same level of experience and same performance rating) and, where this is found to be the case, action is taken to correct anomalies.

We believe in paying competitive salaries aligned to the external market, provided performance expectations are met. Our positions are benchmarked on a regular basis with similar roles in the marketplace to ensure we are competitive. In senior and executive roles, we rely less on salary ranges but follow a pure market pricing approach.

### Recognition and celebration

While achievement of results is important, heartfelt recognition and the celebration of accomplishments is an integral part of our people practices.

## Policy

### Internal and external factors that influenced remuneration

The REMCO considered the impacts of inflation and competitor reward structures in its assessment of appropriate packages. Individual performance ratings are considered for managerial and non-managerial staff through a mature performance management process. On the basis of pay for performance, increases are not awarded to any employees rated less than three out of five.

Salary surveys the Bank participated in indicated that employees guaranteed pay compa-ratio is 122%, which is above the acceptable range of between 80% and 120%. FNBB uses three different salary surveys: Tsa Badiri (now Korn Ferry) Remchannel and Emergence Growth. However, the Bank relies on the Remchannel survey for salary increases.

No remuneration consultants were used for the period under review.

| Component | Executive Directors | Other employees |
|---|---|---|
| **Guaranteed package**<br>*(Overall cost of salary increases is set at a level agreed by REMCO and reviewed annually on 1 August. A top-down process is followed whereby once approval for salary increases is obtained and negotiations with the union are completed, the business is allocated a pool for increases.)* | No salary increase for Executive Management | The overall budget for the financial year was at beginning set at 2.2% which was an inflationary increase.<br>However, in light of COVID-19 effects, Managers that met their target and more were awarded an increase between 1.5% and 1.8%<br>Non-Managerial increases are on hold pending the outcome of mediation with the union. Currently only Non-unionised staff that met and exceeded their targets were awarded between 6% and 3.5% salary increases. |

| Component | Executive Directors | Other employees |
|---|---|---|
| **Other benefits** | • Group Life Cover inclusive of income continuation benefit (ICB)<br>• Pension fund 13.5%<br>• 100% medical aid cover<br>• Four months' maternity leave at full salary<br>• Paid paternity leave of five days<br>• Payment for Professional fees and Subscriptions<br>• Favourable interest rates for home loans, personal loan and WesBank<br>• Annual Christmas gift from CEO<br>• Car allowance for managers and above<br>• Banking charges exemptions<br>• Scholarship scheme<br>• Study loan at 0% interest (capped at P50 000)<br>• Subsidised gym fees at Head Office<br>• Subsidised meal fees at Head Office cafeteria<br>• Access to the Employee Assistance Programme (EAP), through the EWP service offering<br>• Performance bonus<br>• Innovation programme that rewards ideas and implementation<br>• Performance awards | |
| **13th cheque** | Equivalent to one month's salary | |
| **Sign-on bonus** | • Sign-on bonuses are applied in limited circumstances, for example, when the business is heavily reliant on high-demand scarce skill sets, to replace prospective employees' current benefits, and/or to remain attractive and competitive in the market<br>• A lock-in arrangement is in place where the new joiner repays FNBB should he/she leave the company within a certain period | |
| **Bonus**<br>*(Allocation is discretionary based on individual performance, overall profitability and ROE targets.)* | The overall bonus pool is determined at FirstRand Group level based on country performance. | The managerial (bands B-C) bonus pool is determined by the FirstRand REMCO.<br>The non-managerial (bands D-E) bonus pool is determined by the FNBB REMCO, based on FNBB's financial performance as well as industry trends. |
| | • Bonuses in excess of an amount determined by FirstRand REMCO will be paid out in three equal tranches: 30 August, mid-December and June of the following year. Interest will accrue on the second and third tranches and will be included in these payments. The Bank will determine the interest rate<br>• Should an employee resign from the employ of the Bank or leave the FirstRand Group for any reason before the date on which any tranche is payable, any outstanding tranches will no longer be payable and will be forfeited<br>• Should an employee be transferred to another division within the FirstRand Group, they will receive outstanding tranches on the due date | |

| Component | Executive Directors | Other employees |
|---|---|---|
| **FirstRand share allocation** | • Shares were allocated per principles in line with Group to reward long-term performance, high performers and employees with rare or critical skills. Allocation of shares is based on employee contribution to the strategy and living the FNBB values<br>• Internal fairness in terms of the individual quantum of shares allocated is achieved by means of targeted allocations for people in similar salary categories and by means of an overview and functional calibration process | |
| **Retention payments**<br>*(Subject to the approval of an FNBB Executive and those in excess of P500 000 are subject to approval by the CEO.)* | A lock-in or cash retention payment may be negotiated with an existing employee in limited circumstances, i.e., when the employee is working on a business-critical project and it is essential to retain the service of such an employee who has competencies that are scarce and specifically related to the project. | |
| **Termination, malus and clawback provisions** | Malus is applicable to awards that have not yet vested and where required will be cancelled.<br>Clawback applies once an award has vested and an event occurs that triggers the repayment of the award. A trigger may include:<br>1. The discovery of a material misstatement of performance that resulted in a variable reward which the Board is satisfied that the employee has contributed to and is responsible for.<br>2. The discovery that the assessment of any metrics upon which the award was made were based on erroneous, inaccurate or misleading information.<br>3. Any action or conduct which, in the reasonable opinion of the Board, amounts to dishonesty, fraud or misconduct.<br>4. The discovery of a material failure in risk management to which the employee had contributed and is responsible for.<br>5. The discovery that performance related to financial and non-financial targets was misrepresented and that such misstatement led to the overpayment of incentives.<br>The clawback applies for three years after the discretionary payment is made or, in the case of share schemes (both LTIs (long-term incentives) and STIs (short-term incentives)), three years after the awards have vested.<br>Should an employee resign or be dismissed, unpaid bonus tranches are forfeited except where REMCO deems an individual a 'good leaver'. | |

## Independent Non-Executive Directors

Independent Non-Executive Directors receive fees for services as directors and for services provided as members of the Board and its Committees. These fees are paid on a retainer and an attendance basis. The fees vary depending on the role of the Committee, are based on market comparisons, and are reviewed annually by the REMCO in line with the Bank's remuneration philosophy, which advocates fair and responsible remuneration. This is the Bank's first Integrated Report alongside maiden disclosure on directors' remuneration, as required by King IV. The Botswana Stock Exchange does not require the full implementation report to be submitted for shareholder voting but does require approval by the AGM of Non-Executive Directors' fees. At the previous AGM, shareholders voted in favour of the Non-Executive Directors' fees.

The 2020 fee increase recommended for approval at the AGM held in November 2019 was 3.5% on the hourly rate, less than the market average of 5%. For 2021 REMCO proposed to the Board that there should be no increase to the Independent Non-Executive Director fees.

The following principles apply to board fees

1. Executive Directors and Non-Executive Directors employed by the FirstRand Group do not receive fees as members of the Board.
2. Fees are based on an hourly rate (currently P4030 capped at seven (7) hours for Board meetings) and are reviewed annually in line with industry benchmarks.
3. The Chairpersons of the Board, the AC and RCCC are paid at a 200% premium of the hourly rate.
   The Chairpersons of the DAGC and the REMCO are paid at a premium of 150% of the Board hourly rate.
   The Chairperson of the BCRC does not earn a premium.
4. The members of the AC, RCCC are paid 80% of the Board hourly rate.
5. The members of the DAGC, the REMCO and the BCRC are paid 70% of the Board hourly rate.
6. Additional Board or Committee meetings called are paid at the hourly rates agreed for the Board or Committee for preparation and attendance.
7. For work of an ad hoc nature, or attendance on an advisory basis where no fee is specifically approved; members are paid at the hourly rate for the Board or Committee preparation and attendance.
8. A contingent retainer of 50% of Board and Committee member fees are paid if a director is unable to attend a Board or Committee meeting through valid cause.

## Implementation report

*There were no deviations from the Remuneration Policy upon implementation.*

### Single total figure remuneration received and receivable 2020

| Name | Fees | Total emoluments |
|---|---|---|
| Executive Directors | | |
| SL Bogatsu | – | 6 542 157 |
| Non-Executive Directors | | |
| JR Khethe | 469 890 | N/A |
| JK Macaskill | 574 112 | N/A |
| S Thapelo | 417 336 | N/A |
| MW Ward | 839 429 | N/A |
| DA Kgosietsile | 81 648 | N/A |
| N Mokgethi | 232 349 | N/A |
| D Ncube | 718 271 | N/A |
| M Davias | – | N/A |
| ED Letebele | 625 687 | N/A |
| NB Lahri | 164 748 | N/A |
| BM Bonyongo | 423 394 | N/A |
| Total | 4 546 864 | N/A |

### Single total figure remuneration received and receivable 2019

| Name | Fees | Total emoluments |
|---|---|---|
| Executive Directors | | |
| SL Bogatsu | – | 5 855 124 |
| Non-Executive Directors | | |
| JR Khethe | 500 000 | N/A |
| JK Macaskill | 700 000 | N/A |
| S Thapelo | 200 000 | N/A |
| MW Ward | 800 000 | N/A |
| DA Kgosietsile | 200 000 | N/A |
| N Mokgethi | 300 000 | N/A |
| D Ncube | 600 000 | N/A |
| M Davias | – | N/A |
| ED Letebele | 500 000 | N/A |
| BM Bonyongo | 100 000 | N/A |
| Total | 3 900 000 | N/A |

### Executive Management Pay

| | Annual Earnings |
|---|---|
| Total number of Executive Management members | 13 |
| Annual total base pay | 15 079 607 |
| Annual TGP (base, car allowance, medical aid) | 19 544 002 |
| STIP | 5 701 500 |
| LTIP | 9 400 000 |

*(Excludes the CEO)*

FNB


# Annual Financial **Statements**

# Consolidated and Separate Financial Statements

## for the year ended **30 June 2020**

First National Bank of Botswana Limited
(Registration number BW00000790476)
Consolidated and Separate Financial Statements
for the year ended 30 June 2020

FNB

# **Report of** the Audit Committee

## for the year ended 30 June 2020

The Group's Audit Committee comprises mainly of Non-Executive Directors, in conformity with Section 23 of the Banking Act (Cap 46:04). The external and internal auditors attend Audit Committee meetings by invitation. The Committee meets at least four times a year and assists the Board in discharging its responsibilities for ensuring that the Group's financial and accounting systems provide accurate and up-to-date information on its current financial position, and that the Group's and Company's published financial statements present a fair reflection of this position.

It also ensures that appropriate accounting policies, control and compliance procedures are in place.

The objectives of the Committee are:

- To assist the Board of Directors in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems and auditing processes applied in the day-to-day management of the business;
- To provide a forum for communication between the Board of Directors, Management and the internal and external auditors; and
- To introduce such measures as, in the opinion of the Committee, may serve to enhance the credibility and objectivity of the financial statements and affairs of the Group and Company.

The Committee has met its objectives and has found no material weaknesses in internal controls. The Committee is satisfied that the consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards and in compliance with the Botswana Companies Act of 2007 as amended Cap 42:02, the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08) and the Banking Act (Cap 46:04).

On behalf of the audit committee

**John K Macaskill**
*Chairman*

Thursday, 20 August 2020

# Directors' Responsibilities Statement

## for the year ended 30 June 2020

The Directors of First National Bank of Botswana Limited (the Group or the Company) and its subsidiaries (the Group) are responsible for the preparation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRSs) and in compliance with the Botswana Companies Act of 2007 as amended Cap 42:02, the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08) and the Banking Act (Cap 46:04).

The consolidated and separate financial statements have been audited by the independent auditors, Deloitte & Touche, who were given unrestricted access to all financial records and related data, including minutes of the meetings of the Board of Directors and committees of the Board. The Directors believe that all representations made to the independent auditors during their audit are valid and appropriate. The independent auditor's report is presented on pages 102 to 107.

The Directors are also responsible for the Group and Company's system of internal financial controls. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the consolidated and separate financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The directors have reviewed the Group's budgets and flow of funds forecasts and considered the Group's ability to continue as a going concern in light of current and anticipated economic conditions and in particular the impact of the COVID-19 pandemic. On the basis of this review, and in light of the current financial position and profitable trading history, the directors are satisfied that the Group 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. It is the responsibility of the Company's independent external auditors, Deloitte & Touche, to report on the fair presentation of the financial statements.

Against this background, the Directors accept responsibility for the consolidated and separate financial statements presented on pages 108 to 230, which were approved on 20 August 2020 and were signed on their behalf by:

**Approval of financial statements**

**Balisi Bonyongo**
*Chairman*

**Steven L. Bogatsu**
*Chief Executive Officer*

FNB

# Directors' Report
## for the year ended 30 June 2020

The Directors have pleasure in submitting their report together with the consolidated and separate financial statements of First National Bank of Botswana Limited (FNBB), (the Group or the Company), and the consolidated financial statements of the Company and its subsidiaries (the Group) for the year ended 30 June 2020.

The consolidated and separate financial statements are prepared in accordance with International Financial Reporting Standards and in the manner required by the Botswana Companies Act of 2007 as amended Cap 42:02, the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08), and the Banking Act (Cap 46:04).

The Group maintains systems of internal control which are designed to provide reasonable assurance that the records accurately reflect its transactions and to provide protection against serious misuse or loss of the Group's assets and those of its subsidiaries. The Directors are also responsible for the design, implementation, maintenance and monitoring of these systems of internal financial control. Nothing has come to the attention of the Directors to indicate that any significant breakdown in the functioning of these systems has occurred during the year under review.

The going concern basis has been adopted in preparing the consolidated and separate financial statements. Given the economic consequences of the on-going COVID-19 pandemic, and in line with the standard annual procedures, the Directors have carefully reviewed the qualitative and quantitative assumptions underpinning the going concern assessment. The Directors have no reason to believe that the Group and Company will not be a going concern in the foreseeable future based on forecasts and available cash resources.

### Nature of business

The Group is a licensed financial institution which offers a wide range of banking and related services through its branches, divisions, automated teller machines, electronic banking and point of sale machines in Botswana. The Group has four subsidiary companies. The operating subsidiaries comprise of a property owning company and an insurance agency. The property owned by the subsidiary is used primarily for branch and office accommodation.

### Trading results

The Group consolidated income after tax attributable to ordinary shareholders of P696 million (2019: P 733 million) decreased by 5,0% compared to the results for the year ended 30 June 2019. The Company income after tax of P653 million (2019: P 733 million) decreased by 11%, compared to the results for the year ended 30 June 2019. Interest income was derived mainly from advances and investment securities.

### Stated capital

The Company's stated capital consists of 2 543 700 000 (2019: 2 543 700 000) ordinary shares, of which First National Bank Holdings (Botswana) Limited holds 1 780 590 000 (2019: 1 780 590 000) ordinary shares (70,00%) (2019: 70,00%), and the balance is traded on the Botswana Stock Exchange.

### Directors' interests

The aggregate number of First National Bank of Botswana Limited shares held directly or indirectly by Directors of the Company amounts to 23 633 (2019: 30 384), which represents approximately 0,0009% (2019: 0,0012%) of the stated capital of the Company.

### Dividends

Given the prevailing economic conditions, the Directors have adopted a prudent approach to balancing an efficient capital position with the need to retain sufficient capital for unexpected fluctuations in earnings volatility. This has resulted in increasing the capital adequacy ratio and conserving capital, considering a medium- to long-term horizon.

FNBB issued Tier II capital of P197million during the year to enhance capital efficiencies through a rebalance of the Tier I and Tier II capital composition. In line with this restructure and the conservative approach to capital preservation, the Directors propose a final dividend of 8,00 Thebe per share (2019: 10,00 Thebe). An interim dividend of 7,00 Thebe per share (2019: 6,00 Thebe) for the year ended 30 June 2020 has been paid to holders of ordinary shares.

The post-dividend capital adequacy ratio at the end of June 2020 will be well above the regulatory minimum of 12.5% and significantly higher than the previous year.

## COVID-19 Pandemic and going concern

FNBB implemented appropriate measures to ensure that employees, customers, vendors and other stakeholders are protected from the spread of the virus. These measures commenced with the establishment of the crisis management team in accordance with the Group's established business continuity policy. The crisis management team meets frequently to review the Group's organisational preparedness and to implement the various response tactics as appropriate.

Initiatives include communication to public to create awareness of the pandemic, the encouragement to customers to use digital service channels, the establishment of remote working protocols as well as the continued assessment of the IT readiness plan including, remote working enablement and ensuring uninterrupted customer service through digital channels.

To offer support to our stakeholders and customers through the economic uncertainty caused by COVID-19, the Group provided cash flow relief to customers via debt restructuring and offered reduced pricing on certain transactional services. The Group also donated P5 million to the COVID-19 relief fund in support of Government's call to action from private entities. The FNB Foundation pledged a further P5 million towards several other COVID-19 relief measures, including support for the Arts, sanitisation of public spaces and a number of other initiatives to combat the humanitarian and social impacts of COVID-19.

The directors are therefore confident that the Banks' operations will continue to remain uninterrupted throughout the COVID-19 pandemic. The directors have reviewed and approved, 3 year forward looking budgets that incorporate the expected impact of the COVID-19 pandemic. The directors have further reviewed the Group's funding position and available sources of funding and conclude that these are adequate to support the Group's funding requirements.

## Events after the reporting period

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

## Directorate

**The composition of the Board as at 30 June 2020 was as follows:**

| Directors | Office | Nationality | Appointed |
|---|---|---|---|
| Balisi Bonyongo | Chairperson | Motswana | |
| Sifelani Thapelo | Independent Non-Executive Director | Motswana | |
| Steven L. Bogatsu | Chief Executive Officer | Motswana | |
| Markos Davias | Non-Executive Director | South African | |
| Jabulani R. Khethe | Independent Non-Executive Director | South African | |
| John K. Macaskill | Independent Non-Executive Director | South African | |
| Nelson D. Mokgethi | Independent Non-Executive Director | Motswana | |
| Doreen Ncube | Independent Non-Executive Director | Motswana | |
| Michael W. Ward | Independent Non-Executive Director | British | |
| Naseem B. Lahri | Independent Non-Executive Director | Motswana | 16 Aug 2019 |
| Ephraim Letebele | Independent Non-Executive Director | Motswana | |

| **Transfer Secretaries** | PricewaterhouseCoopers |
|---|---|
| Business address | Plot 50371<br>Fairgrounds |
| Postal address | P.O. Box 294<br>Gaborone |

| **Auditors** | Deloitte & Touche |
|---|---|
| Postal address | P.O Box 778<br>Gaborone |
| Business address | Deloitte & Touche House<br>Plot 64518<br>Fairgrounds |

Deloitte.

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# **Independent** Auditor's Report

## To the shareholders of First National Bank of Botswana Limited

### Opinion

We have audited the Consolidated and Separate Financial Statements ('the financial statements') of First National Bank of Botswana Limited ('the Company') and its subsidiaries ('the Group'), set out on pages 108 to 230, which comprise the consolidated and separate statements of financial position as at 30 June 2020, and the consolidated and separate income statements, consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and the notes to the Consolidated and Separate Financial Statements, including a summary of significant accounting policies.

In our opinion, the Consolidated and Separate Financial Statements give a true and fair view of the consolidated and separate financial position of the Group and the Company as at 30 June 2020, and their consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), together with the ethical requirements that are relevant to our audit of the financial statements in Botswana, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Consolidated and Separate Financial Statements of the current period. These matters were addressed in the context of our audit of the Consolidated and Separate Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| Impairment of Advances (Consolidated and Separate) | |
| IFRS 9 expected credit losses (ECL) remains an area of significant management judgement and estimation uncertainty. Following initial adoption, the Bank continued to enhance models, processes and judgements over the course of the year in response to known limitations and as part of the ongoing annual improvements. The current year has been further complicated by the impact of the COVID-19 pandemic and related lockdown on the broader economy. This adds further uncertainty particularly around applying forward-looking information to predict the impact on default rates and the realisation of collateral.<br><br>The Bank's advances broadly fall into three customer segments, being Retail and Commercial as part of the FNB business and Corporate/Wholesale which forms part of the RMB business. We have set out below the risks and responses based on the ECL approach adopted.<br><br>The impairment of advances was considered to be a matter of significant importance to our current year audit due to the following:<br>• Advances are material to the financial statements;<br>• The level of subjective judgement applied in determining the ECL on advances;<br>• The uncertainty related to unprecedented global and local economic stress.<br><br>**Collectively assessed ECL**<br>Where advances are a large homogenous population of customers the ECL is calculated on a collective or portfolio basis. The Bank uses a number of complex statistical models across all segments incorporating data and assumptions which are not always necessarily observable. Management applies professional judgement in developing the credit impairment models, analysing data and determining the most appropriate assumptions and estimates. | Across all significant portfolios we assessed the ECL policies and judgements applied by management against the requirements of IFRS 9. In addition, we tested the design, implementation and, where appropriate, operating effectiveness of relevant financial reporting controls over the processes used to calculate impairments, including controls relating to data and models. The results of our testing were appropriate and we relied on these controls as part of our audit approach.<br><br>Below is a summary of the substantive procedures performed for each segment:<br><br>**Retail and commercial advances**<br>We performed the following procedures on the ECL for retail and commercial advances with the assistance of our credit and actuarial experts:<br>• Obtained an understanding of the methodologies and assumptions used by management in the various ECL model components (PD, EAD, LGD) and assessed these against the requirements of IFRS 9 and best practice;<br>• Assessed the reasonableness of the SICR criteria adopted by management and tested whether this was correctly and consistently applied in the models;<br>• Assessed the application of forward looking information in the ECL calculation, This included selection of relevant macro-economic variables such as gross domestic product (GDP) and the central bank rates, and assessing whether these variables were appropriate indicators of future losses;<br>• Confirmed that the latest available and relevant probability weighted forward-looking information has been appropriately incorporated within the impairment models by comparing these to widely available market data;<br>• Assessed the accuracy of the Bank's model output at a parameter level and in total against our independent challenger model output, and investigated any material variances;<br>• Inspected a sample of legal agreements and supporting documentation to assess the legal right to and existence of collateral. |

# Independent Auditor's Report *continued*

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| The inputs into the modelling process require significant management judgement, including:<br>• The input assumptions and methodologies applied to estimate the probability of default (PD), exposure at default (EAD) and loss given default (LGD) within the ECL calculations;<br>• The assessment of whether there has been a significant increase in credit risk (SICR) event since origination date of the exposure to the reporting date. IFRS 9 requires that accounts reflecting signs of SICR should be reported as Stage 2 and attract a lifetime ECL provision, relative to Stage 1 accounts which attract a 12-month ECL;<br>• The determination of the lifetime of a financial instrument subject to ECL assessment; and<br>• The incorporation of unbiased probability weighted forward-looking information. Particularly in the current year where the COVID-19 pandemic has resulted in a significant reduction in economic activity which has an impact on unemployment levels and the realisation of collateral. There remains significant uncertainty around the recovery path which has a significant impact on ECLs.<br>**Individually assessed ECL**<br>The Bank individually assesses ECL for watch list accounts and accounts that are credit impaired (Stage 3). All watchlist accounts are considered to have SICR and attract a lifetime ECL. Given the judgemental nature of assessing watchlist accounts, there is a risk that not all accounts showing signs of SICR are appropriately identified.<br>The other key judgements we consider significant are:<br>• estimation of the recoverable amounts and timing of future cash flows, including the use of discounted cash flow models; and<br>• valuation of collateral held. | **Corporate advances**<br>We performed the following procedures on the ECL for corporate advances with the assistance of credit and actuarial experts:<br>• Tested controls over the credit risk management and governance processes when advancing new facilities or restructuring existing facilities;<br>• Inputs which are subject to significant judgement, including the timing and quantum of expected future cash flows, were identified and assessed for reasonableness for individually significant advances. Assessed, against actual experience and industry practice, the appropriateness of assumptions made in determining the applicable macroeconomic inputs, credit ratings, EAD, PD, LGD and valuation of collateral in the current economic climate;<br>• Tested the performance and sensitivity of the forward looking information in order to evaluate whether the chosen macro-economic factors and model fit provide a reasonable representation of the impact of macro-economic changes on the ECL results;<br>• Assessed the reasonability of the credit risk parameters calculated by management;<br>• We inspected a sample of legal agreements and supporting documentation to assess the valuation, legal right to and existence of collateral.<br>• Selected a sample of advances with no indicators of SICR and determined if this was reasonable by forming an independent view on whether there was a significant increase in credit risk. |

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| **Out of model adjustments and overlays**<br>Across all portfolios, management applies judgement to recognise additional ECL (in the form of overlays and out of model adjustments) where there is uncertainty in respect of the models' ability to accurately predict future losses. This could be due to data limitations, inability to accurately model emerging risks due to inherent limitations of modelling based on past performance, and macro-economic events that are not adequately captured by the models.<br><br>We consider out of model adjustments and overlays as a significant risk across all segments given the high level of judgement inherent in these. In the current year a significant proportion of the overlays relate to the impact that the COVID-19 pandemic is expected to have on default rates and realisation of collateral.<br><br>Related disclosures in the Consolidated and Separate Financial statements:<br>• Note 1.4 – Accounting policy for financial instruments;<br>• Note 1.8 – significant judgements and sources of estimation uncertainty;<br>• Note 13 – Advances to customers;<br>• Note 14 – Impairment of advances; and<br>• Note 39 – Financial risk management. | **Out of model adjustments and overlays**<br>• We challenged the validity and reasonableness of overlays recorded by management by ensuring each overlay was related to a known model weakness or model limitation;<br>• We challenged the key assumptions and judgements related to each overlay to ensure that these were reasonable and supportable using available Bank information or other widely available market data;<br>• Considered the need for any other overlays not considered by management based on our expert judgement and widely available information; and<br>• Performed a top down test of the reasonableness of the overall ECL provisions under stressed conditions to assess whether adequate provisions were recorded given the uncertainty brought about by COVID-19.<br><br>In conclusion, we determined the impairment of allowances to be adequate. |

## Other Information

The Directors are responsible for the other information. The other information comprises the Report of the Audit Committee, Directors' Responsibility Statement, Directors' Report, Value Added Statements and Five Year Financial Summary which we obtained prior to the date of this auditor's report as well as the Integrated Report which will be made available after the date of our independent auditor's report. The other information does not include the Consolidated and Separate Financial Statements and our auditor's report thereon.

Our opinion on the Consolidated and Separate Financial Statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Consolidated and Separate Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Consolidated and Separate Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

# **Independent** Auditor's Report *continued*

## Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The Directors are responsible for the preparation and fair presentation of the Consolidated and Separate Financial Statements in accordance with International Financial Reporting Standards and for such internal control as the Directors determine is necessary to enable the preparation of Consolidated and Separate Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Consolidated and Separate Financial Statements, the Directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group's and Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the Consolidated and Separate Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Consolidated and Separate Financial Statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Consolidated and Separate Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Consolidated and Separate Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Consolidated and Separate Financial Statements, including the disclosures, and whether the Consolidated and Separate Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Consolidated and Separate Financial Statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Deloitte + Touche

**Deloitte & Touche**
*Certified Auditors*
Practicing Member: Pragnaben Naik (CAP 007 2020)

Gaborone
20 August 2020

# Significant Accounting Policies

## 1. Introduction

The Group's consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), including interpretations issued by the IFRS Interpretations Committee, the Botswana Companies Act of 2007 as amended Cap 42:02, the Non-Bank Financial Institutions Regulatory Authority Act (Cap 46:08) and the Banking Act (Cap 46:04).

These financial statements comprise the statements of financial position (also referred to as the balance sheet) as at 30 June 2020, the income statements, statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory notes.

The Group has adopted all the significant accounting policies in preparing its financial statements, and, except for the policy related to the adoption of IFRS 16 (Leases) and the interpretation of IFRIC 23 (Uncertainty over income tax treatments) in respect of IAS 12 (Income tax) which were adopted during the year, these policies have been consistently applied to all years presented.

### Summary of Significant Accounting Policies

| | | | | |
|---|---|---|---|---|
| 1.2 | Subsidiaries | Consolidation and equity accounting | Related party transactions | |
| 1.3 | Income, expenses and taxation | Income and expenses | Income tax expenses | |
| 1.4 | Financial instruments | Classification and Measurement | Impairment | Derivative financial instruments and hedge accounting |
| | | Transfers, modifications and derecognition | Offset and collateral | |
| 1.5 | Other assets and liabilities | Property and equipment | Other assets | Leases |
| 1.6 | Stated capital and equity | Share capital and treasury shares | Dividends and non-cash distributions | Other reserves |
| 1.7 | Transactions with employees | Employee Liabilities | Share-based payment transactions | |

### 1.1 Basis of preparation

The consolidated and separate financial statements have been prepared on the historical cost basis except for properties and financial instruments that are measured at revalued amounts or fair values.

The Group prepares consolidated financial statements which include the assets, liabilities and results of the operations of First National Bank of Botswana Limited and its subsidiaries. To compile the consolidated financial statements the following information is used:

- audited information about the financial position and results of operations at 30 June each year for all significant subsidiaries in the Group.

Accounting policies of subsidiaries, have been changed at acquisition, where necessary, to ensure consistency with the accounting policies adopted by the Group.

The segmental analysis included in the segment report is based on the information reported to the chief operating decision maker for the respective segments under the current franchise management structures. The information is prepared in terms of IFRS and certain adjustments are made to the segment results in order to eliminate the effect of segment specific items that impact certain key ratios reviewed by the chief operating decision maker when assessing the operating segments' performance.

#### Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in policy 1.8.

# 1. Introduction *continued*

## 1.1 Basis of preparation *continued*

### Presentation of financial statements, functional and foreign currency

Items included in the financial statements of the Group and Company are measured using the currency of the primary economic environment in which the Group and Company operates (the functional currency).

The Group presents its statement of financial position in order of liquidity.

Where permitted or required under IFRS, the Group offsets assets and liabilities or income and expenses and presents the net amount in the statement of financial position or in the statement of other comprehensive income.

IFRS disclosure is only applicable to material items. Management applies judgement and considers both qualitative and quantitative factors in determining materiality applied in preparing these financial statements.

The functional and presentation currency of the Group is the Botswana Pula (P) and all amounts are presented in thousands of Pula.

The Group has a policy of rounding in increments of P500. Amounts less than P500 will therefore round down to P nil and are presented as a dash.

Foreign currency transactions of the Group are translated into the functional currency using the exchange rates prevailing at the date of the transactions.

Balances are translated at the relevant exchange rates, depending on whether they are monetary items (in which case the closing spot rate is applied) or non-monetary items. For non-monetary items measured at cost the rate applied is the transaction date rate. For non-monetary items measured at fair value the rate at the date the fair value is determined (reporting date) is applied.

Foreign exchange gains or losses are recognised in profit or loss in fair value gains or losses.

### COVID-19 Impact

Due to the coronavirus (COVID-19) pandemic, Governments across the world have declared national lockdowns, which have resulted in extensive travel restrictions and quarantine measures being implemented. Businesses globally have had to limit or suspend their operations and as such, the COVID-19 measures implemented by Governments globally have severely impacted a wide range of industries, including the financial sector. Due to the global economic downturn, a significant increase in the volatility of the financial and commodities markets worldwide has been noted.

Due to the unprecedented nature of the COVID-19 pandemic, it is not possible to accurately predict the full extent and duration of its economic impact.

While the specific areas of judgement did not change, additional judgement within identified areas was required to take into account the impact of COVID-19. Given the dynamic and evolving nature of COVID-19, limited recent experience of the economic and financial impact of such a pandemic has potentially resulted in changes to estimates and assumptions applied in the measurement of the Group's assets and liabilities from the prior period.

Other than adjusting events that provide evidence of conditions that existed at the end of the reporting period, the impact of events that arise after the reporting period will be accounted for in future reporting periods. For more details refer to note 43 Events after the reporting period.

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.1 Basis of preparation *continued*

#### Significant estimates, judgements and assumptions

*Impairment of goodwill*

In line with the Group's accounting policies, the Group has assessed its goodwill balances for impairment. The current year assessment incorporated the budgetary information for the next financial period which contains the punitive impact of COVID-19 as well as the budgets for the foreseeable future limited to 4 years.

Section 1.8, impairment of goodwill provides further information.

#### Impairment provisions on advances

*Incorporating forward-looking indicators*

Forward-looking indicators, including a detailed explanation of the scenarios and related probabilities considered in determining the Group's forward-looking assumptions for the purposes of its Expected Credit Loss (ECL), has been provided (section 1.8). Noting the wide range of possible scenarios and macroeconomic outcomes, and the relative uncertainty of the social and economic consequences of COVID-19 that may manifest, these scenarios represent reasonable and supportable forward-looking views as at the reporting date.

Section 1.8 impairment of financial assets forward-looking indicators forward-looking information

#### Significant increase in credit risk

The Group has not approached the ECL impact of COVID-19 on an overall blanket approach (where COVID-19 is seen as a Significant Increase in Credit Risk (SICR) trigger) that will result in the entire portfolio of advances moving into their respective next staging bucket. Rather, a more systematic and targeted approach to the impact of COVID-19 on the customer base has been undertaken, which is in line with the Group's existing policy documented in the Group Credit Impairment Framework.

#### Overall application of the going concern principle

The directors have reviewed the Group's budgets and flow of funds forecasts and considered the Group's ability to continue as a going concern considering current and anticipated economic conditions. These budgets and flow of funds forecasts incorporate the expected consequences of COVID-19 on the economy, the market and the operating environment, and include projections of these impacts on the Group's capital, funding and funding requirements.

As part of this assessment, the directors considered:

- The sufficiency of the Group's financial resources over a three-year horizon. The management of the Group's financial resources, which it defines as capital, funding and liquidity, and risk capacity, are the critical enablers of the achievement of the Group's stated growth and return targets and is driven by the Group's overall risk appetite. Forecast change in earnings and balance sheet risk weighted assets are based on the Group's macroeconomic outlook and are evaluated against available financial resources considering the requirements of capital providers and regulators.
- The adequacy of the Group's liquidity as the Group supports customers throughout the pandemic;
- The Group's operating resilience, such as contact centres, mobile and online channels and Group's ability to provide continuity of service through the pandemic;
- The resilience of the Group's IT systems;
- The legal and regulatory environment in which the Group operates; and
- The potential valuation concerns around the Group's assets recognised on the statement of financial position.

COVID-19 has caused a significant deterioration in economic conditions for many companies which raises uncertainties regarding their ability to continue as going concerns. In order to undertake a thorough going concern assessment, the Group incorporated principles from the Basel III Accord. The underlying budget assumptions have been appropriately adjusted for the new economic and business environment. As the severity of the economic impact of COVID-19 cannot be fully estimated, the Group has elected to proceed with a reduced final dividend and to maintain surplus capital levels. The post-dividend Capital Adequacy Ratio of 21,37% is significantly higher than the Bank of Botswana regulatory minimum of 12.5%.

# 1. Introduction *continued*

## 1.1 Basis of preparation *continued*

### Overall application of the going concern principle *continued*

On the basis of this review, and in light of the current financial position, the directors are satisfied that the Group 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.

Directors' report pages 100 and 101 provide additional information.

### Financial Instruments

*COVID-19 debt relief measures provided to customers*

Due to the COVID-19 pandemic and resultant impact on the economy, a liquidity crisis was experienced by a large number of customers across the Group. In order to assist customers, the Group has provided relief measures to customers, in the Retail and Commercial segments, which included the restructure of existing exposures with no change in the present value of the estimated future cash flows. For wholesale exposures bespoke debt relief measures were provided on a client-by-client basis.

In order to determine the appropriate accounting treatment of the impact of the restructures of existing facilities and related additional disclosures required, the principles set out in accounting policy note 1.8 were applied.

For the impact on the staging of debt relief measures, refer to accounting policy note 1.8: Impairment of financial assets treatment of financial relief offered in response to the impacts of COVID-19.

### Financial Risks

The Group's robust risk management framework continues to be applied across the various risk areas impacting the financial instruments and the various risk owners continue to monitor the impact of COVID-19 on the Group's risk profile.

Non-financial risks emerging from global movement restrictions, and remote working by our staff, counterparties, clients and suppliers are being identified, assessed, managed and governed through timely application of the Group's risk management framework.

### Fair value measurement

The valuation techniques for fair value measurement of financial instruments has been assessed by the respective valuation committees at a business unit and Group level to determine the impact that the market volatility introduced by COVID-19 has had on the fair value measurements of these instruments.

When assessing the fair value measurement of financial instruments for this period, the valuation models have been built to take into consideration inputs that are reflective of market participant input as opposed to group-specific inputs. The appropriateness of the inputs to valuations, which include the use of correlations, price volatilities, funding costs and bid offer, counterparty and own credit spreads was also considered. Changes in valuation inputs have also been considered in terms of the impact they have on the classification of exposures in the fair value hierarchy, transfers within the fair value hierarchy and the level 3 sensitivity analysis that may be required if applicable.

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.2 Subsidiaries

#### Basis of consolidation

The consolidated and separate financial statements incorporate the consolidated and separate financial statements of the Company and all subsidiaries. Subsidiaries are entities (including structured entities) which are controlled by the Group. Typical shareholding in the assessment of entities that are not structured entities is based on a shareholding of 50% and above.

The nature of the relationship between the Group and the investee entities over which the Group has control and consolidated is as defined in IFRS 10: Consolidated Financial Statements. The Group measures investments in these entities in its separate financial statements at cost less impairment (in terms of IAS 36).

#### Consolidated financial statements

*Initial recognition in the consolidated financial statements.*

Subsidiaries acquired are accounted for by applying the acquisition method of accounting to business combinations.

The excess/(deficit) of the sum of the consideration transferred, the value of non-controlling interest, the fair value of any existing interest, and the fair value of identifiable net assets, is recognised as goodwill or a gain on bargain purchase, as is set out further below.

Transaction costs are included in operating expenses within profit or loss when incurred.

*Intercompany transactions and balances*

Intercompany transactions are all eliminated on consolidation, including unrealised gains. Unrealised losses on transactions between Group entities are also eliminated unless the transaction provides evidence of impairment of the transferred asset, in which case the transferred asset will be tested for impairment in accordance with the Group's impairment policies.

*Common control transaction*

There is currently no guidance under IFRS for the accounting treatment of business combinations undertaken under common control. In terms of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the Group has developed an accounting policy that requires that business combinations under common control uses the predecessor values of the acquiree by the acquirer without the restatement of comparatives. Therefore, any difference between the net asset value and the amount paid (i.e. the purchase consideration) is recorded directly in the in equity.

*Impairment*

In the consolidated financial statements either the cash generating unit (CGU) is tested i.e. a grouping of assets no higher than an operating segment of the Group; or if the entity is not part of a CGU, the individual assets of the subsidiary and goodwill are tested for impairment in terms of IAS 36.

*Goodwill*

Goodwill on the acquisition of businesses and subsidiaries represents excess consideration transferred, and is recognised as an intangible asset at cost less accumulated impairment losses.

If this amount is negative, as in the case of a bargain purchase, the difference is immediately recognised in gains less losses from investing activities within non-interest revenue.

Goodwill is tested annually for impairment by the Group as at 31 March if there are objective indicators of impairment. For subsidiaries acquired between March and June a goodwill impairment test is performed in June in the year of acquisition and thereafter annually in March. For testing purposes, goodwill is allocated to a suitable CGU.

Impairment losses in respect of goodwill are not subsequently reversed.

# 1. Introduction *continued*

## 1.2 Subsidiaries *continued*

### Consolidated financial statements *continued*

*Disposals*

In a disposal transaction where the Group loses control of the subsidiary and the Group retains an interest in the entity after disposal, for example an investment in associate or investment security, the Group measures any retained investment in the entity at fair value at the time of the disposal. Thereafter the remaining investment is accounted for in accordance with the relevant accounting requirements.

The Group may lose control of a subsidiary in a transaction where an interest in the investee is retained through an associate or joint venture. The Group eliminates the Group share of profits on these transactions in accordance with IAS 28.

### Related party transactions

Related parties of the Group, as defined, include:

- Entities that have significant influence over the Group, and subsidiaries of these entities,
- Key management personnel (KMP) and close family members of key management personnel. Entities controlled, jointly controlled or significantly influenced by KMP or their close family members.

The principal shareholder of the First National Bank of Botswana Limited Group is First National Bank Holdings Limited, incorporated in Botswana. The ultimate parent of the Company is FirstRand Limited, incorporated in South Africa.

Key management personnel of the Group are the First National Bank of Botswana Board of Directors and prescribed officers, including any entities which provide key management personnel services to the Group. Their close family members include spouse/domestic partner and children, domestic partner's children and any other dependants of the individual or their domestic partner.

## 1.3 Income, expenses and taxation

### Income and expenses

Interest income includes: interest on financial instruments measured at amortised cost and debt instruments measured at fair value.

Interest income is calculated using the effective interest rate which includes fees and transaction costs that form an integral part of generating an involvement with the resulting financial instrument. The effective interest rate is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument. This is applied to:

- the gross carrying amount of financial assets which are not credit-impaired; and
- the amortised cost of financial assets from the month after the assets become credit-impaired (refer to policy 1.5 on the impairment of financial assets).
- Modified advances (derecognition not achieved) – the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. The interest income on the modified financial asset (refer to policy 1.5) is calculated by applying the original effective interest rate to the asset's modified gross carrying amount.
- Modified advances (derecognition is achieved) – the unamortised portion of origination fees and capitalised transaction costs on financial assets are included as part of interest income. New fees or costs charged on the new advance which are integral to the new asset recognised are capitalised to the new loan.
- Interest on financial assets, debt instruments measured at fair value through profit or loss that are held by and managed as part of the Groups insurance or funding operations;

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.3 Income, expenses and taxation *continued*

#### Income and expenses *continued*

Interest expense includes:

- interest on debt instruments measured at fair value through profit or loss that are held by and managed as part of the Group's insurance or funding operations;
- interest on debt instruments measured at amortised cost.
- the interest portion of the net gains or losses on derivatives that are used to economically hedge interest rate risk; and
- the difference between the purchase and resale price in repurchase and reverse repurchase agreements where the related advances or deposit is measured at amortised cost, because the amount is in substance interest.

The total interest expense is reduced by the amount of interest incurred in respect of liabilities used to fund the Group's fair value activities. This amount is reported in fair value income within non-interest revenue.

#### Non-interest revenue recognised in profit or loss

Under IFRS 15, where a five-step analysis is required to determine the amount and timing of revenue recognition, the Group assesses contracts and determines whether the fees identified in the contract relate to revenue as defined in IFRS 15. The revenue is recognised only if the Group can identify the contract; the performance obligation (i.e. the different services) and can determine the transaction price which is allocated to the identifiable performance obligations. The revenue is then recognised as and when the performance obligation is satisfied, which may be over time or at a point in time.

*Fee and commission income*

Fees and commissions that form an integral part of the effective interest rate is excluded from fees and commissions from customers and are recognised in non-interest revenue.

Fee and commission income is earned by the Group by providing customers with a range of services and products, consists of the following main categories:

- Banking fee and commission income;
- Knowledge-based fee and commission income;
- Management, trust and fiduciary fees;
- Fee and commission income from service providers; and
- Other non-banking fees and commission income.

Fees and commission income is earned on the execution of a significant performance obligation, which may be over time as the performance obligation is fulfilled (over time) or when the significant performance obligation has been performed (point in time).

Fees earned on the execution of a significant act, typically include transactional banking fees, such as group charges, interchange fees, point-of-sale fees, exchange commissions, cash deposit fees and knowledge-based fee and commission income.

Where the performance obligation is satisfied over a period of time, the fees are recognised as follows:

- fees for services rendered are recognised on an accrual basis as the service is rendered and the Group's performance obligation is satisfied, e.g. annual card fees and asset management and related fees; and
- commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis

Commitment fees for unutilised funds made available to customers in the past, are recognised as revenue at the end of the contract period. Commitment fees paid upfront for a future facility, where it is not probable that a specific lending arrangement will be entered into by the Group, are recognised as revenue on a straight-line basis over the period for which the funds are promised to be kept available.

# 1. Introduction *continued*

## 1.3 Income, expenses and taxation *continued*

### Non-interest revenue recognised in profit or loss *continued*

Other non-banking fee and commission income relates to fees and commissions earned for rendering services to customers other than those related to the banking, insurance and asset management operations. This includes fee and commission income earned from providing services on behalf of third-party service providers, in effect acting as an agent, this includes commission earned at the point when sale has been executed from the sale of prepaid airtime, data vouchers and electricity paid through FNB channels as well insurance commission.

*Fee and commission expenses*

Fee and commission expenses are expenses that are incremental and directly attributable to the generation of fee and commission income and are recognised as part of fee and commission expense. These include transaction and service fees, which are expensed as the services are received.

*Insurance income – non-risk related*

Where the Group is acting as an agent, commissions and brokerage earned on the sale of insurance products to customers of the Group on behalf of an insurer, is recognised from the point that the significant obligation has been fulfilled over the life of the related facility.

*Other non-interest revenue*

The Group, through its various subsidiaries in the operating franchises, sells value-added products and services to customers, like telecommunication products and services which consist of electricity and airtime services. The related revenue, net of any finance components of revenue, is recognised as soon as the goods are delivered to the customer.

*Fair value gains or losses*

Fair value gains or losses of the Group recognised in non-interest revenue includes the following:

- fair value adjustments and interest on financial instruments at fair value through profit or loss including derivative instruments that do not qualify for hedge accounting;
- fair value adjustments that are not related to credit risk on advances designated at fair value through profit or loss;
- a component of interest expense that relates to interest paid on liabilities which fund the Group's fair value operations.
- fair value adjustments on financial instruments designated at fair value through profit or loss in order to eliminate an accounting mismatch, except for such instruments relating to the Group's funding operations for which the interest component is recognised in interest income;
- any difference between the carrying amount of the liability and the consideration paid, when the Group repurchases debt instruments that it has issued.

*Expenses*

Expenses of the Group, apart from certain fee and commission expenses included in net fee and commission income, are recognised and measured in terms of the accrual principle and presented as operating expenses in profit or loss.

*Indirect tax expense*

Indirect tax includes other taxes paid to central and local Governments including value added tax. Indirect tax is disclosed separately from income tax and operating expenses in the income statement.

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.3 Income, expenses and taxation *continued*

#### Income tax expenses

The current income tax expense is calculated by adjusting the net profit for the year for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted at the reporting date, in Botswana. When there is uncertainty over income-tax treatments and, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty.

#### Deferred income tax

*Recognition*

Deferred tax is recognised on temporary differences arising between the tax base of assets and liabilities and their carrying amount in the financial statements.

Typical temporary differences in the Group for which deferred tax is provided include:

- Depreciation of property and equipment;
- Provision for loan impairment:
- Instalment credit sales
- Share based payment liabilities
- Investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes are charged or credited to income statement or directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity using the liability method under IAS 12 and applying tax rates and laws that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

For temporary differences arising from the fair value adjustments on investment properties, deferred income tax is provided at the rate that would apply on the sale of the property i.e. the capital gains tax rate.

*Presentation*

Deferred income tax is presented in profit or loss unless it relates to items recognised directly in equity or other comprehensive income.

Items recognised directly in equity or other comprehensive income relate to:

- the issue or buy back of share capital;
- revaluation of properties.

Tax in respect of share transactions is recognised directly in equity. Tax in respect of the other items is recognised directly in other comprehensive income and subsequently reclassified to profit or loss (where applicable) at the same time as the related gain or loss.

*Deferred tax assets*

The Group recognises deferred income tax assets only if it is probable that future taxable income will be available against which the unused tax losses can be utilised, based on management's review of the Group's budget and forecast information. The Group reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

# 1. Introduction *continued*

## 1.4 Financial instruments

Financial instruments held by the Group are classified in accordance with the provisions of IFRS 9 Financial Instruments.

### Classification and measurement

*Initial measurement*

All financial instruments are initially measured at fair value including transaction costs, except for those classified as fair value through profit or loss in which case the transaction costs are expensed upfront in profit or loss, usually as part of operating expenses. Any upfront income earned on financial instruments is recognised as is detailed under policy 1.3, depending on the underlying nature of the income Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for newly originated financial assets measured at amortised cost, and debt instruments measured at fair value.

Immediately after initial recognition, an expected credit loss (ECL) allowance is recognised for newly originated financial assets measured at amortised cost, and debt instruments measured at fair value through profit or loss.

### Classification and subsequent measurement of financial assets

Management determines the classification of its financial assets at initial recognition, based on:

- the Group's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial asset

*Business model*

The Group distinguishes three main business models for managing financial assets:

- holding financial assets to collect contractual cash flows;
- managing financial assets and liabilities on a fair value basis or selling financial assets; and
- a mixed business model of collecting contractual cash flows and selling financial assets.

The business model assessment is not performed on an instrument by instrument basis, but at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment is done for each legal reporting entity at least at a business level, although businesses could perform the assessment on a portfolio or sub-portfolio level depending on the manner in which groups of financial assets are managed in each business.

The main consideration in determining the different business models is whether the objectives of the business model are met primarily through holding the financial assets to collect contractual cash flows, through the sale of these financial assets, by managing assets and liabilities on a fair value basis, or through a combination of these activities.

In considering whether the business objective of holding a group of financial assets is achieved primarily through collecting contractual cash flows, amongst other considerations, management monitors the frequency and significance of sales of financial assets out of these portfolios for purposes other than managing credit risk. For the purposes of performing the business model assessment, the Group only considers a transaction a sale if the asset is derecognised for accounting purposes. For example, a repo transaction where a financial asset is sold with the commitment to buy back the asset at a fixed price at a future date is not considered a sale transaction as substantially all the risks and rewards relating to the ownership of the asset have not been transferred and the asset is not derecognised from an accounting perspective.

FNBB is satisfied that the financial asset classifications remain appropriate and there were no changes to the business models as a result of COVID-19.

If sales of financial assets are frequent, the significance of these sales is determined by comparing the carrying amounts of assets sold during the period and cumulatively to the total carrying amount of assets held in the business model. If sales are either infrequent or insignificant, these will not impact the conclusion that the business model is to collect contractual cash flows. In addition, where the issuer initiates a repurchase of the financial assets which was not anticipated in the terms of the financial asset, the repurchase is not seen as a sale for the purposes of assessing the business model of that group of financial assets.

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.4 Financial instruments *continued*

#### Classification and subsequent measurement of financial assets *continued*

*Business model continued*

Determining whether sales are not significant or frequent requires management to use their judgement. The significance and frequency of sales is assessed on a case-by-case basis at the business model level. The frequency is assessed on an annual basis and sales of assets that take place once or less per annum is considered to be infrequent. If sales take place more than once per annum it doesn't mean that the business models are not to collect contractual cash flows but rather the reasons for the sales need to be more carefully considered. Management will consider both the volume and amount of sales relative to the total assets in the business model to determine whether it is significant.

A change in one or more business models of the Group only occurs on the rare occasion when the Group genuinely changes the way in which it manages a financial asset. Any changes in business model would result in a reclassification of the relevant financial assets from the beginning of the next reporting period.

*Cashflow characteristics*

In order for a debt instrument to be measured at amortised cost or FVOCI, the cash flows on the asset have to be SPPI (solely payments of principal and interest), consistent with those of a basic lending agreement.

The SPPI test is applied on a portfolio basis for retail advances, as the cash flow characteristics of these assets are standardised. This includes the consideration of any pre-payment penalties that are limited by consumer credit regulation and can therefore be considered reasonable compensation which would not cause these assets to fail the SPPI test.

For wholesale advances, the SPPI test is applied to individual advances at initial recognition, based on the cash flow characteristics of the asset. Wholesale advances that do not pass the SPPI test and that have to be measured at FVTPL include advances with equity participation features, convertible bonds and payments linked to commodity or other prices. If the contract contains prepayment penalties, the amount of the prepayment penalty is compared to the present value of the margin that would be earned if the loan is not prepaid. If the amount of the prepayment penalty is lower than or equal to the margin lost due to prepayment, this is considered reasonable compensation and the loan passes the SPPI test.

*Amortised cost*

Financial assets are measured at amortised cost using the effective interest method, when they are held to collect contractual cash flows which are solely payments of principle and interest, and sales of such assets are not significant or frequent. These include the majority of the retail, corporate and commercial advances of the Group as well as certain investment securities utilised for liquidity risk management of the Group. For purchased or originated credit-impaired financial assets, the Group applies the credit-adjusted effective interest rate. This interest rate is determined based on the amortised cost and not the gross carrying amount of the financial asset, and incorporates the impact of expected credit losses in the estimated future cash flows of the financial asset. The effective interest rate method is the calculation of the amortised cost of a debt instrument and the allocating of interest income over the relevant period.

Cash and Cash equivalents – Cash and cash equivalents comprise of coins and group notes, money at call and short notice and balances with central banks. All balances included in cash and cash equivalents have a maturing date of less than three months from the date of acquisition. Money at call and short notice constitutes amounts withdrawable in 32 days or less. Cash and cash equivalents are measured at amortised cost.

Retail advances – The FNB and WesBank franchises hold retail advances to collect contractual cash flows. Their business models focus on growing these advances within acceptable credit appetite limits and maintaining strong collection practices.

The products included under this business models include:

- residential mortgages;
- vehicle and asset finance; and
- personal loans, credit card and other retail products such as overdrafts.

# 1. Introduction *continued*

## 1.4 Financial instruments *continued*

### Classification and subsequent measurement of financial assets *continued*

*Amortised cost* *continued*

The cash flows on retail advances are solely payments of principal and interest. Interest charged to customers compensates the Group for the time value of money, credit risk and administrative costs (including a profit margin). Penalties on the prepayment of advances are limited to reasonable compensation for early termination of the contract.

Corporate and commercial advances – The business models of FNB Commercial, WesBank Corporate and Corporate Segment Corporate are also focused on collecting contractual cash flows on advances and growing these advances within acceptable credit appetite limits. The products included under this business model include:

- trade and working capital finance;
- specialised finance;
- Commercial Property Finance; and
- asset-backed finance.

These advances are held primarily to realise the related contractual cash flows over the life of the instruments and earn a lending margin in return.

The cashflows on these corporate and commercial advances are solely payments of principal and interest. Interest charged to customers compensates the Group for the time value of money, credit risk and administrative costs (including a profit margin).

Investment securities – Group Treasury holds investment securities with lower credit risk (typically Government bonds and treasury bills). These investment securities are held in a business model with the objective of collecting contractual cash flows.

The cash flows on these investment securities are solely payments of principal and interest.

The cash and cash equivalents – Cash and cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash. These assets are held to collect contractual cash flows.

The cash flows on these assets are solely payments of principal and interest.

Other assets – Other financial assets are short-term financial assets that are held to collect contractual cash flows.

The cash flows on these assets are solely payments of principal and interest.

*Mandatory at fair value through profit or loss*

Financial assets of the Group are mandatorily measured at fair value through profit or loss when they are held for trading, managed on a fair value basis, held to sell/distribute, or are held to collect contractual cash flows which are not solely payments of principal and interest.

Corporate and commercial advances – In certain instances, Corporate Segment originates advances with the mandate of distributing an identified portion of the total advances in the secondary market within an approved time frame. The reason for originating these advances is not to collect the contractual cash flows, but rather to realise the cash flows through the sale of the assets.

Any advances which are originated to distribute or managed on a fair value basis; or are held to collect contractual cash flows but include cash flows related to upside features, conversion options, payments linked to equity or commodity prices or prepayment penalties that exceed reasonable compensation for early termination of the contract, will be included in this category.

Marketable advances – Corporate Segment occasionally invests in notes issued by conduits, with the intention of selling these notes to external parties. These include notes issued by conduits to which it sells a portion of corporate and commercial advances that it originates to distribute (detailed above). The collection of contractual cash flows on these notes are merely incidental.

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.4 Financial instruments *continued*

#### Classification and subsequent measurement of financial assets *continued*

*Mandatory at fair value through profit or loss* *continued*

Advances which are acquired to distribute are included in this category.

Investment securities – Corporate Segment holds portfolios of investment securities (including corporate and Government bonds) to hedge risks or for short-term profit realisation. These securities are managed on a fair value basis.

All equity investments of the Group are managed on a fair value basis through profit or loss (FVTPL).

Derivative assets – Derivatives are either held for trading or to hedge risk. These instruments are managed on a fair value basis through profit or loss (FVTPL).

#### Classification and subsequent measurement of financial liabilities and compound instruments

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. Tier 2 instruments which have write down or conversion features are classified based on the nature of the instrument and the definitions.

*Financial liabilities measured at amortised cost*

The following liabilities are measured at amortised cost using the effective interest rate method, unless they have been designated as measured at fair value through profit or loss:

- deposits;
- creditors;
- tier 2 liabilities; and
- other funding liabilities.

*Financial liabilities measured mandatory at fair value through profit or loss*

The following held for trading liabilities are measured at fair value through profit or loss:

- derivative liabilities; and
- short trading positions.

These liabilities are measured at fair value at reporting date as determined under IFRS 13: Fair Value Measurement, with fair value gains or losses recognised in profit or loss.

*Financial liabilities designated at fair value through profit or loss*

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire hybrid (combined) contract to be designated as at FVTPL.

The liabilities that Group is designating at fair value through profit or loss are the following:

- other funding liabilities

These financial liabilities are measured at fair value at reporting date as determined under IFRS 13, with any gains/losses arising on re-measurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

# 1. Introduction *continued*

## 1.4 Financial instruments *continued*

### Impairment of financial assets and off-balance sheet exposures subject to impairment

This policy applies to:

- financial assets, measured at amortised cost including other financial assets and cash;
- debt instruments;
- loan commitments;
- financial guarantees; and
- finance lease debtors where the Group is the lessor

IFRS 9 establishes a three-stage approach for the impairment of financial assets:

| **Expected credit losses** | | | |
|---|---|---|---|
| Loss Allowance on financial assets | | | |
| *Credit risk has not increased significantly since initial recognition (Stage 1)* | *Credit risk has increased significantly since initial recognition, but asset is not credit-impaired (Stage 2)* | *Asset has become credit-impaired since initial recognition (Stage 3)* | *Purchased or originated credit-impaired* |
| 12-month expected credit losses | Lifetime expected credit losses (LECL) | Lifetime expected credit losses (LECL) | Movement in LECL since initial recognition |

### Advances

*Significant increase in credit risk since initial recognition (SICR)*

In order to determine whether an advance has experienced a significant increase in credit risk, the probability of default (PD) of the asset calculated at the origination date is compared to that calculated at the reporting date. The origination date is defined to be the most recent date at which the Group re-prices an advance/facility. A change in terms result in derecognition of the original advance/facility and recognition of a new advance/facility. SICR test thresholds are re-assessed and, if necessary, updated, on at least an annual basis.

Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a significant increase in credit risk. However, the exposures on which COVID-19 cash flow relief has been applied have been individually assessed to determine whether the requirement for relief is expected to be temporary or permanent in nature. Where the requirement for relief is expected to be temporary in nature and as such qualified as a non-distressed restructure, the staging of the exposure prior to the restructure been maintained, and adjustments have been made to coverage to allow for incremental credit risk and potential masking of normal arrears. Where the requirement for relief is not expected to be temporary in nature, the exposure has been treated as a distressed restructure, and staging and coverage has been adjusted in line with normal practice.

In addition to the quantitative assessment based on PDs, qualitative considerations are applied when determining whether individual exposures have experienced a SICR. One such qualitative consideration is the appearance of wholesale and commercial SME facilities on a credit watch list.

Any up-to-date facility that has undergone a distressed restructure (i.e. modification of contractual cash flows to prevent a client from going into arrears) will be considered to have experienced a significant increase in credit risk and will be disclosed within stage 2 at a minimum.

The credit risk on an exposure is no longer considered to be significantly higher than at origination if no qualitative indicators of a significant increase in credit risk are triggered, and if comparison of the reporting date PD to the origination date PD no longer indicates that a significant increase in credit risk has occurred. No minimum period for transition from stage 2 back to stage 1 is applied, with the exception of distressed restructured exposures that are required to remain in stage 2 for a minimum period of 6 months before re-entering stage 1.

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.4 Financial instruments *continued*

#### Advances *continued*

*Low credit risk*

The Group does not use the low credit risk assumption.

*Credit-impaired financial assets*

Advances are considered credit-impaired if they meet the definition of default.

The group's definition of default applied for calculating provisions under IFRS 9 has been aligned to the definition applied for regulatory capital calculations across all portfolios, as well as those applied in operational management of credit and for internal risk management purposes.

Exposures are considered to be in default when they are more than 90 days past due or, in the case of amortising products, have more than three unpaid instalments.

In addition, an exposure is considered to have defaulted when there are qualitative indicators that the borrower is unlikely to pay their credit obligations in full without any recourse by the Group to actions such as the realisation of security. Indicators of the unlikeliness to pay include examples such as the application for bankruptcy or obligor insolvency.

Any distressed restructures of accounts that have experienced a SICR since initial recognition are defined as default events.

Retail accounts are considered to no longer be in default if they meet the stringent cure definition which has been determined at a portfolio level based on an analysis of re-defined rates. Curing from default within wholesale is determined judgementally through a committee process.

*Purchased or originated credit-impaired*

Financial assets that meet the above mentioned definition of credit-impaired at initial recognition.

*Write-offs*

Write-off must occur when it is not economical to pursue further recoveries i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised):

- By implication, in both retail and wholesale, for secured as well as unsecured exposures, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account.
- Within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post writeoff recoveries. The result of this is that retail unsecured loans are written off after 9 cumulative missed instalments and retail secured loans are written off on realisation of collateral; and
- Within wholesale exposures, a judgemental approach to write off is followed based on a case-by-case assessment by a credit committee.

Partial write-offs are not performed within credit portfolios. Where required, additional provisions against irrecoverable assets will be raised until such a time as final write-off can occur.

*Collection and enforcement activities post write-off*

For unsecured advances, post write off collection strategies include outsourcing of the account to external debt collectors (EDCs). In addition, settlement campaigns maybe run to encourage clients to settle their outstanding debt. For secured advances, any residual balance post the realisation of collateral and post write off is outsourced to EDCs for collection.

# 1. Introduction *continued*

## 1.4 Financial instruments *continued*

### Other financial assets

*Cash and cash equivalents*

All physical cash is classified as stage 1. Other exposures are classified as stage 1 unless specific evidence of impairment exists, in which case due to the nature of these assets are classified immediately as stage 3. ECL for physical cash is zero. ECL for cash equivalents is calculated using the loss rate approach.

*Other assets*

ECL for other assets and where applicable, contract assets, are calculated using the simplified approach. This results in a lifetime ECL being recognised.

*Investment securities*

Impairment parameters for investment securities (PDs, LGDs and EADs) are determined using appropriate models, with the models to be applied determined with reference to the issuer of the security and the nature of the debt instrument.

The tests for a significant increase in credit risk and default definitions are then applied and the ECL calculated in the same method as for advances. The significant increase in credit risk thresholds applied for investment securities are the same as those applied within the wholesale credit portfolio to ensure consistency in the way that a significant increase in credit risk is identified for a particular counterparty and for similar exposures.

The Group does not use the low credit risk assumption for investment securities, including Government bonds.

*Intercompany balances*

Expected credit losses are calculated using PD, LGD and EAD parameters that are determined through application of expert credit judgement and approved through appropriate governance structures. All intercompany balances are classified as stage 1, unless there is evidence of impairment, in which case exposures are moved directly to stage 3.

### Transfers, modifications and derecognition

Financial instruments are derecognised when:

- the contractual rights and obligations expire or are extinguished, discharged or cancelled, for example an outright sale or settlement;
- they are transferred and the derecognition criteria of IFRS 9 are met; or
- the contractual terms of the instrument are substantially modified and the derecognition criteria of IFRS 9 are met.

Financial assets are derecognised when the Group has either transferred the contractual right to receive cash flows from the asset or it has assumed an obligation to pay over all the cash flows from the asset to another entity (i.e. pass through arrangement under IFRS 9).

If the contractual cash flows of a financial asset measured at amortised cost are modified (changed or restructured, including distressed restructures), the Group determines whether this is a substantial modification, following which, results in the derecognition of the existing asset, and the recognition of a new asset, or whether the change is simply a non-substantial modification of the existing terms which does not result in derecognition.

A modification of a financial asset is substantial, and will thus result in derecognition of the original financial asset, where the modified contractual terms are priced to reflect current conditions on the date of modification, and are not merely an attempt to recover outstanding amounts. Where the modification does not result in an accounting derecognition the original asset continues to be recognised.

Derecognition of financial liabilities includes when there is a substantial modification to the terms and conditions of an existing financial liability. A substantial modification to the terms occurs where the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 percent (based on management best estimate) different from the discounted present value of the remaining cash flows of the original financial liability.

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.4 Financial instruments *continued*

#### Transfers, modifications and derecognition *continued*

The following transactions are entered into by the Group in the normal course of business in terms of which it transfers financial assets directly to third parties or structured entities, or modifies the contractual terms of the asset and either achieves derecognition or continues to recognise the asset:

*Transfers without derecognition*

*Repurchase agreements and Securities lending and reverse repurchase agreements*

Investment securities and advances are sold to an external counterparty in exchange for cash and the Group agrees to repurchase the assets at a specified price at a specified future date.

The counterparty's only recourse is to the transferred investment securities and advances that are subject to the repurchase agreement. The Group remains exposed to all the underlying risks on the assets including counterparty, interest rate, currency, prepayment and other price risks.

*Securities lending and reverse repurchase agreements*

Investment securities are lent to external counterparties in exchange for cash collateral as security for the return of the securities.

The Group's only recourse in respect of the return of the securities it has lent is to the cash collateral held and as such, the Group generally requires cash collateral in excess of the fair value of the securities lent.

The underlying securities purchased under agreements to resell (reverse repos) are not recognised on the statement of financial position. The Group does not recognise securities borrowed in the financial statements, unless these have been on sold to third parties, in which case the obligation to return these securities is recognised as a financial liability measured at amortised cost or fair value, with any gains or losses included in the fair value gains or losses within non-interest revenue.

*Modification of contractual cash flows*

Modified contractual terms are not priced to reflect current conditions and are thus not substantial. For retail advances, this includes debt restructuring accounts where the new terms of the contract (such as a lower interest rate) is mandated by law and do not have the same commercial terms as a new product that the Group would be willing to offer a customer with a similar risk profile. The same principle is applied for wholesale advances on a case-by-case basis.

Existing asset is not derecognised. The gross carrying amount of the financial asset is recalculated as the present value of the estimated future cash receipts through the expected life of the renegotiated or modified financial asset, discounted at the financial asset's original effective interest rate. Distressed modifications are included in ECL. Other non-distressed modifications are financially inconsequential and therefore included in ECL as well.

#### Offsetting of financial instruments and collateral

Where the requirements of IFRS are met, the Group offsets financial assets and financial liabilities and presents the net amount. Financial assets and financial liabilities subject to master netting arrangements (MNA) or similar agreements are not offset, if the right of set-off under these agreements is only enforceable in the event of default, insolvency and bankruptcy.

Details of the offsetting and collateral arrangements of the Group are set out below:

*Derivative financial instruments*

The Group's derivative transactions that are not transacted on an exchange are entered into under International Derivatives Swaps and Dealers Association (ISDA) MNA. Generally, under such agreements the amounts owed by each counterparty that are due on a single day in respect of all transactions outstanding in the same currency under the agreement are aggregated into a single net amount payable by one party to the other. In certain circumstances, e.g. when a credit event such as default occurs, all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is due or payable in settlement of all transactions (close-out netting).

Financial collateral (mostly cash) is also obtained, often daily, for the net exposure between counterparties to mitigate credit risk.

# 1. Introduction *continued*

## 1.4 Financial instruments *continued*

### Offsetting of financial instruments and collateral *continued*

*Repurchase and reverse repurchase agreements, and securities lending and borrowing transactions*

These transactions by the Group are covered by master agreements with netting terms similar to those of the ISDA MNA. Where the Group has entered into a repurchase and reverse repurchase or securities borrowing and lending transaction, with the same counterparty, the advance and liability balances are set-off in the statement of financial position only if they are due on a single day, denominated in the same currency and the Group has the intention to settle these amounts on a net basis. The Group receives and accepts collateral for these transaction in the form of cash and other investments and securities.

*Other advances and deposits*

The advances and deposits that are offset relate to transactions where the Group has a legally enforceable right to offset the amounts and the Group has the intention to settle the net amount.

It is the Group's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, the value of collateral is reviewed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. However, in the event of default, more detailed reviews and valuations of collateral are performed, which yields a more accurate financial effect. For asset finance, the total security reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossession has not yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of total recoveries.

## 1.5 Other assets and liabilities

### Classification and measurement

*Intangible assets*

Goodwill arising from business combinations is recognised as an intangible asset. For measurement of goodwill refer to policy 1.2.

*Provisions*

The Group will only recognise a provision measured in terms of IAS 37 when there is uncertainty around the amount or timing of payment. Where there is no uncertainty the Group will recognise the amount as an accrual.

The most significant provisions related to litigation and claims, as well as provisions for intellectual property fees that arise because of the use of dealer platforms, databases, systems, brands and trademarks when marketing and promoting motor warranty products as part of the motor value added products and services business. The Group recognises a provision when a reliable estimate of the outflow required can be made and the outflow is more reliable than not.

Other assets that are subject to depreciation, and intangible assets other than goodwill acquired as part of a business combination (refer to accounting policy 1.2) are reviewed for impairment whenever objective evidence of impairment exists. Impairment losses are recognised in profit or loss as part of operating expenses. The assets are impaired if the carrying amount is more than the recoverable amount, which is the higher of the assets' value in use and fair value less cost to sell. The impairment loss is calculated as the difference between the assets' carrying amount and their recoverable amounts.

Other assets are derecognised when they are disposed of or, in the case of intangible assets, when no future economic benefits are expected from its use. Gains or losses arising on derecognition are determined as the difference between the carrying amount of the asset and the net proceeds received, and are recorded in profit or loss as part of non-interest revenue.

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.5 Other assets and liabilities *continued*

#### Classification and measurement *continued*

*Leases – IFRS 16*

The Group leases a variety of properties, equipment and vehicles. Rental agreements typically include fixed periods over which the items are leased, which are individually negotiated and contain a wide range of different terms and conditions. The Group assesses whether a contract contains a lease at inception of the contract.

*Group company is the lessee*

At inception the Group recognises a Right of use asset (ROUA) and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (defined as lease assets with a value of P100 000 or less at the inception of the lease).

The lease liability is initially measured at the present value of the lease payments outstanding at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group's own incremental borrowing rate, being the rate that it can borrow funds from its Group Treasury function is applied.

The ROUAs are measured at cost comprising of the amount of the initial measurement of the lease liability plus any initial direct costs and restoration costs. Where applicable, any lease payments made at or before the commencement date less any lease incentives received is deducted from the cost. Post initial recognition, ROUAs are treated in line with other property and equipment.

Variable payments that do not depend on an index or rate are not included in the measurement of the lease liability and the ROUA. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line operating expenses in the consolidated income statement.

Over the life of the lease, each lease payment is allocated between the lease liability and interest expense. The interest expense is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The ROUA is subsequently measured at cost less accumulated depreciation and impairment losses.

The asset is depreciated over the lease term on a straight-line basis, where ownership is not transferred at the end of the lease term. If ownership is transferred at the end of the lease term, the asset is depreciated over the shorter of the lease term or useful life.

The Group applies IAS 36 to determine whether a ROUA is impaired and accounts for any identified impairment loss.

*Presentation*

*Group company is the lessee*

The lease liability is presented in creditors and accruals in the consolidated statement of financial position.

The ROUAs are not presented as a separate line in the consolidated statement of financial position, but rather disclosed as ROUA under property and equipment.

*Group company is the lessor*

The Group regards instalment credit sale agreements as financing transactions and includes the total rentals and instalments receivable, less unearned finance charges, as finance lease receivables presented as part of advances in the consolidated statement of financial position.

*Operating Leases*

*Group company is the lessee*

For short-term and low value leases, which the Group has defined as all other leases except for property and vehicles leases, the lease payments are recognised as operating expense.

*Group company is the lessor*

Assets held under operating leases are included in property and equipment and depreciated.

Rental income is recognised as other non-interest revenue on an accrual basis over the lease term.

# 1. Introduction *continued*

## 1.5 Other assets and liabilities *continued*

### Classification and measurement *continued*

*Operating Leases* *continued*

*Contracts where the Group is lessee (IAS 17)*

The Group classifies leases of property and equipment where it assumes substantially all the risks and rewards of ownership as finance leases. The Group classifies as operating leases if the lessor effectively retains the risks and rewards of ownership of the leased asset.

At inception finance leases are capitalised as assets and a corresponding lease liability for future lease payments is recognised.

Over the life of the lease the asset is depreciated.

*Operating leases*

Recognised as an operating expense in profit or loss on a straight-line basis over the period of the lease.

Any difference between the actual lease amount payable and the straight-lined amount calculated is recognised as a liability or asset of the Group in creditors and accruals.

*Property and equipment*

Property and equipment of the Group includes:

- assets utilised by the Group in the normal course of operations to provide services including freehold property and leasehold premises and leasehold improvements (owner occupied properties);
- assets which are owned by the Group and leased to third parties under operating leases as part of the Group's revenue generating operations;
- capitalised leased assets; and
- other assets utilised in the normal course of operations including computer and office equipment, motor vehicles and furniture and fittings.

Property and equipment is measured at fair value and/or historical cost less accumulated depreciation and impairment losses, except for land which is not depreciated.

Depreciation is on a straight line basis over the useful life of the assets, except for assets capitalised under finance leases where the Group is the lessee, in which case depreciation is over the life of the lease. The useful lives of the Group and Company's assets are disclosed below.

Land and buildings held for use in the supply of services, or for administrative purposes, are stated in the statements of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated impairment losses. Revaluations are performed every three years such that the carrying amounts do not differ materially from those that would be determined using fair values at the reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is credited in other comprehensive income to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit and loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged.

The useful lives of items of property and equipment have been assessed as follows:

| Item | Depreciation method | Average useful life |
|---|---|---|
| Freehold and leasehold land and buildings | Straight line | 50 years |
| Leasehold improvements | Straight line | Shorter of estimated life or period of lease |
| Furniture and equipment | Straight line | Varies between 3 to 10 years |
| Motor vehicles | Straight line | 5 years |

The directors have assumed that all assets have nil residual value. It is the Group's policy to fully depreciate assets under P7 000 within the first month of use.

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.6 Stated capital and equity

#### Shares issued and issue costs

Ordinary shares are recognised as equity. Any incremental costs directly related to the issue of new shares or options, net of any related tax benefit, are deducted from the issue price.

#### Dividends paid/declared

Dividends declared are recognised as interest expense on the underlying liability. Dividends on ordinary shares are recognised against equity.

A corresponding liability is recognised when the dividends have been approved by the Company's shareholders and distribution is no longer at the discretion of the entity. A dividend reserve is maintained as at year-end for dividends that will be paid out of retained earnings as at the reporting date but pending approval by the Board of Directors.

#### Other reserves

Other reserves recognised by the Group include reserves arising from revaluation of owned properties.

### 1.7 Transactions with employees

#### Employee benefits

The Group operates a defined contribution scheme, the assets of which are held in separate trustee administered funds. These funds are registered in terms of the Retirement Funds Act, and membership of the pension fund is compulsory for all Group employees.

*Defined contribution plans*

Contributions are recognised as an expense to the Group, included in staff costs, as membership to the pension fund is a condition of employment.

The member's entitlement upon retirement is a factor of the member's total contributions and the interest earned during their period of active employment, otherwise known as the member's fund credit. A portion of the member's fund credit is used to purchase an annuity with a registered insurance provider. The annuity is determined by the purchasing member's demographic details (fund credit at retirement, age, gender, age of spouse), the pension structure (guarantee period, and pension increase target) and the annuity rates available as at the time of purchase. A benefit on withdrawal (dismissal or resignation) and retrenchment are determined in terms of the prevailing legislation and is equivalent to a portion of the member's fund credit accrued during their employment period (25% of fund credit for resignation and dismissal and 33% of fund credit for retrenchment).

*Termination benefits*

The Group recognises termination benefits as a liability in the statement of financial position and as an expense, included in staff costs, in profit or loss when it has a present obligation relating to termination. The Group has a present obligation at the earlier of when the Group can no longer withdraw the offer of the termination benefit or when the Group recognises any related restructuring costs.

#### Liability for short term employee benefits

*Leave pay*

The Group recognises a liability for the employees' rights to annual leave in respect of past service. The amount recognised by the Group is based on current salary of employees and the contractual terms between the employee and the Group. The expense is included in staff costs.

*Bonuses*

The Group recognises a liability and an expense for management and staff bonuses when it is probable that the economic benefits will be paid and the amount can be reliably measured. The expense is included in staff costs.

# 1. Introduction *continued*

## 1.8 Significant judgements and sources of estimation uncertainty

### Introduction

In preparing the financial statements, the Directors make estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Unless stated otherwise the judgements applied by management in applying the accounting policies are consistent with the prior year. Included below are all the critical accounting estimates, assumptions and judgements made by the Group, except those related to fair value measurement refer to note 39.

### Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. For impairment testing purposes, goodwill is allocated to cash generating units (CGUs) at the lowest level of operating activity to which it relates, and is therefore not combined at Group level.

The significant CGUs to which the goodwill balance relates are reflected below:

| | **2020** | 2019 |
|---|---|---|
| | **P'000** | P'000 |
| First Funding (Proprietary) Limited | **26 589** | 26 589 |
| Premium Credit (Proprietary) Limited | **374** | 374 |
| | **26 963** | 26 963 |

The recoverable amount of the CGU is determined as the higher of the value in use or fair value less costs to sell.

The Group's goodwill impairment test is performed on the balances as at 31st March annually.

The goodwill impairment model tests three different cash flow scenarios, namely a base or expected cash flow (risk basis) scenario as well as two other scenarios including cash flows that are more punitive due to COVID-19.

*Fair value less costs to sell*

The fair value less costs to sell is determined as the current market value of the CGU less any costs related to the realisation of the CGU.

*Value in use*

The value in use is calculated as the net present value of the discounted cash flows of the CGU. This is determined by discounting the estimated future pre-tax cash flows to its present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the CGU. The future cash flows are based on financial budgets approved by management covering a one year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU.

### Management's judgement in estimating the cash flows of a CGU

The cash flow projections for each CGU are based on plans approved by the Board. The Board challenges and endorses planning assumptions in light of internal capital allocation decisions necessary to support the strategy, current market conditions and macroeconomic outlook. For the 30 June 2020 impairment test, cashflow projections until the end of 2024 were considered.

The key assumptions in determining the value in use of the CGU are therefore the discount rate and the real growth rate. The table below shows the discount rate and the growth rate used in calculating the value in use for the CGU.

| | **2020** | 2019 |
|---|---|---|
| Discount rates (%) | **12,00** | 12,30 |
| Growth rates (%) | **(5,00)** | 3,00 |

# **Significant** Accounting Policies *continued*

## 1. Introduction *continued*

### 1.8 Significant judgements and sources of estimation uncertainty *continued*

#### Management's judgement in estimating the cash flows of a CGU *continued*

The discount rate used is the weighted average cost of capital for the specific segment or entity, adjusted for specific risks relating to the segment or entity. Some of the other assumptions include investment returns, expense inflation rates, tax rates and new business growth.

The period over which management has projected cash flows is 4 years (2019: 4 years). The cash flows from the final cash flow period are extrapolated into perpetuity to reflect the long-term plans of the Group. The growth rate does not exceed the long-term average past growth rate for the business in which the CGU operates.

A reasonably possible change in the discount rate or growth rate of the above mentioned CGUs would not result in their recoverable amounts exceeding the carrying values. A change in the discount rates or growth rate applied and other reasonably possible change in the key assumptions would not result in additional impairment losses being recognised for goodwill in any of the CGU's. The recoverable amount is sufficiently in excess of the carrying amount that changes to the assumptions would not change the final outcome of the test.

#### Taxation

The Group recognises liabilities based on objective estimates of the amount of tax that may be due. In determining whether an interpretation and/or application of the various tax rules may result in a dispute of which the outcome may not be favourable to the Group, the Group seeks, where relevant, expert advice to determine whether the unfavourable outcome is probable or possible. The Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made. Significant judgement is applied in the application and interpretation of tax regulation and these judgements as well as judgements resulting from the consideration of the impact of tax audits performed by the tax authorities may have significant impact on the consolidated and separate financial statements.

#### Impairment of financial assets

In determining whether an impairment loss should be recognised, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of advances. The objective of the measurement of an impairment loss is to produce an approximate quantitative measure of the Group's credit risk exposure.

*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 behaviour on other products, industry specific stresses and anticipated changes in legislation. Judgemental factors may result in the client being added to the watch list through the Group'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 Group uses a relative movement in probability of default between reporting date and origination date to determine if there was a significant increase in credit risk. Wholesale and commercial 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 is reflective of a significant increase in credit risk.

# 1. Introduction *continued*

## 1.8 Significant judgements and sources of estimation uncertainty *continued*

### Staging of Financial Assets and Significant Increase in Credit Risk (SICR) *continued*

Exposures are classified as stage 3 if there are quantitative or qualitative indicators that the obligor is unlikely to pay their credit obligations in full without any recourse by the Group. A default event is a separate default event only if an account has met the portfolio-specific cure definition prior to the second or subsequent default. Default events that are not separate are treated as a single default event when developing LGD models and the associated term structures. Distressed restructures of accounts in stage 2 are also considered to be default events.

For a retail and retail SME account to migrate from stage 3 to either stage 2 or stage 1, the account needs to meet a stringent cure definition. Cure definitions are determined on a portfolio level with reference to suitable analysis and are set such that the probability of a previously cured account re-defaulting is equivalent to the probability of default for an account that has not defaulted in the past. For wholesale and commercial SME exposures, cures are assessed on a case-by-case basis, subsequent to an analysis by the appropriate governance forums comprised of experts.

### Computation of Expected Credit Loss (ECL)

*Methodology to Determine the Parameters Applied in the Measurement of the 12-month and Life-time expected credit loss (LECL)*

Retail and retail SME parameters are determined on a pooled basis, with exposures pooled on a portfolio level at a minimum. Where appropriate, more granular pooling is applied. The inputs used to determine parameter values include historically observed behaviour as well as behavioural and demographic information related to individual exposures currently on book. The statistical models applied implicitly assume that risk drivers that influence default risk, payment behaviour and recovery expectations within the historical data will continue to be relevant in the future.

Wholesale and commercial small, medium enterprises (SMEs) parameters are determined based on the application of statistical models that produce estimates based on counterparty-specific financial information and transaction characteristics including the nature of available collateral. Due to the specialised nature of these exposures, parameters produced by models are subject to a robust review process before being applied to calculate expected credit losses. This is overseen by a committee of Wholesale credit experts and motivations for any proposed adjustments to modelled parameters are carefully reviewed by this committee.

Parameters are calibrated for the calculation of 12-month and life-time expected credit loss (LECL) using term structures that consider account age, historical behaviour, transaction characteristics and correlations between parameters. Term structures have been developed over the entire remaining contractual lifetime of an instrument. The remaining lifetime is limited to the contractual term of instruments in the portfolio, except for instruments with an undrawn commitment such as credit cards, where there is not a contractual expiry date. In such instances the remaining term is determined with reference to the change in client requirements that would trigger a review of the contractual terms, for example a change in limit.

The statistical models applied implicitly assume that the risk drivers that influence default risk, payment behaviour and recovery expectations is within the historical data will continue to be relevant in the future.

*Computation of the Expected Credit Loss (ECL): the PD, LGD and EAD approach*

The Group has adopted the Probability of Default (PD) and Loss Given Default (LGD) approach, applied to the Exposure at Default (EAD), for the calculation of Expected Credit Loss (ECL) for advances. The ECL also takes into account forward looking information (FLI). ECLs are computed at a portfolio level (where accounts with similar characteristics are clustered together) except for high value Corporate exposures that are assessed at a counterparty level.

Regression modelling techniques are used to determine which borrower and transaction characteristics are predictive of certain behaviours, based on relationships observed in historical data related to the Group of accounts to which the model will be applied. This results in the production of models that are used to predict impairment parameters based on the predictive characteristics identified through the regression process.

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.8 Significant judgements and sources of estimation uncertainty *continued*

#### Computation of Expected Credit Loss (ECL) *continued*

*Computation of the Expected Credit Loss (ECL): the PD, LGD and EAD approach* *continued*

PDs are measurements of the estimated likelihood that a borrowing client will default within a specified period. In line with IFRS 9, a 12-month PD is applied to the stage 1 advances portfolio and a lifetime PD applied to the stage 2 advances portfolio (resulting in a Lifetime Expected Credit Loss estimate). PDs are calibrated on a periodic basis using regression modelling applying historic default data. Forward-Looking Indicators (FLIs) are applied to the PD computation through a credit index model. An average of three macroeconomic scenarios incorporating a base scenario, upside scenario and downside scenario, weighted by the probability of occurrence.

LGDs are present value measurements of the expected loss that the Group will incur if a borrowing client were to default (i.e. a PD of 100%). LGDs are determined through regression modelling by estimating expected future cash flows, including costs and proceeds from sale of collateral, based on historically observed outcomes. Data points include; the net recovered value of collateral, the period taken to recover that collateral, the amortisation of the outstanding advance balance while in default and an estimation of the likelihood that a stage 3 account will migrate to stage 2. Present value discount rates applied are the asset's original effective interest rate or a reasonable approximation thereof.

EAD is the estimated exposure of a borrowing client at the point of default. EAD parameters are estimated based on product characteristics and historical draw-down and payment behaviour.

*Approach to Incorporate Forward-Looking Indicators (FLI)*

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 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 baseline, downside, upside and stress 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 the team of economists in Botswana and South Africa. These economists assess micro and macroeconomic developments to formulate (bottom-up) and adjust (top-down) the macroeconomic forecasts. Several internal and external economists are then requested to assign a probability 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 impact of FLI on ECL is ordinarily determined based on historical relationships between macro-economic movements and default rates. Where it is not expected for these relationships hold under current macro-economic conditions, judgemental adjustments have been made through post-model adjustments.

The baseline, downside and upside scenarios are used in the ECL calculations.

*Economic Scenarios Applied in June 2020 ECL computation*

The FLIs applied in the current financial year modelling process are GDP and monetary policy rate. The previous financial year FLI model was a single factor model based on GDP. In the context of the economic conditions preceding COVID-19, it is expected that the historical relationship between monetary policy rate and default rates will not maintain historic correlations. The Group has therefore conservatively nullified the application of the monetary policy rate in the ECL computation as at 30 June 2020. The FLI component of ECL is therefore limited to GDP.

# 1. Introduction *continued*

## 1.8 Significant judgements and sources of estimation uncertainty *continued*

### Computation of Expected Credit Loss (ECL) *continued*

*Economic Scenarios Applied in June 2020 ECL computation* *continued*

The economic scenarios applied are described as follows:

Upside: Domestic growth lifts to the 70th percentile of the historical distribution. The global economy experiences a short but severe recession before rebounding strongly in 2021 while developed market inflation remains low and global financial conditions ease meaningfully over the forecasted horizon.

Baseline: Given the global tensions around the COVID-19, disruptions appear in the global supply chain due to lockdowns. Amid prevalent factors, growth prospects in Botswana's key sectors may be negatively impacted with local trade operations disrupted, exerting further pressure on tax revenues and mounting fiscal pressure. The informal sector is impacted by extreme social distancing measures that Government has put in place with some factors, such as wage subsidies and social packages, providing some mitigation to the impact.

Downside: Domestic growth falls below the 8th percentile of the historical distribution. The global economy moves into a deep, but temporary, recession before experiencing a muted recovery as global supply chains struggle to recover following COVID-19 shocks. Inflation begins to rise, preventing major central banks from maintaining accommodative monetary policy conditions.

| | FLIs: Applied in ECL Models | | |
|---|---|---|---|
| | Upside | Baseline | Downside |
| Scenario – 2020 | | | |
| 2021 | **(0,30)** | **(2,10)** | **(6,91)** |
| 2022 | **4,90** | **3,30** | **0,25** |
| 2023 | **5,60** | **3,50** | **0,85** |
| Weighting | **15 %** | **66 %** | **19 %** |
| Scenario – 2019 | | | |
| 2020 | 5,60 | 4,80 | 3,55 |
| 2021 | 7,00 | 4,80 | 1,95 |
| 2022 | 8,45 | 4,90 | 1,75 |
| Weighting | 16 % | 66 % | 18 % |

### COVID-19 considerations

*COVID-19: Financial Relief Offered to Clients*

The Group has offered financial relief to borrowing clients in response to COVID-19. This included restructures of existing exposures with no change in the present value of the estimated future cash flows. No other modifications of financial assets were implemented in the financial year, thereby resulting in no modification gains or losses for the year.

Exposures on which relief has been offered have been assessed to determine whether the requirement for relief is expected to be temporary or permanent in nature. Where the requirement for relief is expected to be temporary in nature and as such qualified as a non-distressed restructure, the staging of the exposure prior to the restructure has been maintained, and adjustments have been made to coverage to allow for incremental credit risk and potential masking of normal arrears. Where the requirement for relief is not expected to be temporary in nature, the exposure has been treated as a distressed restructure, and staging and coverage has been adjusted in line with normal practice.

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.8 Significant judgements and sources of estimation uncertainty *continued*

COVID-19 considerations *continued*

*COVID-19: Determination of whether the credit risk of financial instruments have increased significantly since initial recognition*

Although COVID-19 has had a negative impact on the economies in which the Group operates, in isolation it initially reflected a liquidity constraint more than an inherent increase in credit risk for the entire portfolio of advances held by the Group and as such the Group did not apply a blanket downgrade to all credit risk stages.

A more systematic and targeted approach to the impact of COVID-19 on the Group's customer base was undertaken, following the Group's existing credit framework, which allowed for well-balanced and consistent decisions that considered the impact of COVID-19 and prevailing economic trends as well. As such, the Group did not view requests for payment deferrals and liquidity assistance as the sole indicator that SICR had occurred for performing advances.

The following table sets out the impact on the staging and total ECL provisions recognised if COVID-19 restructures had been viewed as a blanket downgrade to the next stage.

| | 30 June 2020 | | |
|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 |
| | P'000 | P'000 | P'000 |
| Total ECL provisions as at 30 June 2020 | 201 960 | 241 071 | 886 680 |
| Additional provisions recognised if the exposures had moved into stage 2 from stage 1 | | 40 001 | – |
| Additional provisions recognised if the exposures moved into stage 3 from stage 2 | | | 1 081 |
| Potential total ECL provisions as at 30 June 2020 | 201 960 | 281 072 | 887 761 |

COVID-19 restructures – advances

The following table sets out the ECL provisions recognised on COVID-19 restructured accounts.

| | Stage of underlying gross advance | | | Balance sheet impairments | | | Coverage | |
|---|---|---|---|---|---|---|---|---|
| | Stage 1 | Stage 2 | Under-lying gross advance | Stage 1 | Stage 2 | Total | Stage 1 | Stage 2 |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 | % | % |
| 2020 | | | | | | | | |
| Advances that received relief | | | | | | | | |
| Retail | 338 624 | 74 366 | 412 990 | 4 822 | 10 294 | 15 116 | 1,42 | 13,84 |
| Commercial | 893 836 | 95 761 | 989 597 | 15 615 | 3 419 | 19 034 | 1,75 | 3,57 |
| | 1 232 460 | 170 127 | 1 402 587 | 20 437 | 13 713 | 34 150 | 1,66 | 8,06 |

# 1. Introduction *continued*

## 1.8 Significant judgements and sources of estimation uncertainty *continued*

### COVID-19 restructures – advances *continued*

The table below sets out the impact of a 10% increase in the post model adjustments for COVID-19 relief currently provided for in the ECL.

| | 30 June 2020 | | |
|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 |
| | P'000 | P'000 | P'000 |
| Total ECL provisions as at 30 June 2020 | 201 960 | 241 071 | 886 680 |
| Additional provisions | 784 | 83 | 124 |
| Potential total ECL provisions as at 30 June 2020 | 202 744 | 241 154 | 886 804 |

*COVID-19: Considerations for the Computation of ECL*

The Group has reviewed all parameters comprising the baseline ECL computation for appropriateness given the severe impact of COVID-19.

Regression modelling techniques have been used to determine which borrower and transaction characteristics are predictive of certain behaviours, based on relationships observed in historical data related to the Group of accounts to which the model will be applied. This resulted in the production of models that are used to predict impairment parameters based on the predictive characteristics identified through the regression process. Given the extended length of historical data applied in these regression models and the relatively recent impact of COVID-19, the historical assumptions were not considered sufficient to predict the ECL impact of the COVID-19 on the existing exposures.

This identified limitation in the ECL models was addressed via a post-model adjustment (PMA) process. The Group undertook a thorough review of the appropriateness of two key ECL parameters (PD and LGD).

Where exposures were restructured but staging remained the same, increased ECL were implemented to allow for incremental credit risk and potential masking of normal arrears. This has been implemented via an increase in PDs. Where stage migrations were undertaken, appropriate stage specific ECL parameters were applied to the exposure.

PDs are calibrated on a periodic basis using regression modelling applying historic default data. To incorporate the increase in PDs that the historic default data does not include, the Group computed an appropriate scalar to apply to the PDs. This was applied directly to the restructured portfolio on a 1:1 basis. The application to the non-restructured portfolio was performed via an industry risk assessment.

Stage 1 and 2 exposures were grouped, based on client industries into high, medium and low risk categories, based on the expected increase in risk that each category would experience under COVID-19 conditions. High risk categories received a factor of 100%, medium 83% and low 50%.The industry factors were then applied to the PD scalar and the appropriate ECLs were computed on a forward looking indicator basis.

Wholesale and commercial SME restructured exposures were assessed at a counterparty level through a stress test application of a double notch downgrade in the counterparty credit rating.

In the context of the economic conditions preceding COVID-19, it is expected that the historical relationship between monetary policy rate and default rates will not maintain historic correlations. The Group has therefore conservatively nullified the application of the monetary policy rate in the ECL computation.

LGDs are determined through regression modelling by estimating expected future cash flows, including costs and proceeds from sale of collateral, based on historically observed outcomes. To incorporate the increase in LGDs that the historic default data does not include, the Group reviewed key assumptions underpinning LGDs including the net recoverable value of collateral and the period taken to recover that collateral. The period to recover collateral was increased by 6 months on all stage 3 products. The collateral used in assessing the net recoverable value was classified into 3 broad categories: residential properties, commercial properties and vehicles. Each category was thoroughly assessed and appropriate discounts applied to the collateral. These estimated reduced collateral recoveries were applied to stage 1, 2 and 3 accounts.

# Significant Accounting Policies *continued*

## 1. Introduction *continued*

### 1.8 Significant judgements and sources of estimation uncertainty *continued*

COVID-19 restructures – advances *continued*

*COVID-19: Considerations for the Computation of ECL* *continued*

Impairment of Financial Assets Sensitivity Analysis:

Due to the uncertainties existing in the economic environment, the extensive post-model adjustment process (described above) and the level of judgement applied; assumptions underpinning key estimates have been tested for sensitivities. As IFRS 9 is embedded in the Group's reporting process, additional disclosure is included. Comparative information has not been provided as this information was not produced in the prior year.

*Sensitivity staging: Application of SICR*

When there is a SICR subsequent to the initial recognition of an exposure, the exposure is migrated from stage 1 to stage 2 and the ECL is calculated based on lifetime expected credit losses. As indicated, the Group did not apply a blanket downgrade to all credit risk stages due to COVID-19. However, adjustments were made to coverage held for COVID-19 relief to allow for the impact of delayed arrears recognition, which results from an inability to observe normal arrears behaviour.

The table below sets out the impact of a 5% increase in the total gross exposure classified as stage 2 due to SICR and the subsequent increase in the ECL based on the difference between the Stage 2 and Stage 1 coverage ratios.

| | 30 June 2020 | |
|---|---|---|
| | Exposure | ECL Impact |
| | P'000 | P'000 |
| Total | 11 235 | 1 946 |

*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 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 baseline, downside, upside and stress scenarios. The baseline, downside and upside scenarios are used in the ECL calculations.

In determining the weightings of the scenarios, a series of economists individually assigned a probability 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 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.

| | FLIs: Applied in ECL Models | | |
|---|---|---|---|
| | Current factor | Sensitivity factor | Collateral Value Assumptions |
| Scenario | | | |
| 2021 | (0,30) | (2,10) | (6,91) |
| 2022 | 4,00 | 3,30 | 0,25 |
| 2023 | 5,60 | 3,50 | 0,85 |
| Weighting | 15 % | 66 % | 19 % |
| Sensitivity weighting | 10 % | 66 % | 24 % |
| Total impact on ECL | 68 | | |

# 1. Introduction *continued*

## 1.8 Significant judgements and sources of estimation uncertainty *continued*

### COVID-19 restructures – advances *continued*

*PD Industry Scalar Sensitivity Analysis*

PDs are calibrated on a periodic basis using regression modelling applying historic default data. To incorporate the increase in PDs that the historic default data does not include, the Group computed an appropriate scalar to apply to the PDs. This was applied directly to the restructured portfolio on a 1:1 basis. The application to the non-restructured portfolio was performed via an industry risk assessment.

Stage 1 and 2 exposures were grouped, based on client industries, into high, medium and low risk categories. High industries were rated a factor of 100%, medium 83% and low 50%. Assessments were undertaken to determine the expected increase in risk that each industry would experience under COVID-19 conditions and to classify them as high, medium of low risk. The industry factors were then applied to the PD scalar and the appropriate ECLs were computed.

The sensitivity shown indicates the ECL impact of an upward shift in the industry risks resulting in an increase in the scalars applied.

| | Increased Probability of Default | | |
|---|---|---|---|
| | Current factor | Sensitivity factor | Expected credit loss impact |
| Low | 50% | 83% | 1 388 |
| Medium | 83% | 100% | 15 077 |
| High | 100% | 200% | 16 172 |

*Collateral Recovery Values: Sensitivity Analysis*

LGDs are determined through regression modelling by estimating expected future cash flows, including costs and proceeds from sale of collateral, based on historically observed outcomes. To incorporate the increase in LGDs that the historic default data does not include, the Group reviewed key assumptions underpinning LGDs including the net recoverable value of collateral. The collateral used in assessing the net recoverable value was classified into 3 broad categories including: residential properties, commercial properties and vehicles. Each was category was thoroughly assessed and appropriate discounts applied to the collateral. These estimated reduced collateral recoveries were applied to stage 1, 2 and 3 accounts.

The sensitivity shown indicates the ECL impact of a further 5% collateral haircut applied to the original collateral values.

| | Stage 1 and 2 | Stage 3 | Total ECL Impact |
|---|---|---|---|
| Residential properties | 5 670 | 17 974 | 23 644 |
| Commercial properties | 1 493 | 1 924 | 3 417 |
| Vehicles | 4 612 | 5 096 | 9 708 |

# **Significant** Accounting Policies *continued*

## 1. Introduction *continued*

### 1.8 Significant judgements and sources of estimation uncertainty *continued*

#### COVID-19 restructures – advances *continued*

*Collateral Recovery Values: Sensitivity Analysis* *continued*

The following were considered under respective categories:

Policies considered under judgements are as per below:

- Impairment of financial assets
- Approach to incorporate forward looking indicators (FLI)
- COVID-19 restructures
- COVID-19 considerations

Policies considered under estimates are as per below:

- Impairment of goodwill
- Taxation
- Computation of expected credit loss
- Staging of financial assets and significant increase in credit risk

#### Other liabilities

*Provision*

*Provisions for litigation*

The Group has a policy and process in place to determine when to recognise provisions for potential litigation and claims. The recognition of such provisions is linked to the ranking of legal risk of potential litigation on the Group's litigation database.

The Group utilises the following in order to determine when to recognise provisions for potential litigation and claims:

- expert and in-house advice; and
- consideration of the likelihood and probable outcome of the event so as to arrive at the best possible estimate.

# **Income** Statements

## for the year ended 30 June 2020

| | Notes | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|---|
| | | **P'000** | P'000 | **P'000** | P'000 |
| Interest income calculated using the effective interest rate | 2 | **1 649 128** | 1 617 445 | **1 649 128** | 1 617 445 |
| Interest expenses and similar charges* | 3 | **(310 893)** | (359 916) | **(307 996)** | (356 440) |
| Net interest income before impairment of advances | | **1 338 235** | 1 257 529 | **1 341 132** | 1 261 005 |
| Impairment of advances | 14 | **(421 442)** | (264 912) | **(421 442)** | (264 912) |
| Net interest income after impairment of advances | | **916 793** | 992 617 | **919 690** | 996 093 |
| Non-interest revenue | | | | | |
| Fee and commission income | 4 | **1 093 695** | 937 805 | **1 039 662** | 933 071 |
| Fee and commission expense | 4 | **(101 507)** | (45 720) | **(101 507)** | (45 720) |
| Other income | 4 | **275 280** | 250 230 | **272 413** | 252 232 |
| | | **1 267 468** | **1 142 315** | **1 210 568** | **1 139 583** |
| Income from operations | | **2 184 261** | 2 134 932 | **2 130 258** | 2 135 676 |
| Operating expenses* | 5 | **(644 308)** | (597 052) | **(651 327)** | (599 418) |
| Employee benefits expenses | 6 | **(612 708)** | (575 549) | **(609 963)** | (573 572) |
| Income before taxation | | **927 245** | 962 331 | **868 968** | 962 686 |
| Indirect taxation | 7 | **(26 394)** | (16 984) | **(24 463)** | (16 977) |
| Profit before direct taxation | | **900 851** | 945 347 | **844 505** | 945 709 |
| Direct taxation | 7 | **(205 045)** | (212 811) | **(191 314)** | (212 411) |
| Profit for the year attributable to owners of the parent | | **695 806** | 732 536 | **653 191** | 733 298 |
| Earnings per share | | | | | |
| Per share information | | | | | |
| Basic earnings per share (Thebe) | 9 | **27,35** | 28,80 | | |
| Diluted earnings per share (Thebe) | 9 | **27,35** | 28,80 | | |

* *The Group elected not to restate comparative information as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to accounting policy note 1.5 for details.*

FNB

# Statements of Comprehensive Income

## for the year ended 30 June 2020

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **P'000** | P'000 | **P'000** | P'000 |
| Profit for the year | **695 806** | 732 536 | **653 191** | 733 298 |
| Other comprehensive income: | | | | |
| Items that will not be reclassified to profit or loss: | | | | |
| Losses on property revaluation | **–** | (11 196) | **–** | (11 196) |
| Deferred income tax on property revaluation | **–** | 2 463 | **–** | 2 463 |
| Total items that will not be reclassified to profit or loss | **–** | (8 733) | **–** | (8 733) |
| Other comprehensive loss for the year net of taxation | **–** | (8 733) | **–** | (8 733) |
| Total comprehensive income for the year attributable to owners of the parent | **695 806** | 723 803 | **653 191** | 724 565 |

# Statements of Financial Position

## as at 30 June 2020

| | Notes | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|---|
| | | P'000 | P'000 | P'000 | P'000 |
| **Assets** | | | | | |
| Cash and short-term funds | 11 | **4 697 599** | 4 411 739 | **4 697 599** | 4 411 739 |
| Derivative financial instruments | 12 | **76 872** | 49 606 | **76 872** | 49 606 |
| Advances to banks | | **–** | 789 903 | **–** | 789 903 |
| Advances to customers | 13 | **14 686 767** | 15 939 047 | **14 686 767** | 15 939 047 |
| Investment securities | 15 | **9 509 211** | 4 135 221 | **9 509 211** | 4 135 221 |
| Current taxation | 32 | **86 324** | 106 768 | **80 418** | 104 224 |
| Due from related parties | 16 | **11 684** | 6 388 | **11 684** | 6 388 |
| Other assets* | 17 | **479 314** | 317 627 | **369 702** | 209 339 |
| Investments in subsidiaries | 18 | **–** | – | **13 540** | 13 540 |
| Property and equipment** | 19 | **601 044** | 481 307 | **552 353** | 439 678 |
| Goodwill | 20 | **26 963** | 26 963 | **26 589** | 26 589 |
| Deferred taxation | 8 | **3 706** | 7 054 | **–** | – |
| Total assets | | **30 179 484** | 26 271 623 | **30 024 735** | 26 125 274 |
| **Equity and Liabilities** | | | | | |
| Liabilities | | | | | |
| Derivative financial instruments | 12 | **36 708** | 14 844 | **36 708** | 14 844 |
| Accrued interest payable | | **28 079** | 63 566 | **28 079** | 63 566 |
| Due to related parties | 16 | **21 322** | 32 898 | **105 504** | 120 870 |
| Creditors and accruals** | 24 | **723 586** | 863 735 | **708 825** | 809 566 |
| Deposit from banks | 22 | **545 002** | 581 243 | **545 002** | 581 243 |
| Deposit from customers | 21 | **23 171 897** | 19 591 409 | **23 171 897** | 19 591 409 |
| Employee benefits liabilities | 25 | **81 504** | 85 894 | **81 429** | 85 867 |
| Borrowings | 23 | **1 765 858** | 1 502 642 | **1 765 858** | 1 502 642 |
| Deferred taxation | 8 | **207 382** | 200 623 | **202 275** | 196 870 |
| Total liabilities | | **26 581 338** | 22 936 854 | **26 645 577** | 22 966 877 |
| Capital and reserves attributable to ordinary equity holders | | | | | |
| Stated capital | 28 | **51 088** | 51 088 | **51 088** | 51 088 |
| Reserves | 29 | **3 343 562** | 3 029 311 | **3 124 574** | 2 852 939 |
| Dividend reserve | | **203 496** | 254 370 | **203 496** | 254 370 |
| Total equity | | **3 598 146** | 3 334 769 | **3 379 158** | 3 158 397 |
| Total Equity and Liabilities | | **30 179 484** | 26 271 623 | **30 024 735** | 26 125 274 |

* *In the prior year, these amounts were disclosed as accounts receivable. The description "other assets" is more appropriate based on the nature of the assets included in this line items and is in line with industry practice.*

** *The Group elected not to restate comparative information as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to accounting policy note 1.5 for details*

FNB

# Statements of Changes in Equity

## for the year ended 30 June 2020

| | Stated capital | Other non-distributable reserves | Dividend reserve | Retained income | Total equity |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Group** | | | | | |
| Balance at 01 July 2018 | 51 088 | 71 677 | 228 933 | 2 640 823 | 2 992 521 |
| Profit for the year | – | – | – | 732 536 | 732 536 |
| Other comprehensive loss | – | (8 733) | – | – | (8 733) |
| Total comprehensive income for the year | – | (8 733) | – | 732 536 | 723 803 |
| Transfer from revaluation reserve – revaluation portion of depreciation | – | (1 514) | – | 1 514 | – |
| 2018 Final Dividends paid | – | – | (228 933) | – | (228 933) |
| 2019 Interim Dividends paid | – | – | – | (152 622) | (152 622) |
| 2019 Final Dividends proposed | – | – | 254 370 | (254 370) | – |
| Total contributions by and distributions to owners of company recognised directly in equity | – | (1 514) | 25 437 | (405 478) | (381 555) |
| Balance at 01 July 2019 | **51 088** | **61 430** | **254 370** | **2 967 881** | **3 334 769** |
| Profit for the year | – | – | – | **695 806** | **695 806** |
| Total comprehensive income for the year | – | – | – | **695 806** | **695 806** |
| Transfer from revaluation reserve – revaluation portion of depreciation | – | **(1 564)** | – | **1 564** | – |
| 2019 Final Dividends paid | – | – | **(254 370)** | – | **(254 370)** |
| 2020 Interim Dividends paid | – | – | – | **(178 059)** | **(178 059)** |
| 2020 Final Dividends proposed | – | – | **203 496** | **(203 496)** | – |
| Total contributions by and distributions to owners of company recognised directly in equity | – | **(1 564)** | **(50 874)** | **(379 991)** | **(432 429)** |
| Balance at 30 June 2020 | **51 088** | **59 866** | **203 496** | **3 283 696** | **3 598 146** |
| Note | | | | 29 | |

| | Stated capital | Other non-distributable reserves | Dividend reserve | Retained income | Total equity |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Company** | | | | | |
| Balance at 01 July 2018 | 51 088 | 56 412 | 228 933 | 2 478 953 | 2 815 386 |
| Profit for the year | – | – | – | 733 298 | 733 298 |
| Other comprehensive loss | – | (8 733) | – | – | (8 733) |
| Total comprehensive income for the year | – | (8 733) | – | 733 298 | 724 565 |
| Transfer from revaluation reserve – revaluation portion of depreciation | – | (913) | – | 913 | – |
| 2018 Final Dividends paid | – | – | (228 933) | – | (228 933) |
| 2019 Interim Dividends paid | – | – | – | (152 622) | (152 622) |
| 2019 Final Dividends proposed | – | – | 254 370 | (254 370) | – |
| Total contributions by and distributions to owners of company recognised directly in equity | – | (913) | 25 437 | (406 079) | (381 555) |
| **Balance at 01 July 2019** | **51 088** | **46 766** | **254 370** | **2 806 172** | **3 158 396** |
| Profit for the year | – | – | – | **653 191** | **653 191** |
| **Total comprehensive income for the year** | – | – | – | **653 191** | **653 191** |
| Transfer from revaluation reserve – revaluation portion of depreciation | – | **(936)** | – | **936** | – |
| 2019 Final Dividends paid | – | – | **(254 370)** | – | **(254 370)** |
| 2020 Interim Dividends paid | – | – | – | **(178 059)** | **(178 059)** |
| 2020 Final Dividends proposed | – | – | **203 496** | **(203 496)** | – |
| Total contributions by and distributions to owners of company recognised directly in equity | – | **(936)** | **(50 874)** | **(380 619)** | **(432 429)** |
| Balance at 30 June 2020 | **51 088** | **45 830** | **203 496** | **3 078 744** | **3 379 158** |
| Note | | | | 29 | |

FNB

# Statements of Cash Flows

## for the year ended 30 June 2020

| | Notes | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|---|
| | | P'000 | P'000 | P'000 | P'000 |
| **Cash flows from operating activities** | | | | | |
| Cash generated from (used in) operations before taxation and working capital changes | 30 | (89 337) | 12 421 | (150 360) | 7 363 |
| Interest and similar income* | | 1 649 128 | 1 617 445 | 1 649 128 | 1 617 445 |
| Interest and similar expense | | (310 893) | (359 916) | (307 996) | (356 440) |
| Taxation paid | 31 | (174 495) | (266 755) | (162 104) | (248 499) |
| **Cash from operating activities** | | 1 074 403 | 1 003 195 | 1 028 668 | 1 019 869 |
| Movement in amounts due to other banks | | (36 241) | (148 866) | (36 241) | (148 866) |
| Movement in deposits and current accounts | 33 | 3 580 488 | 757 073 | 3 580 488 | 757 073 |
| Movement in amounts due to related companies | | (11 576) | (40 963) | (15 366) | (54 109) |
| Movement in accrued interest payable | | (35 487) | 11 673 | (35 487) | 11 673 |
| Movement in creditors and accruals* | | (294 344) | 396 176 | (254 936) | 351 953 |
| Movement in employee benefits liabilities | | (4 390) | 3 094 | (4 438) | 3 002 |
| Movement in investments – FV through profit or loss | | (28 317) | (40 092) | (28 317) | (40 092) |
| Movement in investments – amortised cost | | (846 306) | (235 220) | (846 306) | (235 220) |
| Movement in advances to customers | 34 | 830 838 | (851 405) | 830 838 | (851 405) |
| Movement in advances to banks | | 789 903 | (138 991) | 789 903 | (138 991) |
| Movement in other assets | | (161 687) | 39 506 | (160 363) | 67 609 |
| Movement in amounts due from related companies | | (5 296) | 3 077 | (5 296) | 3 077 |
| Movement in accrued interest on borrowings | | 54 310 | 50 975 | 54 310 | 50 975 |
| **Cash generated from operating activities** | | 4 906 298 | 809 232 | 4 897 457 | 796 548 |
| **Cash flows from investing activities** | | | | | |
| Acquisition of property, plant and equipment | 19 | (44 457) | (54 539) | (35 617) | (41 855) |
| **Cash flows from financing activities** | | | | | |
| Borrowings raised | | 196 802 | 151 172 | 196 802 | 151 172 |
| Finance lease payments | | (5 625) | – | (5 625) | – |
| Dividends paid | 35 | (432 429) | (381 555) | (432 429) | (381 555) |
| **Cash utilised in financing activities** | | (241 252) | (230 383) | (241 252) | (230 383) |
| **Cash movement for the year** | | 4 620 589 | 524 310 | 4 620 588 | 524 310 |
| Cash and cash equivalents at the beginning of the year | | 6 010 046 | 5 455 384 | 6 010 046 | 5 455 384 |
| Effect of exchange rate movement on cash balances | | 164 640 | 30 352 | 164 640 | 30 352 |
| **Total cash and cash equivalents at end of the year** | 36 | 10 795 275 | 6 010 046 | 10 795 274 | 6 010 046 |

* *The Group has elected not to restate comparative information as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to accounting policy note 1.5 for details.*

# Notes to the Consolidated and Separate Financial Statements

for the year ended 30 June 2020

| | Note | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|---|
| | | P'000 | P'000 | P'000 | P'000 |
| **2. Interest and similar income** | | | | | |
| Instruments at amortised cost | | | | | |
| Advances | | **1 425 151** | 1 415 463 | **1 425 151** | 1 415 463 |
| Cash and short-term funds | | **33 642** | 28 602 | **33 642** | 28 602 |
| Related parties | 16 | **37 479** | 68 759 | **37 479** | 68 759 |
| Unwinding of discounted present value of off-market staff loans | | **13 726** | 1 093 | **13 726** | 1 093 |
| Investment securities | | **102 621** | 78 718 | **102 621** | 78 718 |
| Instruments at fair value through profit or loss | | | | | |
| Investment securities | | **36 509** | 24 810 | **36 509** | 24 810 |
| | | **1 649 128** | 1 617 445 | **1 649 128** | 1 617 445 |
| **3. Interest expense and similar charges** | | | | | |
| Financial liabilities at amortised cost | | | | | |
| Term deposits | | **152 363** | 217 000 | **149 466** | 213 524 |
| Current and call accounts | | **66 574** | 69 038 | **66 574** | 69 038 |
| Savings deposits | | **5 079** | 5 380 | **5 079** | 5 380 |
| Deposits from banks and other financial institutions | | **7 966** | 4 726 | **7 966** | 4 726 |
| Related parties | 16 | **17 558** | 14 530 | **17 558** | 14 530 |
| Borrowings | | **55 728** | 49 242 | **55 728** | 49 242 |
| Right-of-use asset interest expense* | | **5 625** | – | **5 625** | – |
| | | **310 893** | 359 916 | **307 996** | 356 440 |

* *The Group elected not to restate comparative information as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to accounting policy note 1.5 for details.*

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2020

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **4. Non-interest income and expense** | | | | |
| Fee and commission income (amortised cost): | | | | |
| Card commissions | **323 396** | 268 506 | **323 396** | 268 506 |
| Insurance commission | **51 707** | 3 645 | **71** | 547 |
| Facility fees | **41 738** | 41 874 | **41 738** | 41 874 |
| Commissions – guarantees and letters of credit | **4 542** | 6 816 | **4 542** | 6 816 |
| Cash deposit fees | **47 480** | 46 942 | **47 480** | 46 942 |
| Commissions – bills, drafts and cheques | **85 633** | 88 527 | **85 633** | 88 527 |
| Service fees | **388 248** | 341 654 | **385 851** | 340 020 |
| Commissions – customer service | **150 951** | 139 841 | **150 951** | 139 839 |
| Total fee and commission income | **1 093 695** | 937 805 | **1 039 662** | 933 071 |
| Fee and commission expense: | | | | |
| Card commissions | **23 349** | 7 989 | **23 349** | 7 989 |
| Cash deposit fees | **14 004** | 13 819 | **14 004** | 13 819 |
| Service fees | **5 124** | 1 579 | **5 124** | 1 579 |
| Commissions – customer service | **59 030** | 22 333 | **59 030** | 22 333 |
| Total fee and commission expense | **101 507** | 45 720 | **101 507** | 45 720 |
| Net fee and commission income | **992 188** | 892 085 | **938 155** | 887 351 |
| Fair value gains or losses: | | | | |
| Gain on bond trading | **13 317** | 7 352 | **13 317** | 7 352 |
| Net loss arising on financial liabilities at fair value | **1 489** | (5 112) | **1 489** | (5 112) |
| Foreign exchange trading income | **247 393** | 266 960 | **247 393** | 266 960 |
| Fair value gains or losses | **262 199** | 269 200 | **262 199** | 269 200 |
| Other non-interest income | | | | |
| Non-financial assets and liabilities | | | | |
| Loss on sale of property and equipment | **(25)** | (48) | **(25)** | (48) |
| Other non interest gain | **13 106** | (18 922) | **10 239** | (16 920) |
| Other non-interest income | **13 081** | (18 970) | **10 214** | (16 968) |
| Total other income | **275 280** | 250 230 | **272 413** | 252 232 |
| Total non-interest revenue | **1 267 468** | 1 142 315 | **1 210 568** | 1 139 583 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | P'000 | P'000 | P'000 | P'000 |
| **5. Operating expenses** | | | | |
| Audit fees | | | | |
| Current year | 6 768 | 6 332 | 6 768 | 6 332 |
| Prior years | 1 025 | 2 110 | 1 025 | 2 110 |
| IFRS 9 day 1 adjustment fees | – | 1 811 | – | 1 811 |
| | 7 793 | 10 253 | 7 793 | 10 253 |
| Depreciation | | | | |
| Buildings | 20 092 | 21 426 | 18 829 | 19 523 |
| Motor vehicles | 1 432 | 904 | 1 432 | 904 |
| Furniture and fixtures | 42 580 | 47 242 | 42 065 | 47 204 |
| Right-of-use assets | 20 247 | – | 20 247 | – |
| | 84 351 | 69 572 | 82 573 | 67 631 |
| Directors' remuneration | | | | |
| For services as Non-Executive Directors | 4 547 | 4 163 | 4 547 | 4 163 |
| For services as executive directors | 6 201 | 5 514 | 6 201 | 5 514 |
| | 10 748 | 9 677 | 10 748 | 9 677 |
| Operating lease charges | | | | |
| Premises | | | | |
| Contractual amounts | – | 24 997 | – | 26 638 |
| Straight line lease rental adjustments | – | (195) | – | (195) |
| Equipment | | | | |
| Contractual amounts | – | (1 057) | – | (1 057) |
| Non-capitalised lease charges | | | | |
| – Short-term lease charge | 19 805 | – | 22 421 | – |
| Operating lease charges | 19 805 | 23 745 | 22 421 | 25 386 |
| Service fee paid to related company | | | | |
| – Systems | 105 096 | 109 854 | 104 726 | 109 854 |
| – Services | 75 055 | 61 715 | 75 055 | 61 715 |
| – Products | 29 289 | 20 985 | 29 289 | 20 028 |
| | 209 440 | 192 554 | 209 070 | 191 597 |
| Loss on exchange differences | – | (1 776) | – | (1 776) |
| Professional fees | 18 583 | 16 326 | 18 515 | 16 233 |
| Other operating expenses | | | | |
| Advertising and marketing | 30 698 | 32 793 | 30 698 | 32 793 |
| Communication | 33 779 | 27 085 | 33 697 | 27 025 |
| Computer expenditure | 18 211 | 15 622 | 18 211 | 15 622 |
| Property maintenance | 58 447 | 52 948 | 58 364 | 52 238 |
| Stationery, storage and postage | 20 262 | 21 704 | 20 225 | 21 619 |
| Service fees | 78 708 | 66 051 | 78 708 | 66 051 |
| Other | 53 483 | 60 498 | 60 304 | 65 069 |
| Other operating costs | 293 588 | 276 701 | 300 207 | 280 417 |
| Total operating expenses | 644 308 | 597 052 | 651 327 | 599 418 |

Other is inclusive of various expenses comprising mainly of travel, staff functions and entertainment, membership fees, motor vehicle cost, insurance, donations and credit investigations.

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2020

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **6. Employee benefit expenses** | | | | |
| Direct employee costs | | | | |
| Salaries, wages and allowances | **495 388** | 481 582 | **493 267** | 480 029 |
| Defined pension contributions | **47 182** | 43 365 | **46 950** | 43 178 |
| Share based payments expense – cash settled | **168** | 7 799 | **168** | 7 799 |
| Leave pay | **14 940** | 11 328 | **14 851** | 11 254 |
| Other | **55 030** | 31 475 | **54 727** | 31 312 |
| | **612 708** | 575 549 | **609 963** | 573 572 |

Other is inclusive of various staff related costs including training, subsistence and meal allowances, recruitment costs, offmarket staff loan subsidy adjustment and amortisation of assumption of liability share scheme.

| | | | | |
|---|---|---|---|---|
| **7. Taxation** | | | | |
| Indirect taxation | | | | |
| Value added tax | **26 394** | 16 984 | **24 463** | 16 977 |
| Direct taxation | | | | |
| Current taxation | | | | |
| Local income tax – current period | **207 004** | 217 555 | **197 975** | 209 542 |
| Local income tax – prior year over provision/other | **(12 065)** | – | **(12 065)** | – |
| | **194 939** | 217 555 | **185 910** | 209 542 |
| Deferred taxation | | | | |
| Originating and reversing temporary differences | **10 106** | (4 744) | **5 404** | 2 869 |
| Total direct taxation expense per statements of income | **205 045** | 212 811 | **191 314** | 212 411 |
| Deferred tax arising on revaluation of property – FVOCI | **–** | 2 463 | **–** | 2 463 |
| Reconciliation of the taxation charge | | | | |
| Reconciliation between accounting profit and tax expense. | | | | |
| Profit before direct taxation | **900 851** | 945 347 | **844 505** | 945 709 |
| Tax at the applicable tax rate of 22% (2019: 22%) | **198 187** | 207 976 | **185 791** | 208 056 |
| Tax effect of adjustments on taxable income | | | | |
| Over-provision of current tax in prior years/other | **(12 065)** | – | **(12 065)** | – |
| Section 41 disallowable expenses | **14 990** | 2 144 | **14 990** | 2 144 |
| Donations | **1 613** | 1 437 | **1 613** | 1 437 |
| Other | **2 320** | 1 254 | **985** | 774 |
| Total tax expense per statements of income | **205 045** | 212 811 | **191 314** | 212 411 |
| Effective tax rate | **22,76%** | 22,51% | **22,65%** | 22,46% |

### Tax relief

As a result of the COVID-19 the Government of the Republic of Botswana has suspended the payment of Training Levy at 2% under the period of state emergency(6 months, April 2020 – September 2020). For the period April to June 2020 the training levy amounted to P518,000.

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | P'000 | P'000 | P'000 | P'000 |

## 8. Deferred taxation

| | | | | |
|---|---|---|---|---|
| Deferred tax liability | | | | |
| Deferred tax liability | (207 382) | (200 623) | (202 275) | (196 870) |
| Deferred tax asset | | | | |
| Deferred tax asset | 3 706 | 7 054 | – | – |
| Deferred tax liability | (207 382) | (200 623) | (202 275) | (196 870) |
| Deferred tax asset | 3 706 | 7 054 | – | – |
| Total net deferred tax liability | (203 676) | (193 569) | (202 275) | (196 870) |

A deferred tax asset of P3 645 000 (2019: P 7 054 000) has been recognised as the directors considered it probable that there will be future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. This is based on management's forecast of future financial performance, position and cashflows of the Group.

| | | | | |
|---|---|---|---|---|
| Deferred taxation | | | | |
| Balance at beginning of year | 193 569 | 200 780 | 196 870 | 196 464 |
| Temporary differences for the year | 10 106 | (4 744) | 5 404 | 2 869 |
| Arising on revaluation of property | – | (2 463) | – | (2 463) |
| Balance at the end of the year | 203 676 | 193 569 | 202 275 | 196 870 |
| The balance comprises of the following: | | | | |
| Accelerated capital allowances | 200 524 | 197 506 | 196 899 | 195 903 |
| Arising from revaluation of property | 10 393 | 10 393 | 6 787 | 6 787 |
| Other temporary differences | (7 241) | (14 330) | (1 411) | (5 820) |
| | 203 676 | 193 569 | 202 275 | 196 870 |

## 9. Earnings per share

### Basic earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding the number of ordinary shares purchased by the Company and held as treasury shares.

| | Group | |
|---|---|---|
| | 2020 | 2019 |
| | P'000 | P'000 |
| Basic earnings per share | | |
| Earnings attributable to ordinary equity holders | 695 806 | 732 536 |
| Number of ordinary shares in issue at beginning and end of year (thousands) | 2 543 700 | 2 543 700 |
| Diluted weighted average number of shares in issue (thousands) | 2 543 700 | 2 543 700 |
| Basic and diluted earnings per share (Thebe) | 27,35 | 28,80 |

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue by the share options in force assuming conversion of all dilutable potential ordinary shares.

| | | |
|---|---|---|
| Diluted earnings per share | | |
| Earnings attributable to ordinary equity holders | 695 806 | 732 536 |
| Weighted average number of ordinary shares in issue (thousands) | 2 543 700 | 2 543 700 |
| Diluted earnings per share (Thebe) | 27,35 | 28,80 |

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2020

## 10. Analysis of assets and liabilities by category

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies on pages 108 to 138 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the statements of financial position per category of financial instrument to which they are assigned and therefore by measurement basis:

| | | At fair value through profit or loss | |
|---|---|---|---|
| | Amortised cost | Mandatory | Designated |
| | P'000 | P'000 | P'000 |
| **Group – 2020** | | | |
| **Assets** | | | |
| Cash and short-term funds | 4 697 599 | – | – |
| Advances to customers | 14 686 767 | – | – |
| Due from related parties | 11 684 | – | – |
| Other assets | 377 063 | – | – |
| Investment securities | 9 346 177 | 163 034 | – |
| Derivative financial instruments | – | 76 872 | – |
| Current tax receivable | – | – | – |
| Deferred tax asset | – | – | – |
| Property and equipment | – | – | – |
| Goodwill | – | – | – |
| Total assets | 29 119 290 | 239 906 | – |
| **Liabilities** | | | |
| Deposits from banks | 545 002 | – | – |
| Deposits from customers | 23 171 897 | – | – |
| Borrowings | 1 614 201 | – | 151 657 |
| Accrued interest payable | 28 079 | – | – |
| Due to related parties | 21 322 | – | – |
| Employee benefits liabilities | – | – | – |
| Creditors and accruals | 512 302 | – | – |
| Derivatives financial instruments | – | 36 708 | – |
| Deferred tax liability | – | – | – |
| Total liabilities | 25 892 803 | 36 708 | 151 657 |

| Non-financial instruments | Total carrying value | Current | Non-current |
|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 |
| | | | |
| - | 4 697 599 | 4 697 599 | - |
| - | 14 686 767 | 1 178 030 | 13 508 737 |
| - | 11 684 | 5 327 | 6 357 |
| 102 251 | 479 314 | 479 314 | - |
| - | 9 509 211 | 9 509 211 | - |
| - | 76 872 | 76 872 | - |
| 86 324 | 86 324 | 86 324 | - |
| 3 706 | 3 706 | - | 3 706 |
| 601 044 | 601 044 | - | 601 044 |
| 26 963 | 26 963 | - | 26 963 |
| 820 288 | 30 179 484 | 16 032 677 | 14 146 807 |
| | | | |
| - | 545 002 | 545 002 | - |
| - | 23 171 897 | 21 643 478 | 1 528 419 |
| - | 1 765 858 | - | 1 765 858 |
| - | 28 079 | 28 079 | - |
| - | 21 322 | 21 322 | - |
| 81 504 | 81 504 | 81 504 | - |
| 211 284 | 723 586 | 573 359 | 150 227 |
| - | 36 708 | 36 708 | - |
| 207 382 | 207 382 | - | 207 382 |
| 500 170 | 26 581 338 | 22 929 452 | 3 651 886 |

## 10. Analysis of assets and liabilities by category *continued*

| | | At fair value through profit or loss | |
|---|---|---|---|
| | Amortised cost | Mandatory | Designated |
| | P'000 | P'000 | P'000 |
| **Group – 2019** | | | |
| **Assets** | | | |
| Cash and short-term funds | 4 411 739 | – | – |
| Advances to banks | 789 903 | – | – |
| Advances to customers | 15 939 047 | – | – |
| Due from related parties | 6 388 | – | – |
| Other assets | 211 214 | – | – |
| Investment securities | 4 000 460 | 134 761 | – |
| Derivative financial instruments | – | 49 606 | – |
| Current tax receivable | – | – | – |
| Deferred tax asset | – | – | – |
| Property and equipment | – | – | – |
| Goodwill | – | – | – |
| Total assets | 25 358 751 | 184 367 | – |
| **Liabilities** | | | |
| Deposits from banks | 581 243 | – | – |
| Deposits from customers | 19 591 409 | – | – |
| Borrowings | 1 363 089 | – | 139 553 |
| Accrued interest payable | 63 566 | – | – |
| Due to related parties | 32 898 | – | – |
| Employee benefits liabilities | – | – | – |
| Creditors and accruals | 451 295 | – | – |
| Derivatives financial instruments | – | 14 844 | – |
| Deferred tax liability | – | – | – |
| Total liabilities | 22 083 500 | 14 844 | 139 553 |

| Non-financial instruments | Total carrying value | Current | Non-current |
|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 |
| – | 4 411 739 | 4 411 739 | – |
| – | 789 903 | 789 903 | – |
| – | 15 939 047 | 1 733 954 | 14 205 093 |
| – | 6 388 | – | 6 388 |
| 106 413 | 317 627 | 317 627 | – |
| – | 4 135 221 | 4 135 221 | – |
| – | 49 606 | 49 606 | – |
| 106 768 | 106 768 | 106 768 | – |
| 7 054 | 7 054 | 7 054 | – |
| 481 307 | 481 307 | – | 481 307 |
| 26 963 | 26 963 | – | 26 963 |
| 728 505 | 26 271 623 | 11 551 872 | 14 719 751 |
| – | 581 243 | 581 243 | – |
| – | 19 591 409 | 18 807 275 | 784 134 |
| – | 1 502 642 | 178 918 | 1 323 724 |
| – | 63 566 | 63 566 | – |
| – | 32 898 | – | 32 898 |
| 85 894 | 85 894 | 85 894 | – |
| 412 440 | 863 735 | 863 735 | – |
| – | 14 844 | 14 844 | – |
| 200 623 | 200 623 | – | 200 623 |
| 698 957 | 22 936 854 | 20 595 475 | 2 341 379 |

| | | At fair value through profit or loss | |
|---|---|---|---|
| | Amortised cost | Mandatory | Designated |
| | P'000 | P'000 | P'000 |
| **10. Analysis of assets and liabilities by category** *continued* | | | |
| **Company – 2020** | | | |
| **Assets** | | | |
| Cash and short-term funds | 4 697 599 | – | – |
| Advances to customers | 14 686 767 | – | – |
| Due from related parties | 11 684 | – | – |
| Other assets | 267 451 | – | – |
| Investment securities | 9 346 177 | 163 034 | – |
| Derivative financial instruments | – | 76 872 | – |
| Current tax receivable | – | – | – |
| Investments in subsidiaries | – | – | – |
| Property and equipment | – | – | – |
| Goodwill | – | – | – |
| Total assets | 29 009 678 | 239 906 | – |
| **Liabilities** | | | |
| Deposits from banks | 545 002 | – | – |
| Deposits from customers | 23 171 897 | – | – |
| Borrowings | 1 614 201 | – | 151 657 |
| Accrued interest payable | 28 079 | – | – |
| Due to related parties | 105 504 | – | – |
| Employee benefits liabilities | – | – | – |
| Creditors and accruals | 497 541 | – | – |
| Derivatives financial instruments | – | 36 708 | – |
| Deferred tax liability | – | – | – |
| Total liabilities | 25 962 224 | 36 708 | 151 657 |

| Non-financial instruments | Total carrying value | Current | Non-current |
|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 |
| | | | |
| - | 4 697 599 | 4 697 599 | - |
| - | 14 686 767 | 1 178 030 | 13 508 737 |
| - | 11 684 | 11 684 | - |
| 102 251 | 369 702 | 369 702 | - |
| - | 9 509 211 | 9 509 211 | - |
| - | 76 872 | 76 872 | - |
| 80 418 | 80 418 | 80 418 | - |
| 13 540 | 13 540 | 13 540 | - |
| 552 353 | 552 353 | - | 552 353 |
| 26 589 | 26 589 | - | 26 589 |
| 775 151 | 30 024 735 | 15 937 056 | 14 087 679 |
| | | | |
| - | 545 002 | 545 002 | - |
| - | 23 171 897 | 21 643 478 | 1 528 419 |
| - | 1 765 858 | - | 1 765 858 |
| - | 28 079 | 28 079 | - |
| - | 105 504 | 105 504 | - |
| 81 429 | 81 429 | 81 429 | - |
| 211 284 | 708 825 | 558 598 | 150 227 |
| - | 36 708 | 36 708 | - |
| 202 275 | 202 275 | - | 202 275 |
| 494 988 | 26 645 577 | 22 998 798 | 3 646 779 |

| | | At fair value through profit or loss | |
|---|---|---|---|
| | Amortised cost | Mandatory | Designated |
| | P'000 | P'000 | P'000 |
| **10. Analysis of assets and liabilities by category** *continued* | | | |
| **Company – 2019** | | | |
| **Assets** | | | |
| Cash and short-term funds | 4 411 739 | – | – |
| Advances to banks | 789 903 | – | – |
| Advances to customers | 15 939 047 | – | – |
| Due from related parties | 6 388 | – | – |
| Other assets | 102 926 | – | – |
| Investment securities | 4 000 460 | 134 761 | – |
| Derivative financial instruments | – | 49 606 | – |
| Current tax receivable | – | – | – |
| Investments in subsidiaries | – | – | – |
| Property and equipment | – | – | – |
| Goodwill | – | – | – |
| Total assets | 25 250 463 | 184 367 | – |
| **Liabilities** | | | |
| Deposits from banks | 581 243 | – | – |
| Deposits from customers | 19 591 409 | – | – |
| Borrowings | 1 363 089 | – | 139 553 |
| Accrued interest payable | 63 566 | – | – |
| Due from related parties | 120 870 | – | – |
| Employee benefits liabilities | – | – | – |
| Creditors and accruals | 397 126 | – | – |
| Derivatives financial instruments | – | 14 844 | – |
| Deferred tax liability | – | – | – |
| Total liabilities | 22 117 303 | 14 844 | 139 553 |

| Non-financial instruments | Total carrying value | Current | Non-current |
|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 |
| – | 4 411 739 | 4 411 739 | – |
| – | 789 903 | 789 903 | – |
| – | 15 939 047 | 1 733 954 | 14 205 093 |
| – | 6 388 | – | 6 388 |
| 106 413 | 209 339 | 209 339 | – |
| – | 4 135 221 | 4 135 221 | – |
| – | 49 606 | 49 606 | – |
| 104 224 | 104 224 | 104 224 | – |
| 13 540 | 13 540 | – | 13 540 |
| 439 678 | 439 678 | – | 439 678 |
| 26 589 | 26 589 | – | 26 589 |
| 690 444 | 26 125 274 | 11 433 986 | 14 691 288 |
| – | 581 243 | 581 243 | – |
| – | 19 591 409 | 18 807 275 | 784 134 |
| – | 1 502 642 | 178 918 | 1 323 724 |
| – | 63 566 | 63 566 | – |
| – | 120 870 | – | 120 870 |
| 85 867 | 85 867 | 85 867 | – |
| 412 440 | 809 566 | 809 566 | – |
| – | 14 844 | 14 844 | – |
| 196 870 | 196 870 | – | 196 870 |
| 695 177 | 22 966 877 | 20 541 279 | 2 425 598 |

| | Note | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|---|
| | | P'000 | P'000 | P'000 | P'000 |
| **11. Cash and short-term funds** | | | | | |
| Coins and group notes | | **446 720** | 379 880 | **446 720** | 379 880 |
| Money at call and short notice – related parties | 16 | **13 592** | 48 831 | **13 592** | 48 831 |
| Money at call and short notice – other banks | | **2 591 360** | 842 103 | **2 591 360** | 842 103 |
| Balances with Bank of Botswana – Statutory reserve requirement | | **460 081** | 843 509 | **460 081** | 843 509 |
| Balances with Bank of Botswana – Statutory account balance | | **7 915** | 21 487 | **7 915** | 21 487 |
| Balances with other banks – related parties | 16 | **839 413** | 2 275 925 | **839 413** | 2 275 925 |
| Balances with other banks – other banks | | **338 518** | 4 | **338 518** | 4 |
| | | **4 697 599** | 4 411 739 | **4 697 599** | 4 411 739 |
| The carrying value of cash and short term funds approximates the fair value. | | | | | |
| Amounts denominated in foreign currencies included in above balances | | **2 777 809** | 2 157 953 | **2 777 809** | 2 157 953 |
| Balances with Bank of Botswana – Statutory reserve requirement | | **460 081** | 843 509 | **460 081** | 843 509 |

Banks are required to deposit a minimum average balance, calculated monthly, with Bank of Botswana. These deposits bear no interest.

Money at short notice constitutes amounts withdrawable in 30 days or less.

## 12. Derivative financial instruments

Strategy in using derivatives:

The Group transacts in derivatives for two purposes: to create risk management solutions for clients and to manage and hedge the Group's own risk. The Group's derivative activities give rise to open positions in portfolios of derivatives. These positions are managed to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary.

### Interest rate swaps

Interest rate derivatives comprising mainly of interest rate swaps and forward rate agreements are utilised for economic hedging purposes to eliminate uncertainty and reduce the risk that the Group faces due to volatile interest rates.

The Group accepts deposits at variable rates and uses fixed interest rate derivatives as economic hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The Group also has assets at fixed rates and uses variable interest rate derivatives as economic hedges of future interest receipts.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not present the Group's exposure to credit or pricing risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly, over time.

## 12. Derivative financial instruments *continued*

### Forward rate agreements

Forward rate agreements are negotiated interest rate contracts that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.

### Currency options

The Group has written foreign currency option contracts that grant the holder the right, but not the obligation, to buy or sell currency at a specified exchange rate during a specified period of time. At the same time, the Group enters into a similar option with a related party in order to manage the risks associated with the options. These options are not designated as hedging instruments; consequently both options are recognised as derivative instruments in assets and liabilities in the statements of financial position. The fair value adjustments arising from valuation of both options are recognised in the profit or loss as part of fair value gains and losses. The premium on inception of the option is immediately recognised in the profit or loss.

### Trading derivatives

The Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives are entered into principally for the purpose of generating profits from short term fluctuations in price or margin. Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates or other market parameters. Trading includes market making and positioning activities. Market making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume; positioning entails managing market risk positions in the expectation of benefiting from favourable movements in prices, rates or indices. The trading derivatives relate to all spot and forward foreign exchange contracts which were unsettled as at year-end. Further information pertaining to the risk management strategy of the Group is set out in note 39.

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | Notional | Fair value | Notional | Fair value |
| | P'000 | P'000 | P'000 | P'000 |
| **2020** | | | | |
| **Group and Company** | | | | |
| Currency derivatives | | | | |
| Currency options | 280 723 | 3 269 | 280 723 | 3 269 |
| Trading derivatives | 210 501 | 2 093 | 317 690 | 3 006 |
| Currency swaps | – | – | 37 500 | 46 |
| Interest rate derivatives | | | | |
| Interest rate swaps | 461 383 | 71 510 | 353 509 | 30 387 |
| | 952 607 | 76 872 | 989 422 | 36 708 |
| Related party derivatives included in above balances | | | | |
| Currency options | 13 372 | 477 | 280 723 | 2 807 |
| Trading derivatives | – | – | 131 377 | 1 343 |
| Interest rate swaps | 461 383 | 71 510 | – | – |
| Currency swaps | – | – | 17 500 | 1 |
| | 474 755 | 71 987 | 429 600 | 4 151 |

## 12. Derivative financial instruments *continued*

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | Notional | Fair value | Notional | Fair value |
| | P'000 | P'000 | P'000 | P'000 |
| **2019** | | | | |
| **Group and Company** | | | | |
| Currency derivatives | | | | |
| Currency options | 70 438 | 1 791 | 70 438 | 1 791 |
| Trading derivatives | 284 561 | 1 189 | 306 207 | 1 875 |
| Currency swaps | 100 000 | 229 | – | – |
| Interest rate derivatives | | | | |
| Interest rate swaps | 461 383 | 46 397 | 353 509 | 11 178 |
| | 916 382 | 49 606 | 730 154 | 14 844 |
| Related party derivatives included in above balances | | | | |
| Currency options | 66 652 | 1 150 | – | – |
| Trading derivatives | 168 579 | 454 | 149 727 | 964 |
| Interest rate swaps | 327 800 | 43 412 | 133 583 | 2 985 |
| | 563 031 | 45 016 | 283 310 | 3 949 |

| | Notes | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|---|
| | | P'000 | P'000 | P'000 | P'000 |
| **13. Advances to customers** | | | | | |
| Sector analysis | | | | | |
| Agriculture | | **263 155** | 344 584 | **263 155** | 344 584 |
| Building and property development | | **501 182** | 570 167 | **501 182** | 570 167 |
| Business and trade | | **4 023 403** | 4 425 004 | **4 023 403** | 4 425 004 |
| Individuals | | **10 607 265** | 10 826 495 | **10 607 265** | 10 826 495 |
| Manufacturing | | **349 459** | 460 010 | **349 459** | 460 010 |
| Mining | | **25 723** | 46 735 | **25 723** | 46 735 |
| Transport and communications | | **246 291** | 311 624 | **246 291** | 311 624 |
| Gross advances | | **16 016 478** | 16 984 619 | **16 016 478** | 16 984 619 |
| Less : impairment of advances | 14 | **(1 329 711)** | (1 045 572) | **(1 329 711)** | (1 045 572) |
| Net advances | | **14 686 767** | 15 939 047 | **14 686 767** | 15 939 047 |
| Category analysis | | | | | |
| Term loans | | **6 588 473** | 7 365 625 | **6 588 473** | 7 365 625 |
| Suspensive sale debtors | | **1 521 116** | 1 451 641 | **1 521 116** | 1 451 641 |
| Property loans | | **5 959 005** | 5 873 882 | **5 959 005** | 5 873 882 |
| Overdraft and managed accounts | | **1 125 061** | 1 239 638 | **1 125 061** | 1 239 638 |
| Other | | **206 966** | 216 746 | **206 966** | 216 746 |
| Lease payments receivable | | **615 857** | 837 087 | **615 857** | 837 087 |
| Gross advances | | **16 016 478** | 16 984 619 | **16 016 478** | 16 984 619 |
| Less : impairment of advances | 14 | **(1 329 711)** | (1 045 572) | **(1 329 711)** | (1 045 572) |
| Net advances | | **14 686 767** | 15 939 047 | **14 686 767** | 15 939 047 |
| Maturity analysis | | | | | |
| Maturity within one year | | **1 460 243** | 1 943 790 | **1 460 243** | 1 943 790 |
| Maturity between one and five years | | **4 342 453** | 3 817 562 | **4 342 453** | 3 817 562 |
| Maturity more than five years | | **10 213 782** | 11 223 267 | **10 213 782** | 11 223 267 |
| | | **16 016 478** | 16 984 619 | **16 016 478** | 16 984 619 |

## 13. Advances to customers *continued*

| | Instalment sale, hire purchase and lease payment receivable | Less: unearned finance charges | Net |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| **Group and Company** | | | |
| **2020** | | | |
| – within 1 year | 180 966 | (29 191) | 151 775 |
| – between 1 and 5 years | 2 319 735 | (334 537) | 1 985 198 |
| Subtotal | 2 500 701 | (363 728) | 2 136 973 |
| Impairment | (117 707) | – | (117 707) |
| Total net instalment sales, hire purchase and lease payments receivable | 2 382 994 | (363 728) | 2 019 266 |
| **2019** | | | |
| – within 1 year | 246 554 | (32 888) | 213 666 |
| – between 1 and 5 years | 2 451 974 | (376 912) | 2 075 062 |
| Subtotal | 2 698 528 | (409 800) | 2 288 728 |
| Impairment | (105 635) | – | (105 635) |
| Total net instalment sales, hire purchase and lease payments receivable | 2 592 893 | (409 800) | 2 183 093 |

These loans have been made under normal commercial terms and conditions. The above advances only expose the Group to credit risk in Botswana.

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | P'000 | P'000 | P'000 | P'000 |
| Included in the installment sale, hire purchase and lease payment receivable are advances to: | | | | |
| – Directors and key management personnel | 17 384 | 22 180 | 17 384 | 22 180 |

## 13. Advances to customers *continued*

| | Amortised cost | Loss allowance | Total |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| **Analysis of advances per class – 2020** | | | |
| Term loans | 6 588 473 | (725 871) | 5 862 602 |
| Vehicle and asset financing | 2 136 973 | (117 707) | 2 019 266 |
| Property loans | 5 959 005 | (231 568) | 5 727 437 |
| Overdraft and managed account | 1 125 061 | (240 064) | 884 997 |
| Other | 206 966 | (14 501) | 192 465 |
| Total | 16 016 478 | (1 329 711) | 14 686 767 |
| Segmental analysis | | | |
| Retail | 9 088 035 | (525 138) | 8 562 897 |
| Business | 2 974 174 | (657 672) | 2 316 502 |
| RMB | 1 817 296 | (29 194) | 1 788 102 |
| WesBank | 2 136 973 | (117 707) | 2 019 266 |
| Total | 16 016 478 | (1 329 711) | 14 686 767 |
| **Analysis of advances per class – 2019** | | | |
| Term loans | 7 365 625 | (471 203) | 6 894 422 |
| Vehicle and asset financing | 2 288 728 | (105 635) | 2 183 093 |
| Property loans | 5 873 882 | (242 821) | 5 631 061 |
| Overdraft and managed account | 1 239 638 | (206 512) | 1 033 126 |
| Other | 216 746 | (19 401) | 197 345 |
| Total | 16 984 619 | (1 045 572) | 15 939 047 |
| Segmental analysis | | | |
| Retail | 9 576 623 | (404 816) | 9 171 807 |
| Business | 3 252 785 | (504 157) | 2 748 628 |
| RMB | 1 866 483 | (30 964) | 1 835 519 |
| WesBank | 2 288 728 | (105 635) | 2 183 093 |
| Total | 16 984 619 | (1 045 572) | 15 939 047 |

## 14. Impairment of advances

Significant loans and advances are monitored by the Director of the Credit Division and impaired according to the Group's impairment policy when an indication of impairment is observed.

### Analysis of the gross advances and loss allowance on total advances as at 30 June 2020

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 |
| **Group and Company** | | | | |
| **Gross advances** | | | | |
| Amortised cost | 14 786 534 | 1 052 351 | 1 145 734 | 16 984 619 |
| Amount as at 01 July 2019 | 14 786 534 | 1 052 351 | 1 145 734 | 16 984 619 |
| Stage 2 to stage 1 | 292 915 | (292 915) | – | – |
| Stage 1 to stage 2 | (977 406) | 977 406 | – | – |
| Stage 1 to stage 3 | (55 600) | – | 55 600 | – |
| Stage 2 to stage 3 | – | (38 984) | 38 984 | – |
| Opening balance after transfers | 14 046 443 | 1 697 858 | 1 240 318 | 16 984 619 |
| Current period provision created/(released) | (461 262) | (489 006) | 222 973 | (727 295) |
| Attributable to change in measurement period | – | 12 291 | – | 12 291 |
| Attributable to change in risk parameters | 236 390 | (754 140) | 186 319 | (331 431) |
| Total new book exposure | | | | |
| Change in exposure due to new business in the current year | (697 652) | 252 843 | 36 654 | (408 155) |
| Bad debts written off | – | – | (240 846) | (240 846) |
| Net interest suspended/released | – | – | – | – |
| Amount as at 30 June 2020 | 13 585 181 | 1 208 852 | 1 222 445 | 16 016 478 |
| **Loss allowance** | | | | |
| Amortised cost | 210 310 | 195 438 | 639 824 | 1 045 572 |
| Amount as at 01 July 2019 | 210 310 | 195 438 | 639 824 | 1 045 572 |
| Stage 2 to stage 1 | 34 667 | (34 667) | – | – |
| Stage 1 to stage 2 | (27 522) | 27 522 | – | – |
| Stage 1 to stage 3 | (512) | – | 512 | – |
| Stage 2 to stage 3 | – | (6 900) | 6 900 | – |
| Opening balance after transfers | 216 943 | 181 393 | 647 236 | 1 045 572 |
| Current period provision created/(released) | (14 983) | 59 678 | 365 913 | 410 608 |
| Attributable to change in measurement period | – | 4 366 | – | 4 366 |
| Attributable to change in risk parameters | 78 654 | (213 456) | 355 180 | 220 378 |
| Total new book exposure | | | | |
| Change in exposure due to new business in the current year | (93 637) | 268 768 | 10 733 | 185 864 |
| Bad debts written off | – | – | (155 964) | (155 964) |
| Net interest suspended/released | – | – | 29 495 | 29 495 |
| Amount as at 30 June 2020 | 201 960 | 241 071 | 886 680 | 1 329 711 |

## 14. Impairment of advances *continued*

- The reconciliation for the year ended 30 June 2020 has been prepared using a year-to-date view. This means that the Group reports exposures based on the impairment stage at the end of the reporting period. The Group transfers opening balances (back book), at the value as at 1 July, based on the impairment stage at the end of the reporting period. Any additional ECL raised or released is 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 business (as defined below) is 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.
- For unsecured facilities decrease in the advance as a result of write-off is equal to the decrease ECL as exposures are 100% provided for before being written off. The total contractual amount outstanding on financial assets that were written off during the period and are still subject to enforcement activity is P1.2billion.
- Changes in exposure reflects the net amount of:
  - Additional amounts advanced on the back book and any settlements. Transfers on the back book is reflected separately.
  - New business originated during the financial year, the transfers between stages of the new origination and any settlements.
- The total gross carrying amount of undiscounted expected credit losses at initial recognition on purchased or originated credit-impaired financial assets recognised during the reporting period is Pnil.
- At the end of the financial year ended 30 June 2020, loans where collateral held exceeded the carrying amount of the advance (i.e. where no coverage was calculated) amounted to P238million.

The change in ECL in the current financial year amounted to P284 million, the majority of which relates to post-model adjustments to cater for increased credit risk that conventional regression models are not able to incorporate.

The change in stage 3 ECL was impacted by the increase in operational stage 3/NPLs in the 2020 financial period. In addition, the stringent 12-month curing and extended write off period extends the length of time advances remain in stage 3, impacting the stage 3 ECL.

For more information on the computation of ECL and the impact of COVID-19 thereon, refer to accounting policy 1.8 and note 39.

## 14. Impairment of advances *continued*

### Reconciliation of the gross carrying amount of advances measured at amortised cost

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 |
| Amount as at 30 June 2018 (IAS 39) | 13 634 706 | 1 525 513 | 962 348 | 16 122 567 |
| IFRS adjustments – reclassification of contractual interest suspended from advances | – | – | 170 929 | 170 929 |
| Amount as at 1st July 2018 after reclassification of contractual interest suspended from advances | 13 634 706 | 1 525 513 | 1 133 277 | 16 293 496 |
| Transfers to stage 1 | 587 459 | (575 903) | (11 556) | – |
| Transfers to stage 2 | (523 681) | 565 446 | (41 765) | – |
| Transfers to stage 3 | (356 913) | (231 476) | 588 389 | – |
| Bad debts written off | – | – | (244 284) | (244 284) |
| New business and changes in exposure | 1 444 963 | (231 217) | (278 339) | 935 407 |
| Amount as at 30 June 2019 (IFRS 9) | 14 786 534 | 1 052 363 | 1 145 722 | 16 984 619 |

| | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 |
| **Group and Company** | | | | |
| Amount as at 30 June 2018 | 126 489 | 117 133 | 400 009 | 643 631 |
| IFRS 9 adjustments – day 1 resulting from estimation of expected credit loss (ECL) | 61 310 | 69 713 | (4 639) | 126 384 |
| Reallocation of contractual interest suspended from advances | – | – | 170 942 | 170 942 |
| Amount as at 1st July 2018 (IFRS 9) | 187 799 | 186 846 | 566 312 | 940 957 |
| Transfers to stage 1 | 35 936 | (35 933) | (3) | – |
| Transfers to stage 2 | (7 040) | 10 914 | (3 874) | – |
| Transfers to stage 3 | (2 335) | (44 580) | 46 915 | – |
| Other | 10 818 | (10 818) | – | – |
| Interest suspended (ECL on amortised cost (AC)) | – | – | 42 152 | 42 152 |
| Bad debts written off | – | – | (244 284) | (244 284) |
| Increase/(decrease) in impairment | | | | |
| – Changes in models and risk parameters | 4 818 | (37 843) | 66 145 | 33 120 |
| – New business and changes in exposure | 21 905 | 40 980 | 25 769 | 88 654 |
| – Changes in economic forecasts | 2 200 | 41 428 | – | 43 628 |
| – Provision created/(released) due to transfers | (43 792) | 44 445 | 140 692 | 141 345 |
| Amount as at 30 June 2019 | 210 309 | 195 439 | 639 824 | 1 045 572 |
| Term loans | 107 835 | 55 776 | 307 592 | 471 203 |
| Suspensive debtors sale and lease payments receivable | 17 611 | 27 278 | 60 746 | 105 635 |
| Property loans | 36 344 | 56 724 | 149 753 | 242 821 |
| Overdrafts and managed accounts | 42 034 | 45 119 | 119 359 | 206 512 |
| Other | 6 486 | 10 539 | 2 376 | 19 401 |
| Amount as at 30 June 2019 | 210 310 | 195 436 | 639 826 | 1 045 572 |
| Retail | 119 319 | 99 615 | 185 882 | 404 816 |
| Commercial | 65 224 | 45 735 | 393 197 | 504 156 |
| RMB | 8 155 | 22 809 | – | 30 964 |
| WesBank | 17 611 | 27 278 | 60 747 | 105 636 |
| Amount as at 30 June 2019 | 210 309 | 195 437 | 639 826 | 1 045 572 |

For more information on the computation of ECL and the impact of COVID-19 thereon, refer to accounting policy 1.8 and note 39

## 14. Impairment of advances *continued*

| | Loss allowance | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | P'000 | P'000 | P'000 | P'000 |
| **Group and Company** | | | | |
| Amount as at 30 June 2020 | 201 960 | 241 071 | 886 680 | 1 329 711 |
| Significant components of total loss allowance | | | | |
| – Forward looking information | 123 879 | – | – | 123 879 |
| – Model driven | 201 960 | 241 071 | 661 114 | 1 104 145 |
| Specific provisions | – | – | 225 566 | 225 566 |

| | Amortised cost | Total |
|---|---|---|
| **Group and Company** | | |
| Increase in loss allowance | 466 862 | 466 862 |
| Recoveries of bad debts | (45 420) | (45 420) |
| Impairment of advances recognised during the period | 421 442 | 421 442 |

| | Loss allowance | | | |
|---|---|---|---|---|
| | Stage 1 | Stage 2 | Stage 3 | Total |
| | P'000 | P'000 | P'000 | P'000 |
| **Group and Company** | | | | |
| Amount as at 30 June 2019 | 210 310 | 195 438 | 639 824 | 1 045 572 |
| – Model driven | 210 310 | 195 438 | 446 239 | 851 987 |
| Specific provisions | – | – | 193 585 | 193 585 |

| | Amortised cost | Total |
|---|---|---|
| **Group and Company** | | |
| Increase in loss allowance | 306 748 | 306 748 |
| Recoveries of bad debts | (41 836) | (41 836) |
| Impairment of advances recognised during the period | 264 912 | 264 912 |

| | Security held | Specific impairment | Total |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| **14. Impairment of advances** *continued* | | | |
| **Group and Company** | | | |
| Non-performing advances – loans and receivables: | | | |
| Sector analysis – 2020 | | | |
| Agriculture | 13 926 | 61 391 | 75 317 |
| Building and property development | 97 388 | 193 983 | 291 371 |
| Individuals | 148 447 | 330 384 | 478 831 |
| Manufacturing and commerce | 50 483 | 234 428 | 284 911 |
| Transport and communication | 21 925 | 20 530 | 42 455 |
| Other advances | 3 584 | 45 964 | 49 548 |
| Total non-performing advances – 30 June 2020 | 335 753 | 886 680 | 1 222 433 |
| Sector analysis – 2019 | | | |
| Agriculture | 51 756 | 45 750 | 97 506 |
| Building and property development | 133 491 | 128 483 | 261 974 |
| Individuals | 162 219 | 205 735 | 367 954 |
| Manufacturing and commerce | 127 557 | 202 412 | 329 969 |
| Transport and communication | 28 008 | 30 924 | 58 932 |
| Other advances | 2 877 | 26 522 | 29 399 |
| Total non-performing advances – 30 June 2019 | 505 908 | 639 826 | 1 145 734 |
| Category analysis – 2020 | | | |
| Overdrafts and managed accounts | 25 297 | 183 145 | 208 442 |
| Term loans | 100 045 | 342 820 | 442 865 |
| Lease payments receivable | 10 923 | 48 543 | 59 466 |
| Suspensive and instalment sale debtors | 12 982 | 37 796 | 50 778 |
| Property loans | 186 506 | 266 508 | 453 014 |
| Other advances | – | 7 868 | 7 868 |
| Total non-performing advances – 30 June 2020 | 335 753 | 886 680 | 1 222 433 |
| Category analysis – 2019 | | | |
| Overdrafts and managed accounts | 66 079 | 119 359 | 185 438 |
| Term loans | 129 314 | 307 592 | 436 906 |
| Suspensive and instalment sale debtors | 24 903 | 60 747 | 85 650 |
| Property loans | 285 612 | 149 753 | 435 365 |
| Other advances | – | 2 375 | 2 375 |
| Total non-performing advances – 30 June 2019 | 505 908 | 639 826 | 1 145 734 |

| | Fair value through profit or loss | Amortised cost | Total |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| **15. Investment securities** | | | |
| **Group and Company** | | | |
| **2020** | | | |
| Bank of Botswana Certificates | – | 6 097 674 | 6 097 674 |
| Government Bonds | – | 2 849 190 | 2 849 190 |
| Government and Parastatal Bonds | 163 154 | – | 163 154 |
| Corporate bonds | – | 200 114 | 200 114 |
| Treasury Bills | – | 199 079 | 199 079 |
| | 163 154 | 9 346 057 | 9 509 211 |
| **2019** | | | |
| Bank of Botswana Certificates | – | 1 598 307 | 1 598 307 |
| Government Bonds | – | 2 003 884 | 2 003 884 |
| Government and Parastatal Bonds | 134 837 | – | 134 837 |
| Corporate Bonds | – | 100 182 | 100 182 |
| Treasury Bills | – | 298 011 | 298 011 |
| | 134 837 | 4 000 384 | 4 135 221 |

P6 097 674 (2019: P 1 598 307) of the Bank of Botswana Certificates form part of the Group's liquid assets portfolio in terms of section 16 (5) of the Banking Act (Cap 46:04).

The Bank of Botswana Certificates have maturities ranging from one to three months.

### Repurchase and securities lending transactions

| | Advances to banks | | Associated liabilities recognised in deposits | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | P'000 | P'000 | P'000 | P'000 |
| Repurchase agreements | – | 789 903 | – | – |

Both the transferred investments and related deposits under repurchase agreements were at amortised cost

| | 2020 | 2019 |
|---|---|---|
| | P'000 | P'000 |
| Loss allowance on investment securities | 120 | 76 |
| Total Investment securities | | |
| Analysis of Investment securities | | |
| Amortised cost | 120 | 76 |
| Total Investment securities | 120 | 76 |

## 16. Related parties

### Relationships:

| | |
|---|---|
| Ultimate holding company | FirstRand Limited – South Africa |
| Holding company | First National Bank Holdings (Botswana) Limited |
| Subsidiaries | Refer to note 18 |
| Common management | FNB Insurance Brokers (Proprietary) Limited |

Key management personnel comprise Non-Executive Directors, the Chief Executive Officer, the Chief Risk Officer, the Chief Operating Officer, the Chief Financial Officer, the Director of Human Resources, the Treasurer, Director of Credit.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Note | **2020** | 2019 | **2020** | 2019 |
| | | **P'000** | P'000 | **P'000** | P'000 |
| Related party balances | | | | | |
| Due from related parties | | | | | |
| FirstRand Limited – South Africa | | **853 005** | 2 324 756 | **853 005** | 2 324 756 |
| First National Bank Holdings (Botswana) Limited | | **11 684** | 6 388 | **11 684** | 6 388 |
| | | **864 689** | 2 331 144 | **864 689** | 2 331 144 |
| Less money at call and short notice | | | | | |
| FirstRand Limited – South Africa – call balances | 11 | **(13 592)** | (48 831) | **(13 592)** | (48 831) |
| FirstRand Limited – South Africa – nostro balances | 11 | **(839 413)** | (2 275 925) | **(839 413)** | (2 275 925) |
| | | **11 684** | 6 388 | **11 684** | 6 388 |
| Due to related companies – current liabilities | | | | | |
| Financial Services Company (Proprietary) Limited | | **–** | – | **10 536** | 8 972 |
| Financial Services Properties (Proprietary) Limited | | **–** | – | **(47)** | (47) |
| First National Insurance Agency (Proprietary) Limited | | **–** | – | **72 681** | 78 035 |
| First Funding (Proprietary) Limited | | **–** | – | **1 000** | 1 000 |
| Plot Four Nine Seven Two (Proprietary) Limited | | **–** | – | **12** | 12 |
| FirstRand Limited – South Africa | | **21 322** | 32 898 | **21 322** | 32 898 |
| Due to related companies – creditors and accruals | | **21 322** | 32 898 | **105 504** | 120 870 |

Refer to Note 21 for amounts included in deposits from customers and Note 22 for amounts included in deposits from banks.

## 16. Related parties *continued*

### Related party transactions

Transactions were carried out in the ordinary course of business, were not secured, and are detailed as below:

| | | Group | | Company | |
|---|---|---|---|---|---|
| | Notes | 2020 | 2019 | 2020 | 2019 |
| | | P'000 | P'000 | P'000 | P'000 |
| Interest income | | | | | |
| FirstRand Limited – South Africa | | 37 479 | 68 759 | 37 479 | 68 759 |
| Interest expenditure | | | | | |
| FirstRand Limited – South Africa | | 17 558 | 14 530 | 17 558 | 14 530 |
| Operating expenses: | | | | | |
| Service fees – FirstRand Limited (Note 5) | | 209 440 | 192 554 | 209 070 | 191 597 |
| Transactions with key management personnel: | | | | | |
| Compensation paid to key management | | | | | |
| Share-based payments | | 4 374 | 3 204 | 4 374 | 3 204 |
| Short term employee benefits | | 17 289 | 15 255 | 17 289 | 15 255 |
| Total short term benefits | | 21 663 | 18 459 | 21 663 | 18 459 |
| Post-employment benefits | | | | | |
| Pension | | 779 | 746 | 779 | 746 |
| Advances | | | | | |
| Personal loans | | 1 054 | 2 526 | 1 054 | 2 526 |
| Overdrafts | | – | 73 | – | 73 |
| Credit card | | 401 | 406 | 401 | 406 |
| Installment finance | | 2 193 | 2 771 | 2 193 | 2 771 |
| Property loans | | 13 737 | 16 404 | 13 737 | 16 404 |
| Total advances | | 17 385 | 22 180 | 17 385 | 22 180 |

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 P26 520 000 (2019: P 19 135 000).

Personal loans, overdrafts and credit card balances are unsecured.

| | Note | Group 2020 | Group 2019 | Company 2020 | Company 2019 |
|---|---|---|---|---|---|
| | | P'000 | P'000 | P'000 | P'000 |
| **17. Other assets** | | | | | |
| Suspense accounts | | **7 749** | 418 | **7 749** | 418 |
| School debentures | | **188** | 188 | **188** | 188 |
| Other sundry debtors | | **471 377** | 317 021 | **361 765** | 208 733 |
| Total group carrying amount of other assets | | **479 314** | 317 627 | **369 702** | 209 339 |

The above carrying value of other assets approximates their fair value.

## 18. Investments in subsidiary companies

The following table lists the entities which are controlled by the Group, either directly or indirectly through subsidiaries.

### Company

| Name of company | Nature of business | % holding 2020 | % holding 2019 | Carrying amount 2020 | Carrying amount 2019 |
|---|---|---|---|---|---|
| | | % | % | P'000 | P'000 |
| Financial Services Company of Botswana Limited | Property owning company | **100,00%** | 100,00% | **12 500** | 12 500 |
| First Funding (Proprietary) Limited | Group loan scheme | **100,00%** | 100,00% | **1 000** | 1 000 |
| Premium Credit Botswana (Proprietary) Limited | Insurance premium finance | **100,00%** | 100,00% | **10** | 10 |
| First National Insurance Agency | Insurance agency | **100,00%** | 100,00% | **30** | 30 |
| | | | | **13 540** | 13 540 |

All the above subsidiaries are domiciled in Botswana. The operations of FNIA were discontinued on the 15th of May in accordance with regulatory limitations.

## 19. Property and equipment

### Group

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Cost or revaluation | Accumulated depreciation | Carrying value | Cost or revaluation | Accumulated depreciation | Carrying value |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| Freehold and leasehold land and buildings | 314 866 | (14 604) | 300 262 | 311 820 | (2 455) | 309 365 |
| Leasehold improvements | 147 769 | (81 038) | 66 731 | 146 449 | (74 703) | 71 746 |
| Furniture and equipment | 322 256 | (248 143) | 74 113 | 292 643 | (207 750) | 84 893 |
| Motor vehicles | 15 317 | (10 275) | 5 042 | 11 433 | (8 844) | 2 589 |
| Right of use asset – property | 159 656 | (20 247) | 139 409 | – | – | – |
| Capital – Work in progress | 15 487 | – | 15 487 | 12 714 | – | 12 714 |
| Total | 975 351 | (374 307) | 601 044 | 775 059 | (293 752) | 481 307 |

### Company

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Cost or revaluation | Accumulated depreciation | Carrying value | Cost or revaluation | Accumulated depreciation | Carrying value |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| Freehold and leasehold land and buildings | 284 339 | (10 886) | 273 453 | 282 660 | – | 282 660 |
| Leasehold improvements | 145 133 | (81 038) | 64 095 | 144 105 | (74 703) | 69 402 |
| Furniture and equipment | 317 747 | (247 423) | 70 324 | 292 543 | (207 546) | 84 997 |
| Motor vehicles | 15 317 | (10 275) | 5 042 | 11 433 | (8 844) | 2 589 |
| Right of use asset – property | 159 656 | (20 247) | 139 409 | – | – | – |
| Capital – Work in progress | 30 | – | 30 | 30 | – | 30 |
| Total | 922 222 | (369 869) | 552 353 | 730 771 | (291 093) | 439 678 |

The right of use asset – property includes the IFRS 16 assets as well as leases previously classified as finance leases

## 19. Property and equipment *continued*

### Reconciliation of property and equipment – Group – 2020

| | Opening balance | Additions | Restatement adjustment for IFRS 16 |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| Freehold and leasehold land and buildings | 309 365 | 2 985 | – |
| Leasehold improvements | 71 746 | 1 321 | – |
| Furniture and equipment | 84 893 | 33 493 | – |
| Motor vehicles | 2 589 | 3 885 | – |
| Right of use asset – property | – | – | 159 656 |
| Capital – Work in progress | 12 714 | 2 773 | – |
| | 481 307 | 44 457 | 159 656 |

### Reconciliation of property and equipment – Group – 2019

| | Opening balance | Additions | Disposals |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| Freehold and leasehold land and buildings | 331 848 | – | – |
| Leasehold improvements | 59 641 | 4 253 | – |
| Furniture and equipment | 97 177 | 19 111 | (48) |
| Motor vehicles | 2 556 | 171 | – |
| Capital – Work in progress | 16 362 | 31 004 | – |
| | 507 584 | 54 539 | (48) |

| Cost or valuation consists of: | 30 June 2020 | 30 June 2019 |
|---|---|---|
| | P'000 | P'000 |
| Freehold and leasehold land and buildings – cost | 351 182 | 348 136 |
| Freehold and leasehold land and buildings – valuation adjustment | (36 316) | (36 316) |
| Leasehold land improvements – cost | 147 769 | 146 449 |
| Capital work-in-progress | 15 487 | 12 714 |
| Motor vehicles – cost | 15 317 | 11 433 |
| Furniture and equipment – cost | 322 256 | 292 643 |
| Right of use asset | 159 656 | - |
| | 975 351 | 775 059 |

| Disposals | Transfers | Depreciation | Total |
|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 |
| – | – | (12 088) | 300 262 |
| – | 1 668 | (8 004) | 66 731 |
| (25) | (1 668) | (42 580) | 74 113 |
| – | – | (1 432) | 5 042 |
| – | – | (20 247) | 139 409 |
| – | – | – | 15 487 |
| (25) | – | (84 351) | 601 044 |

| Transfers | Revaluations | Depreciation | Total |
|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 |
| 792 | (11 196) | (12 079) | 309 365 |
| 17 199 | – | (9 347) | 71 746 |
| 15 895 | – | (47 242) | 84 893 |
| 766 | – | (904) | 2 589 |
| (34 652) | – | – | 12 714 |
| – | (11 196) | (69 572) | 481 307 |

## 19. Property and equipment *continued*

### Reconciliation of property and equipment – Company – 2020

| | Opening balance | Additions | Restatement adjustment for IFRS 16 |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| Freehold and leasehold land and buildings | 282 660 | 1 618 | – |
| Leasehold improvements | 69 402 | 1 029 | – |
| Furniture and equipment | 84 997 | 29 085 | – |
| Motor vehicles | 2 589 | 3 885 | – |
| Right of use asset – property | – | – | 159 656 |
| Capital – Work in progress | 30 | – | – |
| | 439 678 | 35 617 | 159 656 |

### Reconciliation of property and equipment – Company – 2019

| | Opening balance | Additions | Disposals |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| Freehold and leasehold land and buildings | 303 240 | – | – |
| Leasehold improvements | 57 297 | 4 253 | – |
| Furniture and equipment | 97 243 | 19 111 | (48) |
| Motor vehicles | 2 556 | 171 | – |
| Capital – Work in progress | 16 362 | 18 320 | – |
| | 476 698 | 41 855 | (48) |

| Cost or valuation consists of: | 30 June 2020 | 30 June 2019 |
|---|---|---|
| | P'000 | P'000 |
| Freehold and leasehold land and buildings – cost | 330 458 | 328 779 |
| Freehold and leasehold land and buildings – valuation adjustment | (46 119) | (46 119) |
| Leasehold land improvements – cost | 145 133 | 144 105 |
| Capital work-in-progress | 30 | 30 |
| Motor vehicles – cost | 15 317 | 11 433 |
| Furniture and equipment – cost | 317 747 | 292 543 |
| Right of use asset | 159 656 | – |
| | 922 222 | 730 771 |

| Disposals | Transfers | Depreciation | Total |
|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 |
| – | – | (10 825) | 273 453 |
| – | 1 668 | (8 004) | 64 095 |
| (25) | (1 668) | (42 065) | 70 324 |
| – | – | (1 432) | 5 042 |
| – | – | (20 247) | 139 409 |
| – | – | – | 30 |
| (25) | – | (82 573) | 552 353 |

| Transfers | Revaluations | Depreciation | Total |
|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 |
| 792 | (11 196) | (10 176) | 282 660 |
| 17 199 | – | (9 347) | 69 402 |
| 15 895 | – | (47 204) | 84 997 |
| 766 | – | (904) | 2 589 |
| (34 652) | – | – | 30 |
| – | (11 196) | (67 631) | 439 678 |

## 19. Property and equipment *continued*

### Revaluations

Group and company

*Revaluation of property*

Freehold and leasehold land and buildings consist of commercial and residential properties. The properties were valued by Stocker Fleetwood-Bird, Realreach (Pty) Ltd, Riberry, Kwena Property Services, Roscoe Bonna Valuers and Aheadprop Property Consultancy, professional, independent property valuers in June 2019, on the basis of open market values for existing use. Properties are revalued every three years.

Details of the Group's freehold and leasehold land and buildings and information about the fair value hierarchy as at the end of the reporting period are as follows:

*2019 financial year*

*Valuation technique*

- Cost approach

*Fair value hierarchy and sensitivity analysis*

- Level 3.
- The sensitivity analysis applied a 5% increase/decrease to the market value per square metre of each property in the portfolio. The fair value of the property portfolio of P309 365 000 will therefore increase/decrease by P15 468 000 based on the 5% sensitivity.

*Description of valuation technique*

- The net income based on the rental for comparable properties is divided by the capitalisation rate.

*Unobservable inputs*

- Rental per square metre: P60 – P119
- Capitalisation rate: 8 – 10%

*Description of valuation technique*

- The cost approach is a method which surmises that the price a buyer should pay for a property should be the cost of erecting a similar building adjusted for depreciation.

The valuation techniques used were similar to the ones used in 2016 when a revaluation of the assets was last carried out.

## 20. Goodwill

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated impairment | Carrying value | Cost | Accumulated impairment | Carrying value |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Group** | | | | | | |
| Goodwill | 26 963 | – | 26 963 | 26 963 | – | 26 963 |

| | 2020 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated impairment | Carrying value | Cost | Accumulated impairment | Carrying value |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Company** | | | | | | |
| Goodwill | 26 589 | – | 26 589 | 26 589 | – | 26 589 |

| | 2020 | 2019 |
|---|---|---|
| | P'000 | P'000 |
| **21. Deposits from customers** | | |
| **Group and Company** | | |
| Current and managed accounts | **12 284 393** | 6 878 825 |
| Savings accounts | **1 454 708** | 1 204 175 |
| Call and term deposits | **9 432 796** | 11 508 409 |
| | **23 171 897** | 19 591 409 |

Included in the call and term deposits is a balance of P7 115 691 (2019: P 8 313 399) relating to First National Bank Holdings (Botswana) Limited.

| | 2020 | 2019 |
|---|---|---|
| | P'000 | P'000 |
| **Maturity analysis** | | |
| Withdrawal on demand | **19 637 535** | 15 519 507 |
| Maturing within one year | **2 563 453** | 3 782 432 |
| Maturing two to five years | **970 909** | 289 470 |
| | **23 171 897** | 19 591 409 |

The maturity analysis is based on the remaining months to maturity from the reporting date.

| | 2020 | 2019 | 2020 | 2019 |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 |
| **22. Deposit from banks** | | | | |
| Unsecured and payable on demand | **545 002** | 581 243 | **545 002** | 581 243 |

Included in this amount is a balance due to FirstRand Group Limited of P5 813 000 (2019: P 10 589 000), First National Bank Zambia P264 000 (2019: P – ), and First National Bank Swaziland P21 000 (2019: P 47 000), First National Bank Tanzania P32 000 (2019: P 25 000), FNB Lesotho P74 000 (2019:P-) and First National Bank South Africa P501 465 000 (2019: P 348 530 000).

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **23. Borrowings** | | | | |
| Subordinated Unsecured Bonds (Qualifying as Tier 2 capital) | | | | |
| Floating rate | **161 840** | 161 840 | **161 840** | 161 840 |
| 161,84 Medium Term Notes of P1 000 000 each (2019:161,00 at P1 000 000 each) | | | | |
| Fixed rate | **40 000** | 40 000 | **40 000** | 40 000 |
| 40,00 Medium Term Notes of P1 000 000 each (2019:40,00 at P1 000 000 each) | | | | |
| Floating rate | **196 802** | – | **196 802** | – |
| 196 802,00 Medium Term Notes of P1 000 000 each (2019: – at P – each) | | | | |
| | **398 642** | 201 840 | **398 642** | 201 840 |
| Unsubordinated Unsecured Bonds | | | | |
| Floating rate | **364 060** | 364 060 | **364 060** | 364 060 |
| 36 406,00 Medium Term Notes of P10 000 each (2019:23 771,00 at P10 000 each) | | | | |
| | **762 702** | 565 900 | **762 702** | 565 900 |
| Other borrowings | | | | |
| Zero coupon deposit | | | | |
| Botswana Life Insurance Limited (BLIL) | **151 657** | 139 553 | **151 657** | 139 553 |
| (Proprietary) Limited – 15 year zero coupon deposit | | | | |
| Other zero coupon deposits | **625 022** | 575 979 | **625 022** | 575 979 |
| | **776 679** | 715 532 | **776 679** | 715 532 |
| Negotiable Certificates of deposit | **226 477** | 221 210 | **226 477** | 221 210 |
| Total borrowings | **1 765 858** | 1 502 642 | **1 765 858** | 1 502 642 |

The Subordinated Unsecured Registered Bonds bear interest at fixed and floating rates of 7,48% and Group rate plus 180 basis points per annum respectively and mature in November 2021. Interest is paid semi-annually on the fixed rate note and quarterly on the floating rate note.

Unsubordinated Unsecured bond notes are subordinated to claims of senior creditors and claims of depositors and mature in December 2021. These bear interest at floating rates of between group rate plus 75 basis points and group rate plus 100 basis points.

The 15 year zero coupon deposit from BLIL bears interest at a fixed rate of 8,98% and matures In 2026. Repayments of P50 million will be made in 2023, 2024, 2025, and 2026 respectively. The deposit is carried at fair value.

The zero coupon deposits are at fixed rates of interest ranging between 1.44% and 1.46%, with Fleming Asset Management Botswana maturing in January 2026 and Botswana Insurance Fund Management with maturities ranging from August 2020 to January 2026.

The negotiable certificate of deposits are from Botswana Insurance Fund Management (BIFM) for P65 million at a rate of 9% maturing in February 2027. Botswana Development Corporation (BDC) for P110 million at a rate of 5% maturing in September 2023, Botswana Public Officers Pension Fund (BPOPF – Allan Gray portfolio) for P50 million at a rate of 5% maturing in September 2023, Orange Botswana (Pty) Limited for P834 000 at a rate of 5% maturing in August 2028 and Blu Thorn Fund Managers for P476 000 at a rate of 5% maturing in May 2023.

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | P'000 | P'000 | P'000 | P'000 |
| **23. Borrowings** *continued* | | | | |
| Reconciliation of borrowings | | | | |
| Opening balance | **1 502 642** | 1 288 927 | **1 502 642** | 1 288 927 |
| – Proceeds on the issue of other liabilities | **196 802** | 151 172 | **196 802** | 151 172 |
| – Interest accrued | **54 310** | 50 975 | **54 310** | 50 975 |
| – Fair value | **12 104** | 11 568 | **12 104** | 11 568 |
| Total other liabilities | **1 765 858** | 1 502 642 | **1 765 858** | 1 502 642 |

### Financial liabilities

Determined with reference to changes in the mark-to-market yields of own issued bonds. The change in fair value of financial liabilities due to changes in credit risk is immaterial.

### Financial liabilities designated as at fair value through profit or loss

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Fair value | Contractually payable at maturity | Fair value | Contractually payable at maturity |
| | P'000 | P'000 | P'000 | P'000 |
| Zero coupon deposits | **151 657** | 200 000 | **139 553** | 200 000 |

### Total fair value income included in profit or loss for the year

Total fair value income for the year has been disclosed as:

| | 2020 | 2019 |
|---|---|---|
| | P'000 | P'000 |
| Fair value gains and losses included in non-interest revenue | **(12 104)** | (11 568) |

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **24. Creditors and accruals** | | | | |
| Accounts payable | **12 719** | 5 942 | **13 711** | 6 614 |
| Other creditors and accruals | **359 218** | 441 061 | **343 465** | 386 321 |
| Suspense accounts | **195 549** | 394 416 | **195 549** | 394 315 |
| Operating lease payables * | **151 839** | 3 130 | **151 839** | 3 130 |
| Employee share participation scheme** | **-** | 14 894 | **-** | 14 894 |
| Audit fees | **4 261** | 4 292 | **4 261** | 4 292 |
| Creditors and accruals | **723 586** | 863 735 | **708 825** | 809 566 |

Other creditors and accruals comprises of various accrued expenses, unclaimed monies and group cheques, and other uncleared items in transit.

The directors believe the fair values of the creditors and accruals approximate their carrying amounts.

* *The Group elected not to restate comparative information as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on an IAS 17 basis. Refer to accounting policy note 1.5 for details.*

** *The purpose of these schemes was to appropriately attract, incentivise and retain managers and employees within the Group. Refer to note 41*

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **P'000** | P'000 | **P'000** | P'000 |
| Maturity analysis of future lease payments outstanding at the reporting date | | | | |
| 1 – 3 months | **1 374** | – | **1 374** | – |
| 4 – 12 months | **386** | – | **386** | – |
| 1 – 5 years | **52 231** | – | **52 231** | – |
| Over 5 years | **97 996** | – | **97 996** | – |
| | **151 987** | – | **151 987** | – |

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **25. Employee benefits liabilities** | | | | |
| Leave pay | | | | |
| At the beginning of the year | **30 923** | 27 632 | **30 923** | 27 632 |
| Additional accrual recognised | **11 913** | 9 744 | **11 913** | 9 744 |
| Utilised | **(5 029)** | (6 453) | **(5 029)** | (6 453) |
| At the end of the year | **37 807** | 30 923 | **37 807** | 30 923 |
| Bonus | | | | |
| At the beginning of the year | **54 971** | 55 168 | **54 944** | 55 233 |
| Additional accrual recognised | **59 334** | 60 020 | **59 126** | 59 775 |
| Utilised | **(70 608)** | (60 217) | **(70 448)** | (60 064) |
| At the end of the year | **43 697** | 54 971 | **43 622** | 54 944 |
| At the end of the year | **81 504** | 85 894 | **81 429** | 85 867 |

The bonus accruals are expected to be settled within the next twelve months.

## 26. Capital adequacy

### Tier 1 – Core capital

| | Group | |
|---|---|---|
| | 30 June 2020 | 30 June 2019 |
| | P'000 | P'000 |
| Stated | 51 088 | 51 088 |
| Retained income – adjusted to revised operating capital by Bank of Botswana | 3 255 174 | 2 950 617 |
| | 3 306 262 | 3 001 705 |
| Goodwill | (26 963) | (26 963) |
| IFRS 9 transition adjustment | 63 196 | 94 794 |
| | 3 342 495 | 3 069 536 |
| Tier 2 – Supplementary capital | | |
| Stage 1 and 2 provisioning | 199 341 | 220 385 |
| Subordinated Unsecured Bonds | 398 642 | 201 840 |
| | 597 983 | 422 225 |
| | 3 940 478 | 3 491 761 |
| Total qualifying capital | | |
| Risk adjusted assets | | |
| – Credit risk weighted assets (Simple Approach) | 15 947 267 | 17 630 804 |
| – Market risk weighted assets | 100 697 | 156 305 |
| – Operational risk weighted assets | 2 389 860 | 2 252 715 |
| | 18 437 824 | 20 039 824 |
| Capital adequacy ratios (%) | 21,37 | 17,42 |
| Core capital (%) (Basel Committee guide: minimum 4.5%) | 18,13 | 15,32 |
| Supplementary capital (%) | 3,24 | 2,10 |
| Total (%) | 21,37 | 17,42 |
| Bank of Botswana required minimum risk asset ratio (%) | 12,50 | 15,00 |

The Group largely consists of the Group, which is a licensed financial institution and is subject to regulatory capital requirements. The capital base of the Group provides the foundation for lending, off-balance sheet transactions and other activities. The capital adequacy of the Group is measured in accordance with the requirements of the Banking Act (Cap 46:04) in terms of which the Group must maintain a minimum level of capital based on its risk weighted assets and exposures not reflected on the statements of financial position.

## 27. Post-retirement fund liabilities

The Group operates a defined contribution scheme, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by payments from employees and the Group, and the Retirement Funds Act governs its administration. The fund currently has a total contribution rate of 20.5% (2019: 20,5%) of pensionable salary towards retirement funding). This is made up of an employee contribution rate of 7,0% (2019: 7,0%) and an employer contribution rate of 13,5% (2019: 13,5%). The liability of the Group is limited to the contributions made during the employment of the employee.

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2020

The Group does not provide post-retirement healthcare benefits to its employees.

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **28. Stated capital** | | | | |
| Ordinary shares of no par value 2,543,700,000 (2019: 2,543,700,000) | **51 088** | 51 088 | **51 088** | 51 088 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **29 Reserves** | | | | |
| Other non-distributable reserves | | | | |
| Balance at the beginning of the year | **61 430** | 71 677 | **46 766** | 56 412 |
| Transfer directly to equity – revaluation portion of depreciation | **(1 564)** | (1 514) | **(936)** | (913) |
| Arising on revaluation of properties | **–** | (11 196) | **–** | (11 196) |
| Deferred tax arising on revaluation of properties | **–** | 2 463 | **–** | 2 463 |
| Balance at the end of year | **59 866** | 61 430 | **45 830** | 46 766 |
| FVOCI debt reserve/available-for-sale reserve | | | | |
| FVOCI/(Available-for-sale reserve) | **–** | (1 153) | **–** | (1 153) |
| Transfer of FVOCI debt reserve/available-for-sale reserve to amortised cost of asset | **–** | 1 153 | **–** | 1 153 |
| Balance at the end of year | **–** | – | **–** | – |
| Retained earnings | | | | |
| Opening balance | **2 967 881** | 2 640 822 | **2 806 172** | 2 478 953 |
| Transfers directly from revaluation reserve | **1 564** | 1 514 | **936** | 913 |
| Profit for the year | **695 806** | 732 536 | **653 191** | 733 298 |
| Ordinary dividends | **(178 059)** | (152 622) | **(178 059)** | (152 622) |
| Final dividend proposed | **(203 496)** | (254 370) | **(203 496)** | (254 370) |
| Balance at the end of the year | **3 283 696** | 2 967 881 | **3 078 744** | 2 806 172 |
| Total reserves (excluding the dividend reserve) | **3 343 562** | 3 029 311 | **3 124 574** | 2 852 939 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | P'000 | P'000 | P'000 | P'000 |
| **30. Cash generated by operations before taxation and working capital changes** | | | | |
| Profit before taxation | 900 851 | 945 347 | 844 505 | 945 709 |
| Adjustments for: | | | | |
| Depreciation and amortisation | 84 351 | 69 572 | 82 573 | 67 631 |
| Loss on sale of property and equipment | 25 | 48 | 25 | 48 |
| Foreign exchange movements on cash balances | (164 640) | (30 351) | (164 640) | (30 351) |
| Impairment losses on loans and advances | 421 442 | 264 912 | 421 442 | 264 912 |
| Unrealised loss on derivative financial instruments | (5 402) | 104 | (5 402) | 104 |
| Straight line lease rental adjustments | – | (195) | – | (195) |
| Net loss on financial instruments held at fair value through profit and loss | 12 101 | 12 711 | 12 101 | 12 711 |
| Share-based payment expense – cash settled | 168 | 7 799 | 168 | 7 799 |
| Interest and similar income | (1 649 128) | (1 617 445) | (1 649 128) | (1 617 445) |
| Interest expense and similar expenses | 310 893 | 359 916 | 307 996 | 356 440 |
| | (89 337) | 12 421 | (150 360) | 7 363 |

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | P'000 | P'000 | P'000 | P'000 |
| **31. Current income tax paid** | | | | |
| Amounts overpaid at the beginning of the year | (106 768) | (65 267) | (104 224) | (65 267) |
| Amounts underpaid at the beginning of the year | – | 7 699 | – | – |
| Charged to the income statement | 194 939 | 217 555 | 185 910 | 209 542 |
| Amounts overpaid at the end of the year | 86 324 | 106 768 | 80 418 | 104 224 |
| Cash amounts paid | 174 495 | 266 755 | 162 104 | 248 499 |
| **32. Current income taxation (asset)/ liability** | | | | |
| Opening liability | – | (7 699) | – | – |
| Opening asset | 106 768 | 65 267 | 104 224 | 65 267 |
| Charged to the income statement | (194 939) | (217 555) | (185 910) | (209 542) |
| Cash amounts paid/(received) | 174 495 | 266 755 | 162 104 | 248 499 |
| Closing net asset | 86 324 | 106 768 | 80 418 | 104 224 |
| Closing asset | 86 324 | 106 768 | 80 418 | 104 224 |

# Notes to the Consolidated and Separate Financial Statements *continued*

for the year ended 30 June 2020

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2020** | 2019 | **2020** | 2019 |
| | | **P'000** | P'000 | **P'000** | P'000 |
| **33. Movement in deposits and current accounts** | | | | | |
| Movement in current and managed account deposits | | **5 405 568** | 555 629 | **5 405 568** | 555 629 |
| Movement in savings deposits | | **250 533** | 86 533 | **250 533** | 86 533 |
| Movement in call and term deposits | | **(2 075 613)** | 114 911 | **(2 075 613)** | 114 911 |
| | | **3 580 488** | 757 073 | **3 580 488** | 757 073 |
| **34. Movement in advances to customers** | | | | | |
| Net amount outstanding at the beginning of the year | | **15 939 047** | 15 478 937 | **15 939 047** | 15 478 937 |
| Impairment of advances | | **(421 442)** | (264 912) | **(421 442)** | (264 912) |
| Net amount outstanding at the end of the year | | **(14 686 767)** | (15 939 046) | **(14 686 767)** | (15 939 046) |
| Effects of IFRS 9 implementation (note 14) | | **-** | (126 384) | **-** | (126 384) |
| | | **830 838** | (851 405) | **830 838** | (851 405) |
| **35. Dividends paid** | | | | | |
| Previous year's final dividend paid during the year | | **254 370** | 228 933 | **254 370** | 228 933 |
| Ordinary dividends | | **178 059** | 152 622 | **178 059** | 152 622 |
| Total dividends paid to shareholders | | **432 429** | 381 555 | **432 429** | 381 555 |
| **36. Cash and cash equivalents** | | | | | |
| Cash and short-term funds | 11 | **4 697 599** | 4 411 739 | **4 697 599** | 4 411 739 |
| Bank of Botswana Certificates | 15 | **6 097 674** | 1 598 307 | **6 097 674** | 1 598 307 |
| | | **10 795 273** | 6 010 046 | **10 795 273** | 6 010 046 |

## 37. Contingencies and commitments

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | P'000 | P'000 | P'000 | P'000 |
| Letters of credit | 16 070 | 32 938 | 16 070 | 32 938 |
| Guarantees – performance | 308 084 | 490 983 | 308 084 | 490 983 |
| Guarantees – other | 62 146 | 137 297 | 62 146 | 137 297 |
| | 386 300 | 661 218 | 386 300 | 661 218 |

The above contingencies represent guarantees and letters of credit.

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | P'000 | P'000 | P'000 | P'000 |
| Commitments | | | | |
| Undrawn commitments to customers | 2 233 457 | 2 247 847 | 2 233 457 | 2 247 847 |
| Capital commitments | | | | |
| Capital expenditure approved by the Directors | | | | |
| – not yet contracted for | 87 479 | 121 344 | 87 479 | 121 344 |

The above capital commitments are wholly in respect of property and equipment, and funds to meet these commitments will be provided from the Group's Internal resources.

| | Group | | Company | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | P'000 | P'000 | P'000 | P'000 |
| Operating lease commitments where the Group is a lessee | | | | |
| Payable within one year | – | 16 357 | – | 16 357 |
| Payable within two to five years | – | 29 484 | – | 2 949 |
| | – | 45 841 | – | 19 306 |

The Group elected not to restate comparative information as permitted by IFRS 16. Comparability will not be achieved as comparative information has been prepared on and IAS 17 basis.

The above lease commitments are in respect of property rentals of the various branch network channels, which are negotiated at market rates for a period of up to five years with an option to renew for a further similar period.

The Group's significant operating leases relate to property rentals of office premises and the various branch network channels represented by full service branches, agencies, mini branches and ATM lobbies. The rentals have fixed monthly payments, often including a contingent rental based on a percentage contribution of the monthly operating costs of the premises. Escalation clauses are based on market related rates and vary between 5% and 12%.

The leases are usually for a period of one to five years. The leases are non-cancellable and certain of the leases have an option to renew for a further leasing period at the end of the original lease term.

Restrictions are more an exception than the norm and usually relate to the restricted use of the asset for the business purposes specified in the lease contract.

## 37. Contingencies and commitments *continued*

### Other contingent liabilities

The Group will from time to time be involved in legal proceedings, including inquiries from or discussions with Governmental authorities that are incidental to its operations. The Group is currently involved in legal proceedings with the tax authorities regarding the interpretation of tax regulations. The disputed tax matters principally relate to the judgement on whether withholding tax is applicable on certain payments to foreign service providers and the deductibility of wear and tear capital allowances in respect of lease liability assets written by the Group. The opinions of legal counsel and other subject matter experts regarding the tax treatment of these items have been sought. In light of this the directors believe that the ultimate resolution of these matters will not materially impact the results of the Group's operations, financial position or cash flows. The directors have assessed the probability of incurring the liability which is ultimately subject to the outcome of the court case, and believe the likelihood of an ultimate loss is remote.

## 38. Trust activities

The Group acts as a trustee and in other fiduciary capacities that result in holding or placing of assets on behalf of customers.

At 30 June 2020 the Group acted as a custodian in respect of Botswana Government bonds amounting to P8 425 822 869 (2019: P9 050 129 030), money markets P1 354 282 460 (2019: P3 5 704 248) and equities amounting to P11 357 083 785 (2019: P1 1 985 030 781). These assets were held In a trust or in a fiduciary capacity and are not treated as assets of the Group, Accordingly, they have not been included in the statements of financial position.

## 39. Financial risk management

The Group's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

Risk control and exposure limits for the key risk areas of the Group are approved by the Board, while operational policies and control procedures are approved by the relevant risk committees. Financial risk management disclosures are done at Group level only as a subsidiary amounts are considered immaterial.

The Group is principally exposed to credit risk, market risk, and liquidity risk. The exposures to these risks as at 30 June 2020 are set out below:

### Credit risk management

#### Internal credit risk ratings

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due resulting in a financial loss to the Group. In general, the Group manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments.

Credit risk arises primarily from the following instruments:

- Advances; and
- Certain investment securities.

Other sources of credit risk are:

- Cash and cash equivalents;
- Accounts receivable;
- Derivative balances; and
- Off-balance sheet exposures

In order to minimise credit risk, the Group has tasked its credit committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

## 39. Financial risk management *continued*

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures: Payment record and ageing analysis; Extent of utilisation of granted limit; Forbearances (both requested and granted); Changes in business, financial and economic conditions; and Credit rating information supplied by external rating agencies.

For retail exposures: internally generated data of customer behaviour, affordability metrics etc.; and

For corporate exposures: information obtained by periodic review of customer files including audited financial statements review, market data where available, changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades to external ratings.

### Assessment and management

Credit risk is monitored on an ongoing basis and managed through the implementation of comprehensive policies, processes and controls to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement, monitoring and reporting of credit risk exposure. Credit risk management across the Group is split into three distinct portfolios: retail, commercial and corporate, and are aligned to customer profiles.

The assessment of credit risk across the Group relies on internally-developed quantitative models for addressing regulatory and business needs. The models are used for the internal assessment of the three primary credit risk components:

- probability of default (PD);
- exposure at default (EAD); and
- loss given default (LGD).

Management of the credit portfolio is reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and group-level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties, industries and portfolios to reflect diversification benefits across the portfolio.

The Group employs a granular, 100-point master rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the Financial Risk(FR) tables. FR1 is the lowest PD and FR100 the highest. External ratings have also been mapped to the master rating scale for reporting purposes. These mappings are reviewed and updated on a regular basis.

## 39. Financial risk management *continued*

Significant credit exposures at year-end were:

### Geographical distribution – Group and Company

| | Botswana | Southern Africa | Europe | North America | Rest of the world | Total |
|---|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| 2020 | | | | | | |
| On-balance sheet exposures | | | | | | |
| Cash and short-term funds | 1 253 235 | 1 251 763 | 170 168 | 2 019 579 | 2 854 | 4 697 599 |
| Derivative financial instruments | 73 166 | 3 706 | - | - | - | 76 872 |
| Advances to customers | 14 686 767 | - | - | - | - | 14 686 767 |
| Investment securities | 9 309 097 | 200 114 | - | - | - | 9 509 211 |
| Due from related parties | 11 684 | - | - | - | - | 11 684 |
| Other assets | 479 314 | - | - | - | - | 479 314 |
| | 25 813 263 | 1 455 583 | 170 168 | 2 019 579 | 2 854 | 29 461 447 |
| Off-balance sheet exposures | | | | | | |
| Guarantees, acceptances and letters of credit | 386 300 | - | - | - | - | 386 300 |
| Irrevocable commitments | 2 233 457 | - | - | - | - | 2 233 457 |
| | 28 433 020 | 1 455 583 | 170 168 | 2 019 579 | 2 854 | 32 081 204 |

## 39. Financial risk management *continued*

### Geographical distribution – Group and Company *continued*

| | Botswana | Southern Africa | Europe | North America | Rest of the world | Total |
|---|---|---|---|---|---|---|
| 2019 | | | | | | |
| On-balance sheet exposures | | | | | | |
| Cash and short-term funds | 2 009 147 | 374 618 | 169 059 | 1 851 170 | 7 745 | 4 411 739 |
| Derivative financial instruments | 45 296 | 4 143 | 167 | – | – | 49 606 |
| Advances to banks | 789 903 | – | – | – | – | 789 903 |
| Advances to customers | 15 939 047 | – | – | – | – | 15 939 047 |
| Investment securities | 4 135 221 | – | – | – | – | 4 135 221 |
| Due from related parties | 6 388 | – | – | – | – | 6 388 |
| Other assets | 317 627 | – | – | – | – | 317 627 |
| | 23 242 629 | 378 761 | 169 226 | 1 851 170 | 7 745 | 25 649 531 |
| Off-balance sheet exposures | | | | | | |
| Guarantees, acceptances and letters of credit | 661 218 | – | – | – | – | 661 218 |
| Irrevocable commitments | 2 247 847 | – | – | – | – | 2 247 847 |
| | 26 151 694 | 378 761 | 169 226 | 1 851 170 | 7 745 | 28 558 596 |

| | 2020 | 2019 |
|---|---|---|
| | P'000 | P'000 |
| Distribution by sector | | |
| Banks including Bank of Botswana | 10 420 540 | 5 675 182 |
| Government and parastatal organisations | 3 411 537 | 2 536 914 |
| Individuals | 10 607 265 | 10 826 495 |
| Business/trading | 4 023 403 | 4 425 004 |
| Others | 998 702 | 2 185 934 |
| | 29 461 447 | 25 649 529 |

Economic sector risk concentrations in respect of advances are set out in Note 13.

## 39. Financial risk management *continued*

### Collateral pledged

The Group pledges assets under the following terms and conditions:

Bonds are pledged as collateral for any repurchase agreements with Group of Botswana. In addition, assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options. All other pledges are conducted under terms which are usual and customary to lending arrangements.

As at the end of the financial year, the Group had not entered into such arrangements.

### Collateral held

The Group does not hold any collateral which it has the ability to sell or repledge in the absence of default. Collateral is an important mitigant of credit risk. In accordance with the Group's credit risk management strategy the following principal types of collateral are held as security for funds advanced by the Group:

- Vehicle finance: Vehicles subject to the finance agreement normally serve as collateral. In general, vehicles which make up the collateral can be sold when the customer has defaulted under the agreement and a notice of default has been issued. Where more than one third of all instalments have been paid, legal judgement has to be passed before vehicles can be repossessed. For some products, title over the vehicles is held by the Group. Title only passes to the customer once instalments are fully paid.
- Property finance: Collateral consists of first and second mortgage bonds over property, individuals' pension plans, employer and personal guarantees, loss insurance purchased by the client. The collateral can only be sold or exercised on default by the customer.
- Overdrafts and personal loans: These advances are secured by means of cession of debtors, equity portfolios and deposits, as well as bonds over fixed property and other moveable assets. Credit insurance is sold as an additional component of the loans.

When the Group takes possession of collateral which is not cash or not readily convertible into cash the Group determines a minimum sale amount ("pre-set sale amount") and auctions the asset for the pre-set sale amount. Where the Group is unable to obtain the pre-set sale amount in an auction, the Group will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

The collateral is valued at inception of the credit agreement and subsequently in specific circumstances for example, when the advance becomes a non-performing loan or when the Group is to sell the asset on auction. No valuation is performed between these two dates for Small and Medium Entities (SME) and large corporate counterparties. The valuation at inception is based on physical inspection. Updated valuations are performed by revaluing security during the counterparty review process.

| | 2020 | | 2019 | |
|---|---|---|---|---|
| | Fair value | Fair value of collateral sold or repledged in the absence of default | Cost | Fair value of collateral sold or repledged in the absence of default |
| | P'000 | P'000 | P'000 | P'000 |
| Collateral held in structured transactions | | | | |
| Advances to customers | 1 193 148 | – | 689 170 | – |

## 39. Financial risk management *continued*

### Collateral taken possession of and recognised in the statements of financial position

Collateral in the form of deposits amounted to P558 850 157 (2019: P 529 259 689).

### Maximum exposure to credit risk

The table below presents the maximum exposures to credit risk of financial instruments recognised on the statements of financial position and exposures not recognised in the statements of financial position, before taking account of any collateral held.

| | Retail | Corporate & commercial | Other | Total exposure | Year to date average exposure |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| Group 2020 | | | | | |
| Exposures recognised in the Statement of Financial Position | | | | | |
| – Money at call and short notice | – | – | 13 592 | 13 592 | 31 212 |
| – Balances with other banks | – | – | 4 237 287 | 4 237 287 | 4 110 158 |
| | – | – | 4 250 879 | 4 250 879 | 4 141 370 |
| Advances to customers | 10 437 022 | 5 579 457 | – | 16 016 479 | 16 500 549 |
| Investment securities – debt | – | – | 9 509 211 | 9 509 211 | 6 822 216 |
| Other assets | – | – | 479 314 | 479 314 | 365 494 |
| Derivatives | – | – | 76 872 | 76 872 | 63 239 |
| Related parties | – | – | 11 684 | 11 684 | 9 036 |
| Exposures not recognised in the Statement of Financial Position | | | | | |
| Financial and other guarantees | 11 269 | 375 031 | – | 386 300 | 523 759 |
| Loan commitments not drawn | 1 496 989 | 736 468 | – | 2 233 457 | 2 240 652 |
| Total | 11 945 280 | 6 690 956 | 14 327 960 | 32 964 196 | 30 666 315 |

| | Retail | Corporate & commercial | Other | Total exposure | Year to date average exposure |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **39. Financial risk management** *continued* | | | | | |
| **Maximum exposure to credit risk** *continued* | | | | | |
| Group 2019 | | | | | |
| Exposures recognised in the Statement of Financial Position | | | | | |
| – Money at call and short notice | – | – | 48 831 | 48 831 | 24 416 |
| – Balances with other banks | – | – | 3 983 028 | 3 983 028 | 4 015 012 |
| | – | – | 4 031 859 | 4 031 859 | 4 039 428 |
| Advances to banks | – | – | 789 903 | 789 903 | 720 908 |
| Advances to customers | 10 548 501 | 6 436 118 | - | 16 984 619 | 16 553 357 |
| Investment securities – debt | – | – | 4 135 221 | 4 135 221 | 3 747 656 |
| Other assets | – | – | 317 627 | 317 627 | 299 147 |
| Derivatives | – | – | 49 606 | 49 606 | 52 394 |
| Related parties | – | – | 6 388 | 6 388 | 7 927 |
| Exposures not recognised in the Statement of Financial Position | | | | | |
| Financial and other guarantees | 19 288 | 641 930 | – | 661 218 | 774 678 |
| Loan commitments not drawn | 1 506 634 | 741 213 | – | 2 247 847 | 2 231 678 |
| Total | 12 074 423 | 7 819 261 | 9 330 604 | 29 224 288 | 28 427 173 |

### Credit quality

Investment grade are those financial assets rated in one of the four highest rating categories in line with international rating agencies( AAA to A). Non-investment grade assets are those rated in the rest of the rating categories in line with international rating agencies (BBB to CCC).

| Mapping of FR grades to rating agency scales | Midpoint PD | FNBB rating (based on S & P) |
|---|---|---|
| FR 1 – 14 | 0,06 % | AAA, AA+, AA, AA-, A+, A, A- |
| FR 15 – 25 | 0,29 % | BBB+, BBB(upper), BBB, BBB-(upper), BBB-, BB+(upper) |
| FR 26 – 32 | 0,77 % | BB+, BB(upper), BB, BB-(upper) |
| FR 33 – 39 | 1,44 % | BB-, B+(upper) |
| FR 40 – 53 | 2,52 % | B+ |
| FR 54 – 83 | 6,18 % | B(upper), B, B-(upper) |
| FR 84 – 90 | 13,68 % | B- |
| FR 91 – 99 | 59,11 % | CCC |
| FR 100 | 100 % | D(Defaulted) |

The following table shows the gross carrying amount of advances carried at amortised cost and the fair value of advances measured at fair value through profit or loss, as well as the exposure to credit risk of loan commitments and financial guarantees per class of advance and per internal credit rating.

The amounts in stage 3 that do not have a rating of FR 91-100 relates to technical cures (performing accounts that have previously defaulted but don't meet the 12-month curing definition remain in stage 3) and paying debt-review customers as the PDs on these customers are lower than operational stage 3 advances and the PD drives the FR rating. In addition, where the Group holds a guarantee against a stage 3 advance, the FR rating would reflect same.

## 39. Financial risk management *continued*

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **2020** | | | | | | |
| Term loans | | | | | | |
| Stage 1 | 1 052 072 | – | 4 773 461 | – | 6 656 | – |
| Stage 2 | 209 508 | – | 132 244 | – | 17 098 | – |
| Stage 3 | 620 | – | 6 380 | – | 390 434 | – |
| | 1 262 200 | – | 4 912 085 | – | 414 188 | – |
| **2019** | | | | | | |
| Term loans | | | | | | |
| Stage 1 | – | – | 6 729 255 | – | 10 060 | – |
| Stage 2 | – | – | 159 916 | – | 29 488 | – |
| Stage 3 | – | – | – | – | 436 906 | – |
| | – | – | 6 889 171 | – | 476 454 | – |

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **2020** | | | | | | |
| Suspensive sale debtors/lease payments receivable | | | | | | |
| Stage 1 | 56 574 | – | 1 718 948 | – | 50 346 | – |
| Stage 2 | – | – | 177 839 | – | 81 240 | – |
| Stage 3 | – | – | – | – | 110 243 | – |
| | 56 574 | – | 1 896 787 | – | 241 829 | – |

## 39. Financial risk management *continued*

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **2019** | | | | | | |
| Suspensive sale debtors/lease payments receivable | | | | | | |
| Stage 1 | – | – | 2 060 495 | – | 3 165 | – |
| Stage 2 | – | – | 110 980 | – | 28 436 | – |
| Stage 3 | – | – | – | – | 85 652 | – |
| | – | – | 2 171 475 | – | 117 253 | – |

| | **Financial risk (FR) 1 – 25** | | **Financial risk (FR) 26 – 90** | | **Financial risk (FR) 91 – 100** | |
|---|---|---|---|---|---|---|
| | **On balance sheet** | **Off balance sheet** | **On balance sheet** | **Off balance sheet** | **On balance sheet** | **Off balance sheet** |
| | **P'000** | **P'000** | **P'000** | **P'000** | **P'000** | **P'000** |
| **2020** | | | | | | |
| **Property loans** | | | | | | |
| Stage 1 | **349 332** | **–** | **4 676 153** | **–** | **33 114** | **–** |
| Stage 2 | **133** | **–** | **230 433** | **–** | **183 678** | **–** |
| Stage 3 | **–** | **–** | **2 373** | **–** | **483 788** | **–** |
| | **349 465** | **–** | **4 908 959** | **–** | **700 580** | **–** |

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **2019** | | | | | | |
| **Property loans** | | | | | | |
| Stage 1 | 659 | – | 5 048 931 | – | 7 671 | – |
| Stage 2 | – | – | 145 824 | – | 235 432 | – |
| Stage 3 | – | – | – | – | 435 365 | – |
| | 659 | – | 5 194 755 | – | 678 468 | – |

## 39. Financial risk management *continued*

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **2020** | | | | | | |
| **Overdrafts and managed accounts** | | | | | | |
| Stage 1 | 126 207 | – | 367 292 | – | 2 514 | – |
| Stage 2 | 30 561 | – | 310 303 | – | 67 343 | – |
| Stage 3 | 3 127 | – | 3 297 | – | 214 418 | – |
| | 159 895 | – | 680 892 | – | 284 275 | – |

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **2019** | | | | | | |
| **Overdrafts and managed accounts** | | | | | | |
| Stage 1 | 57 620 | – | 756 142 | – | 16 606 | – |
| Stage 2 | 19 680 | – | 190 260 | – | 13 892 | – |
| Stage 3 | – | – | – | – | 185 438 | – |
| | 77 300 | – | 946 402 | – | 215 936 | – |

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **2020** | | | | | | |
| **Other** | | | | | | |
| Stage 1 | 67 519 | – | 68 605 | – | – | – |
| Stage 2 | 1 119 | – | 3 754 | – | – | – |
| Stage 3 | – | – | – | – | 7 753 | – |
| | 68 638 | – | 72 359 | – | 7 753 | – |

| | Financial risk (FR) 1 – 25 | | Financial risk (FR) 26 – 90 | | Financial risk (FR) 91 – 100 | |
|---|---|---|---|---|---|---|
| | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet | On balance sheet | Off balance sheet |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **39. Financial risk management** *continued* | | | | | | |
| 2019 | | | | | | |
| Other | | | | | | |
| Stage 1 | 64 091 | – | 123 843 | – | – | – |
| Stage 2 | – | – | 11 065 | – | 13 975 | – |
| Stage 3 | – | – | – | – | 3 772 | – |
| | 64 091 | – | 134 908 | – | 17 747 | – |

| | Analysis of impaired advances (stage 3/NPLs) | | |
|---|---|---|---|
| | **Security held and expected recoveries** | **Stage 3 impairment** | **Total** |
| | **P'000** | **P'000** | **P'000** |
| 2020 | | | |
| Stage 3/NPLs by category | | | |
| Term loans | **100 045** | **342 820** | **442 865** |
| Suspensive sale debtors/lease payments receivable | **23 905** | **86 339** | **110 244** |
| Property loans | **186 506** | **266 508** | **453 014** |
| Overdrafts and managed accounts | **25 297** | **183 145** | **208 442** |
| Other | **–** | **7 868** | **7 868** |
| | **335 753** | **886 680** | **1 222 433** |

| | Analysis of impaired advances (stage 3/NPLs) | | |
|---|---|---|---|
| | Security held and expected recoveries | Stage 3 impairment | Total |
| | P'000 | P'000 | P'000 |
| 2019 | | | |
| Stage 3/NPLs by category | | | |
| Term loans | 129 314 | 307 592 | 436 906 |
| Suspensive sale debtors/lease payments receivable | 24 903 | 60 747 | 85 650 |
| Property loans | 285 612 | 149 753 | 435 365 |
| Overdrafts and managed accounts | 66 079 | 119 359 | 185 438 |
| Other | – | 2 375 | 2 375 |
| | 505 908 | 639 826 | 1 145 734 |

## 39. Financial risk management *continued*

The table below presents an analysis of the credit quality of neither past due nor impaired (i.e. performing) advances based on the Group's internal credit ratings:

| | Investment grade | Non-investment grade | Total neither past due nor impaired |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| 2020 | | | |
| **Group and Company** | | | |
| Home loans | – | 5 058 599 | 5 058 599 |
| Credit cards | – | 372 513 | 372 513 |
| Term loans | – | 5 832 189 | 5 832 189 |
| Overdrafts | 416 | 495 597 | 496 013 |
| WesBank | – | 1 825 868 | 1 825 868 |
| Total | 416 | 13 584 766 | 13 585 182 |

| | Investment grade | Non-investment grade | Total neither past due nor impaired |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| 2019 | | | |
| **Group and Company** | | | |
| Home loans | – | 4 614 554 | 4 614 554 |
| Credit cards | – | 201 418 | 201 418 |
| Term loans | – | 6 046 939 | 6 046 939 |
| Overdrafts | 1 470 | 515 078 | 516 548 |
| WesBank | – | 2 108 024 | 2 108 024 |
| Total | 1 470 | 13 486 013 | 13 487 483 |

| | Quality of credit assets – non-advances | | |
|---|---|---|---|
| | AAA to BB | BB+ TO B- | CCC |
| | P'000 | P'000 | P'000 |
| 2020 | | | |
| **Investment securities at amortised cost** | | | |
| Stage 1 | 9 346 057 | – | – |
| Investment securities at fair value through profit or loss | | | |
| Stage 1 | 163 154 | – | – |
| Investment securities at fair value through comprehensive income | | | |
| Total investment securities | 9 509 211 | – | – |

## 39. Financial risk management *continued*

| | Quality of credit assets – non-advances | | |
|---|---|---|---|
| | AAA to BB | BB+ TO B- | CCC |
| | P'000 | P'000 | P'000 |
| 2020 | | | |
| **Other assets** | | | |
| Stage 1 | – | 479 314 | – |

| | Quality of credit assets – non-advances | | |
|---|---|---|---|
| | AAA to BB | BB+ TO B- | CCC |
| | P'000 | P'000 | P'000 |
| 2020 | | | |
| **Cash and cash equivalents** | | | |
| Stage 1 | 3 397 764 | 853 005 | – |

### Offsetting of financial assets and financial liabilities

Where appropriate, various instruments are used to mitigate the potential exposure to certain counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives. In addition, the Group has set up a function to clear over the counter (OTC) derivatives centrally as part of risk mitigation.

The Group uses the International Swaps and Derivatives Association (ISA) and International Securities Market Association agreements for the purpose of netting derivative transactions and repurchase transactions respectively. These master agreements as well as associated credit support annexes (CSA) set out internationally accepted valuation and default covenants, which are evaluated and applied daily, including daily margin calls based on the approved CSA thresholds.

The tables below include information about financial assets and financial liabilities that are:

- offset and the net amount presented in the Group's statement of financial position in accordance with the requirements of IAS 32; and
- subject to enforceable MNA or similar agreements where the amounts have not been offset because one or both of the requirements of IAS 32 are not met, or the amounts relate to financial collateral (cash or non-cash) that mitigates credit risk.

Structured transactions refer to reverse repurchase, securities borrowing and similar arrangements, with reverse repurchases in the asset section of the table, securities lending and similar arrangements on the liability section of the table.

The net amount reported on the statement of financial position represents the net amount of financial assets and financial liabilities where offsetting has been applied in terms of IAS 32 and financial instruments that are subject to MNA and similar agreements, but no offsetting has been applied.

The financial collateral included in the table above is limited to the net statement of financial position exposure in line with the requirements of IFRS 7 and excludes the effect of any over-collateralisation. The amount of collateral included in the table for IFRS 7 disclosure purposes has been determined at a business unit level. If these limits were determined on a group-wide level, the amount of collateral included in this table could increase. The total amount reported on the statement of financial position is the sum of the net amount reported in the statement of financial position and the amount of financial instruments not subject to set-off or MNA.

| | Derivatives | | Other advances/deposits | |
|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 |
| | P'000 | P'000 | P'000 | P'000 |
| **39. Financial risk management** *continued* | | | | |
| **Group** | | | | |
| Assets | | | | |
| Offsetting not applied | | | | |
| Financial instruments subject to MNA and similar agreements | 71 987 | 45 016 | – | – |
| Financial instruments not subject to set-off or MNA | 4 885 | 4 590 | 16 016 478 | 16 984 619 |
| Total statement of financial position | 76 872 | 49 606 | 16 016 478 | 16 984 619 |
| Liabilities | | | | |
| Offsetting not applied | | | | |
| Financial instruments subject to MNA and similar agreements | 4 151 | 3 949 | – | – |
| Financial instruments not subject to set-off or MNA | 32 557 | 10 895 | 23 716 899 | 20 172 652 |
| | 36 708 | 14 844 | 23 716 899 | 20 172 652 |

| | Derivatives | Related parties | Investment securities | Cash and short term funds | Other assets |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| 2020 | | | | | |
| **Group** | | | | | |
| Investment Grade – Amortised cost | – | – | 9 346 057 | 4 697 599 | – |
| Investment Grade – Fair value | – | – | 163 154 | – | – |
| Non-Investment Grade | 76 872 | 11 684 | – | – | 479 314 |
| | 76 872 | 11 684 | 9 509 211 | 4 697 599 | 479 314 |
| 2019 | | | | | |
| **Group** | | | | | |
| Investment Grade – Amortised cost | – | – | 4 000 384 | 4 411 739 | – |
| Investment Grade – Fair value | – | – | 134 837 | – | – |
| Non-Investment Grade | 49 606 | 6 388 | – | – | 317 627 |
| | 49 606 | 6 388 | 4 135 221 | 4 411 739 | 317 627 |

## 39. Financial risk management *continued*

### Company financial risk management disclosures

Management has opted to disclose only consolidated figures due to the fact that in their opinion there is no material difference between the consolidated and separate financial risk management disclosures. The related disclosures include:

- credit risk management;
- liquidity risk management; and
- fair value of financial instruments.

The consolidated disclosures are reflective of the Group in all material respects.

The table below sets out the maximum exposure to credit risk for financial assets at amortised cost and fair value through profit or loss.

| | Carrying amount | Off balance sheet exposure | Maximum exposure to credit risk | Netting and financial collateral | Net exposure to credit risk |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| **2020** | | | | | |
| **Group** | | | | | |
| Term loans | 6 588 473 | 116 307 | 6 704 780 | 100 045 | 6 804 825 |
| Suspensive sale debtors/lease payments receivable | 2 136 973 | 57 413 | 2 194 386 | 23 905 | 2 218 291 |
| Property loans | 5 959 005 | 377 109 | 6 336 114 | 186 506 | 6 522 620 |
| Overdraft and managed accounts | 1 125 061 | 1 556 494 | 2 681 555 | 25 297 | 2 706 852 |
| Other | 206 966 | 226 134 | 433 100 | – | 433 100 |
| Total advances | 16 016 478 | 2 333 457 | 18 349 935 | 335 753 | 18 685 688 |
| Investment securities | 9 509 211 | – | 9 509 211 | – | 9 509 211 |
| Cash and cash equivalents | 4 697 599 | – | 4 697 599 | – | 4 697 599 |
| Other assets | 479 314 | – | 479 314 | – | 479 314 |
| Derivatives | 76 872 | – | 76 872 | – | 76 872 |
| **2019** | | | | | |
| **Group** | | | | | |
| Term loans | 7 365 625 | 147 244 | 7 512 869 | (129 314) | 7 383 555 |
| Suspensive sale debtors/lease payments receivable | 2 288 728 | – | 2 288 728 | (24 905) | 2 263 823 |
| Property loans | 5 873 882 | 228 674 | 6 102 556 | (285 612) | 5 816 944 |
| Overdraft and managed accounts | 1 239 638 | 1 600 983 | 2 840 621 | (66 079) | 2 774 542 |
| Other | 216 746 | 270 946 | 487 692 | – | 487 692 |
| Total advances | 16 984 619 | 2 247 847 | 19 232 466 | (505 910) | 18 726 556 |
| Investment securities | 4 135 221 | – | 4 135 221 | – | 4 135 221 |
| Cash and cash equivalents | 4 411 739 | – | 4 411 739 | – | 4 411 739 |
| Other assets | 317 627 | – | 317 627 | – | 317 627 |
| Derivatives | 49 606 | – | 49 606 | – | 49 606 |

## 39. Financial risk management *continued*

The table below indicates where the net exposure to credit risk is secured or unsecured for financial assets at amortised cost.

| | Net exposure to credit risk | Net unsecure | Net secured by collateral | Net secured by other credit enhance-ments |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 |
| **2020** | | | | |
| **Group** | | | | |
| Term loans | 6 769 050 | 6 769 050 | 100 045 | – |
| Suspensive sale debtors/lease payments receivable | 2 229 128 | 2 229 128 | 23 905 | – |
| Property loans | 6 610 748 | 6 610 748 | 186 506 | – |
| Overdraft and managed accounts | 2 729 730 | 2 729 730 | 25 297 | – |
| Other | 433 100 | 433 100 | – | – |
| Total advances | 18 771 756 | 18 771 756 | 335 753 | – |
| Investment securities | 9 509 211 | – | – | – |
| Cash and cash equivalents | 4 697 599 | – | – | – |
| Other assets | 479 314 | – | – | – |
| Derivatives | 76 872 | – | – | – |
| **2019** | | | | |
| **Group** | | | | |
| Term loans | 7 383 555 | 7 383 555 | (129 314) | – |
| Suspensive sale debtors/lease payments receivable | 2 263 823 | 2 263 823 | (24 905) | – |
| Property loans | 5 816 944 | 5 816 944 | (285 612) | – |
| Overdraft and managed accounts | 2 772 542 | 2 772 542 | (66 079) | – |
| Other | 561 343 | 561 343 | – | – |
| Total advances | 18 798 207 | 18 798 207 | (505 910) | – |
| Investment securities | 4 135 220 | 4 135 220 | – | – |
| Cash and cash equivalents | 4 411 739 | 4 411 739 | – | – |
| Other assets | 241 163 | 241 163 | – | – |
| Derivatives | 49 606 | 49 606 | – | – |

## 39. Financial risk management *continued*

The table below indicates where the net exposure to credit risk is secured or unsecured for financial assets at amortised cost.

| | Gross carrying amount | Expected recoveries from collateral | Loss allowance |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| 2020 | | | |
| **Group** | | | |
| Term loans | 442 865 | (23 570) | 419 295 |
| Suspensive sale debtors/lease payments receivable | 110 244 | (26 624) | 83 620 |
| Property loans | 453 014 | (254 612) | 198 402 |
| Overdraft and managed accounts | 208 442 | (30 946) | 177 496 |
| Other | 7 868 | – | 7 868 |
| Credit-impaired advances | 1 222 433 | (335 752) | 886 681 |
| Retail | 425 687 | (144 285) | 281 402 |
| Business | 686 595 | (163 887) | 522 708 |
| WesBank | 110 150 | (27 580) | 82 570 |
| Credit-impaired advances | 1 222 432 | (335 752) | 886 680 |
| 2019 | | | |
| **Group** | | | |
| Term loans | 436 906 | (129 314) | 307 592 |
| Suspensive sale debtors/lease payments receivable | 85 652 | (24 905) | 60 747 |
| Property loans | 435 365 | (285 613) | 149 752 |
| Overdraft and managed accounts | 185 438 | (66 079) | 119 359 |
| Other | 2 375 | – | 2 375 |
| Credit-impaired advances | 1 145 736 | (505 911) | 639 825 |
| Retail | 339 872 | (154 080) | 185 792 |
| Business | 720 209 | (327 012) | 393 187 |
| WesBank | 85 652 | (24 819) | 60 836 |
| Credit-impaired advances | 1 145 733 | (505 911) | 639 815 |

### Market risk

The Group's activities expose it to market risk. Market risks arise from open positions in interest rate and currency products, all of which are exposed to general and specific market movements. The primary risk control mechanism used for risk control purposes are stress loss tests and limits.

## 39. Financial risk management *continued*

### Foreign exchange risk management

The Group, through Treasury, manages foreign currency risk in accordance with broad market risk guidelines set by the Board and FirstRand Group Limited. Foreign currency risk arises as a result of fluctuations in exchange rates and the resultant impact on the Group's position, which is established during normal day-to-day trading. Even though Treasury may take positions on any major currency, these are consolidated and reported in USD. During the financial year under review, the Group's authorised market risk limit was USD35 million (2019: USD35 million) for all asset classes (foreign currency and interest rate risk). The Group takes positions to mitigate the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Consequently the Group strives to match its foreign currency assets and liabilities. The Group manages foreign currency exposures in terms of approved limits. The table below sets out the currency position as at the year-end.

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **30 June 2020** | 30 June 2019 | **30 June 2020** | 30 June 2019 |
| | **P'000** | P'000 | **P'000** | P'000 |
| **Group and Company** | | | | |
| Distribution by currency | | | | |
| Botswana Pula | **26 658 224** | 23 197 419 | **23 550 603** | 20 659 239 |
| South African Rand | **545 339** | 382 856 | **635 548** | 445 946 |
| United States Dollar | **2 068 761** | 1 879 187 | **2 002 368** | 1 681 716 |
| British Pound | **77 335** | 70 684 | **72 314** | 63 596 |
| Euro | **92 096** | 101 832 | **97 350** | 97 364 |
| Others | **19 692** | 17 466 | **11 794** | 11 026 |
| | **29 461 447** | 25 649 444 | **26 369 977** | 22 958 887 |

The Group is mainly exposed to foreign currency risk on its USD and ZAR denominated assets and liabilities. The following table details the gains or losses in response to a 10% increase and decrease in the Pula (BWP) against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

| | **30 June 2020** | 30 June 2019 |
|---|---|---|
| | **P'000** | P'000 |
| Loss arising from a 10% decrease | | |
| South African Rand | **9 021** | 6 309 |
| United States Dollar | **(6 639)** | (41 013) |
| | **2 382** | (34 704) |
| Gain arising from a 10% increase | | |
| South African Rand | **(9 021)** | (6 309) |
| United States Dollar | **6 639** | 41 013 |
| | **(2 382)** | 34 704 |

The above gain/(loss) would affect the statements of income.

## 39. Financial risk management *continued*

### Interest rate risk management

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effect of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The table below summaries the Group's exposure to interest rate risk. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of repricing or maturity dates.

The table below summarises the Banking Group's exposure to interest rate risk, categorised by contractual maturity date.

| | Group – Term to repricing | | |
|---|---|---|---|
| | Carrying amount | Demand up to 1 month | 1 – 3 months |
| | P'000 | P'000 | P'000 |
| 2020 | | | |
| Total assets | 30 179 484 | 24 441 791 | 1 203 574 |
| Total liabilities and equity | (30 179 484) | (20 412 574) | (1 509 695) |
| Net interest sensitivity gap | – | 4 029 217 | (306 121) |
| 2019 | | | |
| Total assets | 26 271 623 | 3 352 425 | 17 701 939 |
| Total liabilities and equity | (26 271 623) | (14 763 524) | (1 364 370) |
| Net interest sensitivity gap | – | (11 411 099) | 16 337 569 |

Interest rate sensitivity tests are performed on the Group's statements of financial position and reviewed by the Asset, Liability, and Capital Committee (ALCCO). The table below presents the potential gains or losses that could arise if interest rates rise or fall by 100 basis points and 200 basis points:

| | 30 June 2020 | 30 June 2019 |
|---|---|---|
| | P'000 | P'000 |
| **Group and Company** | | |
| 100 basis points parallel increase – gains | 40 000 | 70 815 |
| 100 basis points parallel decrease – losses | (40 000) | (92 820) |
| 200 basis points parallel increase – gains | 80 000 | 141 630 |
| 200 basis points parallel decrease – losses | (80 000) | (185 640) |

### Liquidity risk management

The Group is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan draw-downs and other cash requirements. The Group manages its cash resources based on historical experience to meet all liquidity requirements.

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhance profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

| Group – Term to repricing | | | |
|---|---|---|---|
| 3 – 12 months | 1 – 5 years | Over 5 years | Equity and non-financial assets/liabilities |
| P'000 | P'000 | P'000 | P'000 |
| 220 147 | 1 779 284 | 802 061 | 1 732 627 |
| (945 534) | (1 040 715) | (1 574 239) | (4 696 727) |
| (725 387) | 738 569 | (772 178) | (2 964 100) |
| 718 498 | 1 623 295 | 140 780 | 2 734 686 |
| (1 185 237) | (2 305 473) | (1 234 768) | (5 418 251) |
| (466 739) | (682 178) | (1 093 988) | (2 683 565) |

## Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by a separate Group Treasury function, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the consolidated statements of financial position against and internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

## Impact of COVID-19

The Group entered the crisis in a strong liquidity position. The Group has remained well funded, and within prudential liquidity requirements and internal risk appetite levels through the stress period. The Group remains in a strong funding and liquidity position; however, the crisis has not yet come to an end and key risk metrics and early warning indicators continue to be closely monitored. The Group regularly forecasts its liquidity position and uses scenario analysis to inform decision making. The Group has appropriate liquidity buffers and access to funding to withstand the anticipated liquidity risks in the near term.

## 39. Financial risk management *continued*

### Impact of COVID-19 *continued*

The table below sets out the discounted maturity analysis of the Group's statements of financial position based on the remaining period from year-end to contractual maturity. Demand denotes assets or liabilities with a contractual maturity of 32 days or less.

| | Group – Term to maturity | | |
|---|---|---|---|
| | Carrying amount | Demand up to 1 month | 1 – 3 months |
| | P'000 | P'000 | P'000 |
| 2020 | | | |
| Total assets | 30 179 484 | 11 503 163 | 2 249 522 |
| Total liabilities and equity | (30 179 484) | (20 980 594) | (1 724 899) |
| Net liquidity gap | – | (9 477 431) | 524 623 |
| 2019 | | | |
| Total assets | 26 271 623 | 7 890 702 | 1 813 997 |
| Total liabilities and equity | (26 271 623) | (15 158 275) | (2 871 047) |
| Net liquidity gap | – | (7 267 573) | (1 057 050) |

Although negatively gapped in the short term, the balance sheet comprises of behaviourally core deposits, while assets are primarily liquid assets (Bank of Botswana Certificates) which can be liquidated in times of stress to ensure the Group is sufficiently able to meet its short term commitments.

### Group

The table below has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to settle.

| | Call | 1 – 3 months | 4 – 12 months |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| 2020 | | | |
| Amounts due to other banks | 545 002 | – | – |
| Deposit and current accounts | 17 779 071 | 3 864 407 | 1 706 989 |
| Derivative financial instruments | – | 3 573 235 | – |
| Borrowings | – | 94 096 | 258 026 |
| Due to related companies | 21 322 | – | – |
| Creditors and accruals | – | 376 633 | – |
| Employee liabilities | – | – | 81 504 |
| | 18 345 395 | 7 908 371 | 2 046 519 |
| 2019 | | | |
| Amounts due to other banks | 581 243 | – | – |
| Deposit and current accounts | 15 675 637 | 1 943 306 | 1 830 626 |
| Derivative financial instruments | – | 658 789 | – |
| Borrowings | – | 8 096 | 27 271 |
| Due to related companies | 32 898 | – | – |
| Creditors and accruals | – | 76 038 | 332 279 |
| Employee liabilities | – | – | 85 894 |
| | 16 289 778 | 2 686 229 | 2 276 070 |

| | Group – Term to maturity | | | |
|---|---|---|---|---|
| | 3 – 12 months | 1 – 5 years | Over 5 years | Non-sensitive |
| | P'000 | P'000 | P'000 | P'000 |
| | 1 980 354 | 9 057 064 | 3 734 051 | 1 655 330 |
| | (1 556 241) | (597 722) | (1 168 470) | (4 151 558) |
| | 424 113 | 8 459 342 | 2 565 581 | (2 496 228) |
| | 2 281 713 | 9 505 956 | 2 748 166 | 2 031 089 |
| | (2 058 296) | (609 805) | (977 871) | (4 596 329) |
| | 223 417 | 8 896 151 | 1 770 295 | (2 565 240) |

| 1 – 5 years | Over 5 years | Total |
|---|---|---|
| P'000 | P'000 | P'000 |
| – | – | 545 002 |
| 1 208 069 | 65 531 | 24 624 067 |
| – | 9 054 273 | 12 627 508 |
| 930 855 | 65 531 | 1 348 508 |
| – | – | 21 322 |
| 93 603 | – | 470 236 |
| – | – | 81 504 |
| 2 232 527 | 9 185 335 | 39 718 147 |
| – | – | 581 243 |
| 1 091 907 | 935 810 | 21 477 286 |
| 2 162 107 | 9 054 273 | 11 875 169 |
| 1 014 106 | 378 460 | 1 427 933 |
| – | – | 32 898 |
| – | – | 408 317 |
| – | – | 85 894 |
| 4 268 120 | 10 368 543 | 35 888 740 |

## 39. Financial risk management *continued*

### Fair value financial instruments

#### Fair value hierarchy and measurements

The Group 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 Group include, inter alia, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques. The details per type of asset or liability are set out in the tables alongside.

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

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

The Group 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.

#### 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 Group are set out in the table alongside. 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.

## 39. Financial risk management *continued*

| 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 | The Black Scholes model is used. | Strike price of the option; market related discount rate; forward rate and cap and floor volatility. | Not applicable |
| Futures contract | Level 2 | Discounted cash flows | The future cashflows are discounted using a market related interest rate. Projected cashflows are obtained by subtracting the strike price of the forward contract from the market projected forward value. | Market interest rates and curves | Not applicable |
| Swaps | Level 2 | Discounted cash flows | The future cashflows are projected using a forward curve and then discounted using a market related discount curve over the contractual period There set date of each swaplet is determined in terms of legal documents pertaining to the swap. | Market interest rates and curves | Not applicable |
| Forward rate agreements | Level 2 | Discounted cash flows | The future cashflows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. The reset date is determined in terms of legal documents. | Market interest rates and curves | Not applicable |
| Forward contracts | Level 2 | Discounted cash flows | The future cashflows are projected using a forward curve and then discounted using a market related discount curve over the contractual period. Projected cashflows are obtained by subtracting the strike price of the forward contract from the market projected forward value. | Market interest rate and curves | Not applicable |
| Credit derivatives | Level 2 and 3 | Discounted cash flows | The future cashflows are discounted using a market related interest rate. Where prices are obtainable from the market, individual credit spreads are used. | Market interest rates and curves | Not applicable |

## 39. Financial risk management *continued*

| 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 customers | | | | | |
| RMB 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. | Markets interest rates and curves | Credit inputs- market related interest rate which translated to a fair value adjustment of 101.33% of the book. |
| 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- market related interest rate which translated to a fair value adjustment of the following: property (100.22%), term loans (101.33%), asset finance (99.88%), overdrafts (100%) and other loans (100%). |

## 39. Financial risk management *continued*

| 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 | | | | | |
| 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. | Market interest rates and curves | 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 curves | Not applicable |
| Negotiable certificates of deposit | 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 curves | Not applicable |
| Treasury Bills | Level 2 | Bank of Botswana quoted prices | Bank of Botswana quoted prices. | Market interest rates and curves | Not applicable |

## 39. Financial risk management *continued*

| Instrument | Fair value hierarchy level | Valuation technique | Description of valuation technique and main assumptions | Observable inputs | Significant unobservable inputs of Level 3 items |
|---|---|---|---|---|---|
| Deposits | | | | | |
| Call and non-term deposits | Level 2 | None – the undiscounted amount is used | The undiscounted amount of the deposit is the fair value due to the short term nature of the instruments. These deposits are financial liabilities with a demand feature and the fair value is not less than the amount payable on demand i.e. the undiscounted amount of the deposit. | None – the undiscounted amounts approximates fair value and no valuation is performed | Not applicable |
| Other deposits | Level 2 | Discounted cash flows | The forward curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account. | Market interest rates and curves | Credit Inputs |
| 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 and curves | 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. | Market interest rates and curves | Credit Inputs |

## 39. Financial risk management *continued*

### (i) Financial instruments not measured at fair value

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

| | Level 1 | Level 2 | Level 3 | Fair value | Gross less non-performing |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| 2020 | | | | | |
| **Group** | | | | | |
| Assets | | | | | |
| Advances | | | | | |
| Home loans | - | - | 5 517 981 | 5 517 981 | 5 505 991 |
| Credit card | - | - | 199 098 | 199 098 | 199 098 |
| Term loans | - | - | 6 227 592 | 6 227 592 | 6 145 608 |
| Overdraft | - | - | 916 618 | 916 618 | 916 618 |
| WesBank asset finance | - | - | 2 024 312 | 2 024 312 | 2 026 730 |
| Due from related parties | - | - | 11 684 | 11 684 | 11 684 |
| Total advances at amortised cost | - | - | 14 897 285 | 14 897 285 | 14 805 729 |
| Cash and cash equivalents | - | - | 4 697 599 | 4 697 599 | 4 697 599 |
| Investment securities | 9 509 211 | - | - | 9 509 211 | 9 509 211 |
| Other assets | - | - | 479 314 | 479 314 | 479 314 |
| Total financial assets at amortised cost | 9 509 211 | - | 20 074 198 | 29 583 409 | 29 491 853 |
| Liabilities | | | | | |
| Deposits and current accounts | | | | | |
| Current and managed accounts | - | 12 284 393 | - | 12 284 393 | 12 284 393 |
| Balances from customers (term) | - | 5 392 826 | - | 5 392 826 | 5 398 778 |
| Other deposits (call and savings) | - | 5 494 678 | - | 5 494 678 | 5 494 678 |
| Due to related parties | - | - | 21 322 | 21 322 | 21 322 |
| Total deposits and current accounts | - | 23 171 897 | 21 322 | 23 193 219 | 23 199 171 |
| Long-term borrowings | - | 1 615 983 | - | 1 615 983 | 1 614 201 |
| Accrued interest payable | - | 28 079 | - | 28 079 | 28 079 |
| Creditors and accruals | - | 723 586 | - | 723 586 | 723 586 |
| Total financial liabilities at amortised cost | - | 25 539 545 | 21 322 | 25 560 867 | 25 565 037 |

## 39. Financial risk management *continued*

### (i) Financial instruments not measured at fair value *continued*

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

| | Level 1 | Level 2 | Level 3 | Fair value | Gross less non-performing |
|---|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 | P'000 |
| 2019 | | | | | |
| **Group** | | | | | |
| Assets | | | | | |
| Advances | | | | | |
| Home loans | - | - | 5 649 777 | 5 649 777 | 5 438 515 |
| Credit card | - | - | 214 599 | 214 599 | 214 373 |
| Term loans | - | - | 7 069 550 | 7 069 550 | 6 928 719 |
| Overdraft | - | - | 1 059 036 | 1 059 036 | 1 054 200 |
| WesBank asset finance | - | - | 2 247 092 | 2 247 092 | 2 203 077 |
| Due from related parties | - | - | 6 388 | 6 388 | 6 388 |
| Total advances at amortised cost | - | - | 16 246 442 | 16 246 442 | 15 845 272 |
| Cash and cash equivalents | - | - | 4 411 739 | 4 411 739 | 4 411 739 |
| Investment securities | 4 135 220 | - | - | 4 135 220 | 4 135 220 |
| Other assets | - | - | 317 627 | 317 627 | 317 627 |
| Total financial assets at amortised cost | 4 135 220 | - | 20 975 808 | 25 111 028 | 24 709 858 |
| Liabilities | | | | | |
| Deposits and current accounts | | | | | |
| Current and managed accounts | - | 6 878 825 | - | 6 878 825 | 6 878 825 |
| Balances from customers (term) | - | 5 373 808 | - | 5 373 808 | 5 363 725 |
| Other deposits (call and savings) | - | 7 348 859 | - | 7 348 859 | 7 348 859 |
| Due to related parties | - | - | 32 898 | 32 898 | 32 898 |
| Total deposits and current accounts | - | 19 601 492 | 32 898 | 19 634 390 | 19 624 307 |
| Long-term borrowings | - | 1 365 651 | - | 1 365 651 | 1 363 089 |
| Accrued interest payable | - | - | 63 566 | 63 566 | 63 566 |
| Creditors and accruals | - | 863 734 | - | 863 734 | 863 734 |
| Total financial liabilities at amortised cost | - | 21 830 877 | 96 464 | 21 927 341 | 21 914 696 |

* *Restatement of prior year figures due to an error on the fair value hierarchy disclosure on advances.*

Credit card and overdraft advances previously classified under level 2 have now been classified under level 3. In addition, cash and cash equivalents, investments securities and accrued interest have been added to the analysis.

## 39. Financial risk management *continued*

### (ii) Fair value hierarchy

Assets and liabilities measured at fair value

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 |
| 2020 | | | | |
| **Group** | | | | |
| Mandatory fair value through profit and loss | | | | |
| – Investments securities | – | 163 154 | – | 163 154 |
| – Derivative financial instruments | – | 76 872 | – | 76 872 |
| Non-financial assets | | | | |
| – Freehold and leasehold land and buildings | – | 300 262 | – | 300 262 |
| Total assets | – | 540 288 | – | 540 288 |
| Financial liabilities held for trading | | | | |
| – Derivative financial instruments | – | 36 708 | – | 36 708 |
| Mandatory at fair value through profit or loss | | | | |
| – Zero coupon deposit | – | – | 151 657 | 151 657 |
| Total liabilities | – | 36 708 | 151 657 | 188 365 |

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | P'000 | P'000 | P'000 | P'000 |
| 2019 | | | | |
| **Group** | | | | |
| Mandatory fair value through profit and loss | | | | |
| – Investments securities | – | 134 837 | – | 134 837 |
| – Derivative financial instruments | – | 49 606 | – | 49 606 |
| Non-financial assets | | | | |
| – Freehold and leasehold land and buildings | – | 309 365 | – | 309 365 |
| Total assets | – | 493 808 | – | 493 808 |
| Financial liabilities held for trading | | | | |
| – Derivative financial instruments | – | 14 844 | – | 14 844 |
| Mandatory at fair value through profit or loss | | | | |
| – Zero coupon deposit | – | – | 139 553 | 139 553 |
| Total liabilities | – | 14 844 | 139 553 | 154 397 |

### Reconciliation of level 3 fair value measurements

*Designated at fair value through profit or loss (assets)*

| | 2020 | 2019 |
|---|---|---|
| | P'000 | P'000 |
| **Group – Deposit** | | |
| Balance at the beginning of the year | 139 533 | 127 985 |
| – Amounts recognised in profit or loss for the year | 12 104 | 11 548 |
| Balance at the end of the year | 151 637 | 139 533 |

## 39. Financial risk management *continued*

### 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 |
|---|---|---|---|
| Derivative financial instruments | Volatilities | Volatilities | Increased and decreased by 10% |
| Advances | Credit | Scenario analysis | A range of scenarios are run as part of the Group's credit risk management process for advances measured at fair value through profit or loss to determine credit losses and change in credit spreads in various economic conditions. The probability of default is adjusted either upwards or downwards versus the base case. |
| Investment securities and other investments | Credit, growth rates and P/E ratios of unlisted investments | Credit, growth rates or P/E ratios of unlisted investments | Increased and decreased by 10%. |
| Deposits | Credit risk of the cash collateral leg of credit linked notes | Credit migration matrix | The deposits included in level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof. |
| Other liabilities | Performance on the underlying contracts | Profits on the underlying contracts | Increased and decreased by 10%. |

## 39. Financial risk management *continued*

| | 2020 Reasonably possible alternative fair value | | | 2019 Reasonably possible alternative fair value | | |
|---|---|---|---|---|---|---|
| | Fair value | Using more positive assumptions | Using more negative assumptions | Fair value | Using more positive assumptions | Using more negative assumptions |
| | P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| **Assets** | | | | | | |
| Derivative financial instruments | 76 872 | 84 559 | 69 884 | 49 606 | 54 567 | 45 096 |
| Advances | 14 897 285 | 16 387 014 | 13 542 986 | 16 246 442 | 17 871 086 | 14 769 493 |
| Investment securities | 9 509 211 | 10 460 132 | 8 644 737 | 4 135 220 | 4 548 742 | 3 759 291 |
| Total financial assets measured at fair value in level 3 | 24 483 368 | 26 931 705 | 22 257 607 | 20 431 268 | 22 474 395 | 18 573 880 |
| Liabilities | | | | | | |
| Derivative financial instruments | 36 708 | 40 378 | 33 371 | 14 844 | 16 328 | 13 495 |
| Deposits | 23 193 219 | 25 512 541 | 21 084 745 | 19 634 390 | 21 597 829 | 17 849 445 |
| Other liabilities | 648 126 | 712 939 | 589 205 | 863 792 | 950 171 | 785 265 |
| Total financial liabilities measured at fair value in level 3 | 23 878 053 | 26 265 858 | 21 707 321 | 20 513 026 | 22 564 328 | 18 648 205 |

### Capital risk management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statements of financial position, are:

- To comply with the capital requirements set by the central Bank (Bank of Botswana);
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel, as implemented by Bank of Botswana for supervisory purposes. The required information is filed with the central group on a monthly basis.

The Group maintains a ratio of total regulatory capital to its risk-weighted assets above a minimum level agreed with the central Bank which takes into account the risk profile of the Group.

The Group's regulatory capital is managed by the Finance department and comprises two tiers:

- Tier 1 capital: stated capital (net of any book values of the treasury shares) non-controlling interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 Capital.
- Tier 2 capital: qualifying subordinated loan capital and collective impairment allowances

Given the prevailing economic context, the Group has adopted a prudent approach to balancing an efficient capital position with the need to retain sufficient capital for unexpected fluctuations in earnings volatility. This has resulted in increasing the capital adequacy ratio and conserving capital, and taking into account a medium- to long-term horizon. The Group has thoroughly assessed its financial position and will continue to review this on a regular basis.

The Group issued Tier II capital of P196m during the year to enhance capital efficiencies through a rebalance of the Tier I and Tier II capital composition. In line with this restructure and the conservative approach to capital preservation, the Group intends to declare a final ordinary dividend of 8 Thebe per share. The post-dividend capital adequacy ratio at the end of June 2020 will be well above the regulatory minimum of 12.5%, and a significant increase on the June 2019 post-dividend capital adequacy ratio.

## 40. 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 its performance. All operating segments used by the Group meet the definition of a reportable segment.

The Group has five main business segments:

- Retail segment – comprising advances and deposits and the revenue flowing from individual customers;
- Business segment – comprising advances and deposits and the revenue flowing from business customers;
- Corporate Segment – comprising advances and deposits and the revenue flowing from Corporate Segment customers;
- WesBank – comprising vehicle and asset financing; and
- Treasury – manages the Group's liquidity and funding.

The revenue from external parties reported to the Chief Executive Officer is measured in a manner consistent with that in the income statement.

The Group presents interest income after the cost of funding and interest expenditure after the benefit of funding for each reportable segment. These are the amounts that are presented to the Chief Executive Officer for management reporting purposes when assessing performance and allocating resources. This presentation is in line with the management approach of presenting segment information.

The information provided about each segment is based on the internal reports about segment performance, assets and liabilities, which are regularly reviewed by the Chief Executive Officer.

| | Retail | Business | RMB |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| 2020 | | | |
| Group | | | |
| Income statement | | | |
| Interest and similar income | 554 688 | 105 387 | 34 495 |
| Non-interest income | 602 056 | 402 597 | 251 494 |
| Total segment revenue | 1 156 744 | 507 984 | 285 989 |
| Interest and similar expenses | 120 839 | 184 447 | 162 004 |
| Segment operating income before impairments | 1 277 583 | 692 431 | 447 993 |
| Impairment of advances | (202 292) | (194 472) | 1 766 |
| Net interest income after impairment of advances | 1 075 291 | 497 959 | 449 759 |
| Total expenditure | | | |
| Profit before indirect taxation | | | |
| Indirect taxation | | | |
| Profit before direct taxation | | | |
| Direct taxation | | | |
| Profit for the year | | | |
| Statement of financial position: | | | |
| Gross advances to customers | 9 028 170 | 2 974 174 | 1 817 296 |
| Impairments | (525 138) | (657 672) | (29 194) |
| Net advances | 8 503 032 | 2 316 502 | 1 788 102 |
| Deposits from customers | 3 649 274 | 6 987 896 | 9 709 297 |

**Geographical segments** – No segmental reporting for the geographical segment are presented as no significant income is generated outside Botswana. The geographical distribution of assets and liabilities is provided in Note 39.

**Major customers** – In terms of IFRS 8, a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity`s revenue. The Group has no major customers as defined and is, therefore, not reliant on the revenue from one or more major customers.

| WesBank | Treasury | Total |
|---|---|---|
| P'000 | P'000 | P'000 |
| | | |
| 106 420 | 848 138 | 1 649 128 |
| 5 072 | 6 249 | 1 267 468 |
| 111 492 | 854 387 | 2 916 596 |
| (983) | (777 200) | (310 893) |
| 110 509 | 77 187 | 2 605 703 |
| (26 444) | – | (421 442) |
| 84 065 | 77 187 | 2 184 261 |
| | | (1 257 016) |
| | | 927 245 |
| | | (26 394) |
| | | 900 851 |
| | | (205 045) |
| | | 695 806 |
| 2 196 838 | – | 16 016 478 |
| (117 707) | – | (1 329 711) |
| 2 079 131 | – | 14 686 767 |
| – | 2 825 430 | 23 171 897 |

| | Retail | Business | RMB |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| **40. Segmental reporting** *continued* | | | |
| 2019 | | | |
| Group | | | |
| Income statement | | | |
| Interest and similar income | 536 905 | 102 639 | 31 730 |
| Non-interest income | 471 275 | 407 762 | 257 807 |
| Total segment revenue | 1 008 180 | 510 401 | 289 537 |
| Interest and similar expenses | 92 474 | 186 517 | 146 692 |
| Segment operating income before impairments | 1 100 654 | 696 918 | 436 229 |
| Impairment of advances | (120 337) | (102 524) | (7 891) |
| Net interest income after impairment of advances | 980 317 | 594 394 | 428 338 |
| Total expenditure | | | |
| Profit before indirect taxation | | | |
| Indirect taxation | | | |
| Profit before direct taxation | | | |
| Direct taxation | | | |
| Profit for the year | | | |
| Statement of financial position: | | | |
| Gross advances to customers | 9 501 885 | 3 252 785 | 1 866 649 |
| Impairments | (404 815) | (504 156) | (30 964) |
| Net advances | 9 097 070 | 2 748 629 | 1 835 685 |
| Deposits from customers | 4 734 194 | 6 548 469 | 7 383 251 |

**Secondary segments** – No segmental reporting for the secondary segments (geographical) as no significant income is generated outside Botswana. The geographical distribution of assets and liabilities is provided in Note 39.

**Major customers** – In terms of IFRS 8, a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity`s revenue. The Group has no major customers as defined and is, therefore, not reliant on the revenue from one or more major customers.

| WesBank | Treasury | Total |
|---|---|---|
| P'000 | P'000 | P'000 |
| 103 715 | 842 456 | 1 617 445 |
| 24 411 | (18 940) | 1 142 315 |
| 128 126 | 823 516 | 2 759 760 |
| 4 931 | (790 530) | (359 916) |
| 133 057 | 32 986 | 2 399 844 |
| (34 636) | 476 | (264 912) |
| 98 421 | 33 462 | 2 134 932 |
| | | (1 172 601) |
| | | 962 331 |
| | | (16 984) |
| | | 945 347 |
| | | (212 811) |
| | | 732 536 |
| 2 363 300 | – | 16 984 619 |
| (105 637) | – | (1 045 572) |
| 2 257 663 | – | 15 939 047 |
| – | 925 495 | 19 591 409 |

## 41. Employee share participation schemes

The Group has employees who participate in the share option scheme of FirstRand Limited (The Group's ultimate holding company, a company registered in the Republic of South Africa). The scheme is described below:

### FirstRand conditional share plan (assumption of liability scheme)

First National Bank Botswana (FNBB) has entered into an agreement with Rand Merchant Bank Morgan Stanley (RMBMS) whereby at each award date FNBB will pay RMBMS an amount in cash (South African Rand) equal to the market value of the shares awarded, and in consideration therefor, RMBMS shall assume FNBB's liability in terms of the scheme to the employees. The purpose of this scheme is to lock in the exchange rate at vesting date, thus hedging against future volatility of the Botswana Pula against the South African Rand.

| | 30 June 2020 |
|---|---|
| | P'000 |
| Share option detail – 2020 | |
| Number of options in force at the beginning of the year | 885 540 |
| Granted at prices ranging between (P) | – |
| Weighted average (Thebe) | – |
| Number of options granted/transferred in during the year | 283 000 |
| Granted at a price of (P) | |
| Weighted average (P) | |
| Number of options transferred within the Group during the year | (9 000) |
| Granted at a price of P3.00 | |
| Weighted average (P) | |
| Number of options exercised / released during the year | (338 000) |
| Market value range at date of exercise / release (P) | 56,76 – 65,20 |
| Weighted average share price for the year (P) | 64,80 |
| Number of options cancelled / lapsed during the year | (15 000) |
| Granted at prices ranging between (P) | |
| Weighted average (P) | |
| Number of options in force at the end of the year | 807 000 |
| Granted at a price of | |
| Weighted average (P) | |
| Weighted average remaining contractual life for the share options outstanding at the end of the period (years) | |
| Financial year 2019/2020 | 0,30 |
| Financial year 2020/2021 | 1,30 |
| Financial year 2021/2022 | 2,29 |

The FNB Botswana Conditional share plan did not meet the vesting conditions, hence the scheme has now been closed.

## 41. Employee share participation schemes *continued*

| | 30 June 2019 |
|---|---|
| | P'000 |
| Share option detail – 2019 | |
| Number of options in force at the beginning of the year | 1 008 540 |
| Granted at prices ranging between (P) | |
| Weighted average (Thebe) | |
| Number of options granted/transferred in during the year | 270 000 |
| Granted at a price of (P) | |
| Weighted average (P) | |
| Number of options transferred within the Group during the year | (45 000) |
| Granted at a price of P3.00 | |
| Weighted average (P) | |
| Number of options exercised / released during the year | (322 000) |
| Market value range at date of exercise / release (P) | 66,62-66,62 |
| Weighted average share price for the year (P) | 66,62 |
| Number of options cancelled / lapsed during the year | (26 000) |
| Granted at prices ranging between (P) | |
| Weighted average (P) | |
| Number of options in force at the end of the year | 885 540 |
| Granted at a price of | |
| Weighted average (P) | |
| Weighted average remaining contractual life for the share options outstanding at the end of the period (years) | |
| Financial year 2018/2019 | 0,32 |
| Financial year 2019/2020 | 1,30 |
| Financial year 2020/2021 | 2,30 |
| Options outstanding (by expiry date) | |
| Financial year 2016/2017 | |
| Financial year 2017/2018 | |
| Financial year 2018/2019 | |
| Financial year 2019/2020 | |
| Number of participants | 73 |

## 41. Employee share participation schemes *continued*

| | 30 June 2020 | 30 June 2019 |
|---|---|---|
| | P'000 | P'000 |
| **Group and Company** | | |
| The income statement charge for all cash settled share based payments is as follows: | | |
| Conditional share plan | 168 | 7 799 |
| Conditional share plan (assumption of liability) | 12 197 | 7 973 |
| Total cash settled share option scheme charge/(credit) to income statement | 12 365 | 15 772 |
| Credit/Charge to income statement | 12 365 | 15 772 |

At year-end, the liability for cash-settled share schemes amounted to P- (2019: P 14 894 000) and has been included in creditors and accruals.

## 42. New Standards and Interpretations

### 42.1 Standards and interpretations effective and adopted in the current year

In the current year, the Group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

The amendment deals with the determination of past service cost and gains or losses on settlement, when a plan is amended, curtailed or settled ("the event"). Specifically, when determining the past service cost or gain or loss on settlement, the net defined benefit liability (asset) shall be remeasured using the current fair value of plan assets and current actuarial assumptions reflecting the benefits offered under the plan and plan assets both before and after the event. The effect of the asset ceiling shall not be considered in this exercise. The effect of the asset ceiling shall be determined after the event.

The amendment also specifies that when determining current service costs and net interest on the defined benefit liability (asset) in a period in which an amendment, curtailment or settlement occurs, to apply inputs at the beginning of the reporting period for the current service cost and interest up to the date of the event, and to apply inputs as at the date of the event to determine current service costs and interest for the remainder of the period.

The effective date of the amendment is for years beginning on or after 01 January 2019.

The adoption of this amendment has had no impact on the Group consolidated and separate financial statements.

#### Long-term Interests in Joint Ventures and Associates – Amendments to IAS 28

The amendment now requires that an entity also applies IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

The adoption of this amendment has had no impact on the Group consolidated and separate financial statements.

#### Amendments to IFRS 3 Business Combinations: Annual Improvements to IFRS 2015 – 2017 cycle

The amendment clarifies that when a party to a joint arrangement obtains control of a business that is a joint operation, and had rights to the assets and obligations for the liabilities relating to that joint operation immediately before the acquisition date, the transaction is a business combination achieved in stages. The acquirer shall therefore apply the requirements for a business combination achieved in stages.

The adoption of this amendment has had no impact on the Group consolidated and separate financial statements

## 42. New Standards and Interpretations *continued*

### Amendments to IFRS 11 Joint Arrangements: Annual Improvements to IFRS 2015 – 2017 cycle.

The amendment clarifies that if a party participates in, but does not have joint control of, a joint operation and subsequently obtains joint control of the joint operation (which constitutes a business as defined in IFRS 3) that, in such cases, previously held interests in the joint operation are not remeasured.

The adoption of this amendment has had no impact on the Group consolidated and separate financial statements.

### Amendments to IAS 12 Income Taxes: Annual Improvements to IFRS 2015 – 2017 cycle

The amendment specifies that the income tax consequences on dividends are recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the events or transactions which generated the distributable reserves.

The adoption of this amendment has had no impact on the Group consolidated and separate financial statements.

### Amendments to IAS 23 Borrowing Costs: Annual Improvements to IFRS 2015 – 2017 cycle

The amendment specifies that when determining the weighted average borrowing rate for purposes of capitalising borrowing costs, the calculation excludes borrowings which have been made specifically for the purposes of obtaining a qualifying asset, but only until substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

The adoption of this amendment has had no impact on the Group consolidated and separate financial statements

### IFRIC 23 Uncertainty over Income Tax Treatments

The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. Specifically, if it is probable that the tax authorities will accept the uncertain tax treatment, then all tax related items are measured according to the planned tax treatment. If it is not probable that the tax authorities will accept the uncertain tax treatment, then the tax related items are measured on the basis of probabilities to reflect the uncertainty. Changes in facts and circumstances are required to be treated as changes in estimates and applied prospectively.

The amendment has not had a material impact on the Group's consolidated and separate financial statements.

### IFRS 16 Leases

IFRS 16 Leases is a new standard which replaces IAS 17 Leases, and introduces a single lessee accounting model. The main changes and impacts arising from the adoption of IFRS 16 by Group are as follows:

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

The ROUA recognised has been included as Property and equipment (PPE) and the lease liability has been included in creditors and accruals.

The adoption of IFRS 16 had no impact on the amount of deferred tax recognised and retained earnings as at 1 July 2019.

## 42. New Standards and Interpretations *continued*

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

## 42. New Standards and Interpretations *continued*

The table below reconciles the operating lease commitments recognised under IAS 17 to the lease liabilities recognised in the statement of financial position as at 1 July 2019:

| | Note | 30 June 2020 |
|---|---|---|
| | | P'000 |
| Operating lease commitments disclosed as at 30 June 2019 under IAS 17 | 1 | 51 457 |
| Less: short term leases | 2 | - |
| Less: low-value leases | 3 | - |
| Less: variable rate leases | 4 | - |
| Add: Adjusted for treatment of extension and termination options | 5 | 136 009 |
| Less: Opening IAS 17 straight-lining balance | | (3 130) |
| Total qualifying operating leases subject to IFRS 16 | | 184 336 |
| Less: Discounted using the Bank's incremental borrowing rate | 6 | (24 680) |
| Additional lease liability recognised as at 1 July 2019, at a weighted average borrowing rate of 4.92% (included in other liabilities) | | 159 656 |

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

| | As previously reported at 30 June 2019 | Restatement adjustment for IFRS 16 | Restated 01July 2019 |
|---|---|---|---|
| | P'000 | P'000 | P'000 |
| Assets | | | |
| Property and equipment | 481 307 | 159 656 | 640 963 |
| Other assets – (Prepayments) | 317 627 | – | 317 627 |
| All other assets | 25 472 688 | – | 25 472 688 |
| Total Assets | 26 271 622 | 159 656 | 26 431 278 |
| Liabilities | | | |
| All other liabilities | 22 073 119 | – | 22 073 119 |
| Creditors, accruals and provisions (Straight-lining liability) | 863 734 | 159 656 | 1 023 390 |
| Total liabilities | 22 936 853 | 159 656 | 23 096 509 |
| Equity | | | |
| Ordinary shares | 51 088 | – | 51 088 |
| Dividend reserve | 254 370 | – | 254 370 |
| Reserves | 3 029 311 | – | 3 029 311 |
| Capital and reserves attributable to equity-holders of the Group | 3 334 769 | – | 3 334 769 |
| Total equity and liabilities | 26 271 622 | 159 656 | 26 431 278 |

## 42. New Standards and Interpretations *continued*

### 42.2 Standards and interpretations not yet effective or relevant

The Group has chosen not to early the following standards and interpretations which have been published and are mandatory for the Group's accounting periods beginning on or after 01 July 2020 or later periods:

#### Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

If a parent loses control of a subsidiary which does not contain a business, as a result of a transaction with an associate or joint venture, then the gain or loss on the loss of control is recognised in the parent's profit or loss only to the extent of the unrelated investors' interest in the associate or joint venture. The remaining gain or loss is eliminated against the carrying amount of the investment in the associate or joint venture. The same treatment is followed for the measurement to fair value of any remaining investment which is itself an associate or joint venture. If the remaining investment is accounted for in terms of IFRS 9, then the measurement to fair value of that interest is recognised in full in the parent's profit or loss.

The effective date of the amendment is yet to be determined by the IASB.

It is unlikely that the amendment will have a material impact on the Group's consolidated and separate financial statements.

#### IFRS 17 Insurance Contracts

The IFRS establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts issued.

The effective date of the standard is for years beginning on or after 01 January 2021.

The Group expects to adopt the standard for the first time in the 2022 consolidated and separate financial statements.

It is unlikely that the standard will have a material impact on the Group's consolidated and separate financial statements.

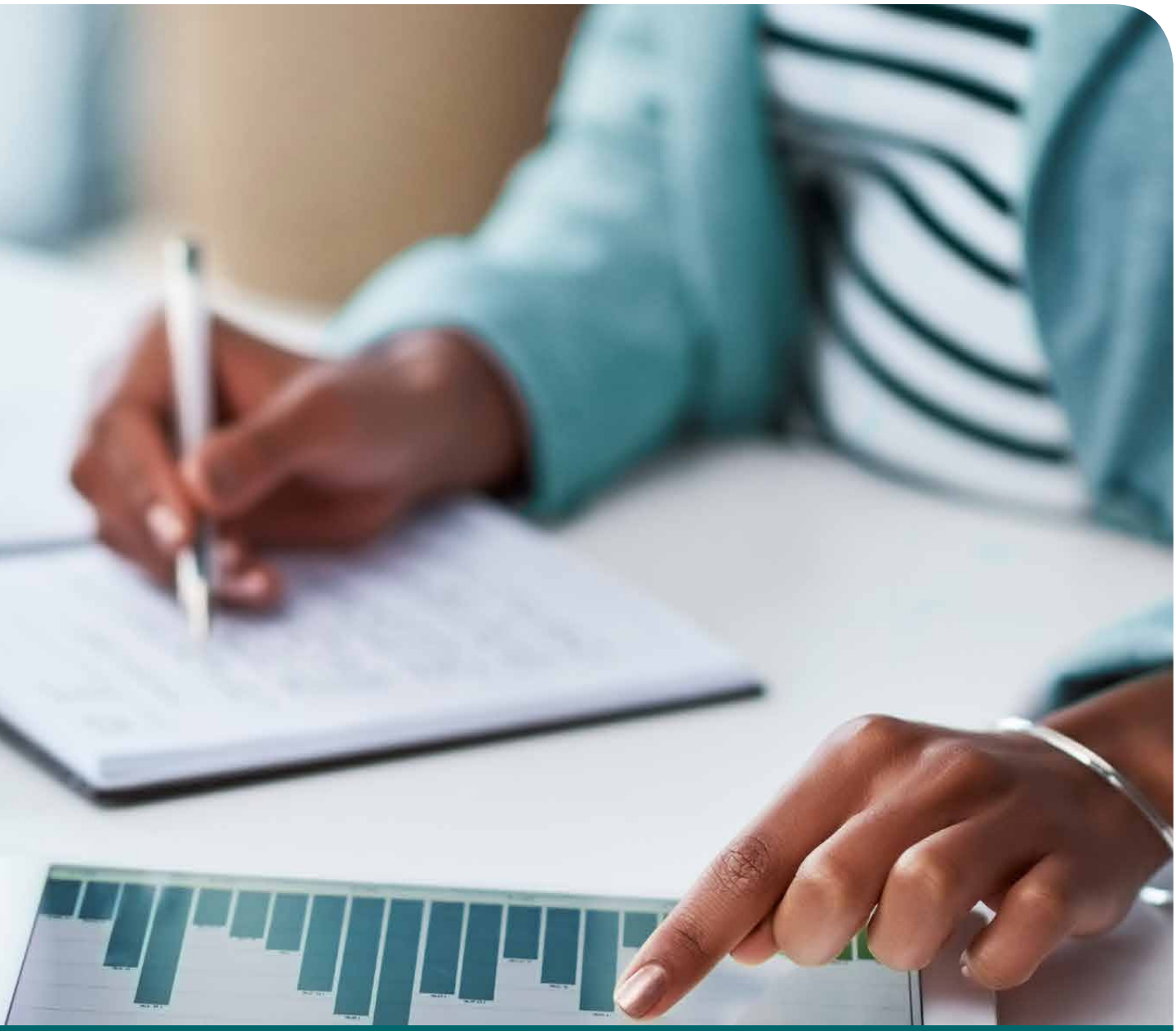
## 43. Events after the reporting period

It is the view of the directors that events such as an announcement or enactment of new measures to contain the COVID-19 spread are non-adjusting events in nature. In the current dynamic economic context; the directors have considered various aspects of the business when assessing events after the reporting date as per the requirement of IAS 10 – Events after the reporting date:

They have considered the nature of the entity's operations and the implications of COVID-19 on the domestic market and on the various markets that impact the Group's supply chain. Key estimates and judgements used in the preparation of the financial statements have been assessed and are still considered appropriate.

The directors are not aware of any matter or circumstances arising since the end of the reporting date that requires disclosure or adjustment to the financial statements.

FNB



# Other Information

# **Value Added** Statement

## UNAUDITED

Value added is the wealth the Group has been able to create by providing clients with a quality value added service.

| | Group | | Company | |
|---|---|---|---|---|
| | **30 June 2020** | 30 June 2019 | **30 June 2020** | 30 June 2019 |
| | **P'000** | P'000 | **P'000** | P'000 |
| Income earned by providing banking services | **2 916 596** | 2 759 760 | **2 859 696** | 2 757 028 |
| Cost of services | **(1 835 732)** | (1 747 799) | **(1 821 447)** | (1 744 287) |
| Value added banking services | **1 080 864** | 1 011 961 | **1 038 249** | 1 012 741 |
| Non-operating and other income and expenditure | **529 394** | 601 005 | **509 209** | 596 662 |
| Value added | **1 610 258** | 1 612 966 | **1 547 458** | 1 609 403 |
| Value allocated | | | | |
| To employees | | | | |
| Salaries, wages and other benefits | **618 909** | 581 063 | **616 164** | 579 086 |
| To providers of capital | | | | |
| Dividends to shareholders | **381 555** | 406 992 | **381 555** | 406 992 |
| To Government | | | | |
| Taxation | **231 439** | 229 795 | **215 777** | 229 388 |
| To expansion and growth | | | | |
| Retained earnings | **314 251** | 325 544 | **271 636** | 326 306 |
| Depreciation – Owned | **64 104** | 69 572 | **62 326** | 67 631 |
| | **1 610 258** | 1 612 966 | **1 547 458** | 1 609 403 |
| Employee statistics | | | | |
| Employees | **38,4** | 36,0 | **39,8** | 35,0 |
| Providers of capital | **25,3** | 25,2 | **26,3** | 25,3 |
| Government | **16,6** | 14,3 | **16,3** | 14,2 |
| Expansion growth | **19,7** | 24,5 | **17,6** | 25,5 |
| | **100,0** | 100,0 | **100,0** | 100,0 |

FNB

# Ten-Year Financial Summary

**UNAUDITED**

## Income statement

| | 30 June 2020 | 30 June 2019 | 30 June 2018 | 30 June 2017 |
|---|---|---|---|---|
| | **P'000** | P'000 | P'000 | P'000 |
| Interest and similar income | **1 649 128** | 1 617 445 | 1 507 520 | 1 429 248 |
| Interest expense and similar charges | **(310 893)** | (359 916) | (335 721) | (265 128) |
| Net interest income before impairment of advances | **1 338 235** | 1 257 529 | 1 171 799 | 1 164 120 |
| Impairments losses on loans and advances | **(421 442)** | (264 912) | (274 168) | (361 219) |
| Net interest income after impairment of advances | **916 793** | 992 617 | 897 631 | 802 901 |
| Non-interest income | **1 267 468** | 1 142 315 | 1 069 648 | 978 155 |
| *Income from operations* | **2 184 261** | 2 134 932 | 1 967 279 | 1 781 056 |
| Operating expenses | **(1 257 016)** | (1 172 601) | (1 129 070) | (1 100 733) |
| Income before taxation | **927 245** | 962 331 | 838 209 | 680 323 |
| Taxation | **(231 439)** | (229 795) | (190 154) | (179 804) |
| *Income after taxation* | **695 806** | 732 536 | 648 055 | 500 519 |
| Dividends paid and proposed | **(203 496)** | (406 992) | (357 118) | (282 007) |
| Retained income for the year | **492 310** | 325 544 | 290 937 | 218 512 |

| 30 June 2016 | 30 June 2015 | 30 June 2014 | 30 June 2013 | 30 June 2012 | 30 June 2011 |
|---|---|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| 1 308 394 | 1 288 434 | 1 244 817 | 1 210 031 | 1 111 862 | 1 094 078 |
| (363 565) | (415 321) | (290 200) | (312 629) | (342 799) | (432 327) |
| 944 829 | 873 113 | 954 617 | 897 402 | 769 063 | 661 751 |
| (228 570) | (201 068) | (122 510) | (120 673) | (132 714) | (59 211) |
| 716 259 | 672 045 | 832 107 | 776 729 | 636 349 | 602 540 |
| 926 949 | 862 386 | 794 557 | 743 042 | 629 108 | 505 793 |
| 1 643 208 | 1 534 431 | 1 626 664 | 1 519 771 | 1 265 457 | 1 108 333 |
| (984 196) | (777 928) | (704 425) | (614 373) | (535 496) | (470 596) |
| 659 012 | 756 503 | 922 239 | 905 398 | 729 961 | 637 737 |
| (155 121) | (165 020) | (202 578) | (204 446) | (161 168) | (63 897) |
| 503 891 | 591 483 | 719 661 | 700 952 | 568 793 | 573 840 |
| (282 007) | (410 192) | (384 555) | (333 281) | (179 458) | (589 651) |
| 221 884 | 181 291 | 335 106 | 367 671 | 389 335 | (15 812) |

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# Ten-Year Financial Summary *continued*

**UNAUDITED**

## Statement of financial position

| | 30 June 2020 | 30 June 2019 | 30 June 2018 | 30 June 2017 |
|---|---|---|---|---|
| | **P'000** | P'000 | P'000 | P'000 |
| **Assets** | | | | |
| Cash and short-term funds | **4 697 599** | 4 411 739 | 4 356 895 | 4 396 885 |
| Derivative financial instruments | **76 872** | 49 606 | 55 181 | 64 028 |
| Advances to banks | **–** | 789 903 | 650 912 | – |
| Advances to customers | **14 686 767** | 15 939 047 | 15 478 937 | 14 997 373 |
| Investment securities | **9 509 211** | 4 135 220 | 3 360 091 | 3 313 694 |
| Current taxation | **86 324** | 106 768 | 65 267 | 8 641 |
| Deferred taxation | **3 706** | 7 054 | – | – |
| Due from related companies | **11 684** | 6 388 | 9 465 | 9 448 |
| Other assets* | **479 314** | 317 627 | 357 133 | 288 831 |
| Non-current assets held for sale | **–** | – | – | – |
| Investment in associated company | **–** | – | – | – |
| Property and equipment | **601 044** | 481 307 | 507 584 | 505 496 |
| Goodwill | **26 963** | 26 963 | 26 963 | 26 963 |
| Total assets | **30 179 484** | 26 271 622 | 24 868 428 | 23 611 359 |
| **Liabilities** | | | | |
| Deposits from banks | **545 002** | 581 243 | 730 109 | 1 397 685 |
| Deposits from customers | **23 171 897** | 19 591 409 | 18 834 336 | 17 567 471 |
| Accrued interest payable | **28 079** | 63 566 | 51 893 | 46 061 |
| Derivative financial instruments | **36 708** | 14 844 | 20 315 | 28 065 |
| Current taxation | **–** | – | 7 699 | 1 208 |
| Due to related companies | **21 322** | 32 898 | 73 861 | 36 175 |
| Creditors and accruals | **723 586** | 863 734 | 459 949 | 443 530 |
| Employee liabilities | **81 504** | 85 894 | 82 800 | 71 606 |
| Borrowings | **1 765 858** | 1 502 642 | 1 288 927 | 1 059 127 |
| Deferred taxation | **207 382** | 200 623 | 200 779 | 207 566 |
| Total liabilities | **26 581 338** | 22 936 853 | 21 750 668 | 20 858 494 |
| **Equity** | | | | |
| Stated capital | **51 088** | 51 088 | 51 088 | 51 088 |
| Reserves | **3 343 562** | 3 029 311 | 2 837 739 | 2 547 955 |
| Dividend reserve | **203 496** | 254 370 | 228 933 | 153 822 |
| Total ordinary equity holder's funds | **3 598 146** | 3 334 769 | 3 117 760 | 2 752 865 |
| Total equity and liabilities | **30 179 484** | 26 271 622 | 24 868 428 | 23 611 359 |

* *In the prior year, these amounts were disclosed as accounts receivable. The description "other assets" is more appropriate based on the nature of the assets included in this line items and is in line with industry practice.*

| 30 June 2016 | 30 June 2015 | 30 June 2014 | 30 June 2013 | 30 June 2012 | 30 June 2011 |
|---|---|---|---|---|---|
| P'000 | P'000 | P'000 | P'000 | P'000 | P'000 |
| 3 651 793 | 4 371 324 | 2 721 384 | 2 288 285 | 2 557 842 | 1 706 573 |
| 76 646 | 26 716 | 24 922 | 10 138 | 7 861 | 2 996 |
| 324 960 | 640 000 | 461 921 | 51 975 | – | 361 178 |
| 14 386 819 | 12 846 481 | 12 131 415 | 10 369 937 | 8 420 553 | 7 170 842 |
| 2 447 230 | 2 256 337 | 1 536 828 | 2 290 494 | 2 699 551 | 3 496 862 |
| 99 966 | 46 832 | 12 895 | 2 117 | – | 4 622 |
| – | – | – | – | – | – |
| 6 324 | 6 319 | 6 272 | 6 138 | 7 839 | 13 133 |
| 376 245 | 211 080 | 196 112 | 251 474 | 170 800 | 170 502 |
| – | – | – | 7 101 | 5 511 | – |
| – | – | – | – | – | 3 058 |
| 495 692 | 540 393 | 520 694 | 502 086 | 317 559 | 202 200 |
| 26 963 | 26 963 | 26 963 | 26 963 | 26 963 | 26 963 |
| 21 892 638 | 20 972 445 | 17 639 406 | 15 806 708 | 14 214 479 | 13 158 929 |
| 300 166 | 199 334 | 12 157 | 53 903 | 166 900 | 215 186 |
| 17 063 756 | 17 233 721 | 14 328 142 | 12 932 767 | 11 448 851 | 10 597 398 |
| 30 553 | 88 895 | 39 027 | 34 767 | 45 179 | 36 696 |
| 42 631 | 13 796 | 18 079 | 16 964 | 32 912 | 18 794 |
| 898 | 650 | 3 870 | – | 461 | – |
| 124 726 | 11 673 | 30 499 | 19 597 | 57 883 | 140 031 |
| 429 680 | 360 109 | 274 596 | 225 215 | 275 972 | 616 691 |
| 68 127 | 61 949 | 60 588 | 62 076 | 52 252 | 42 646 |
| 1 094 239 | 395 376 | 489 495 | 422 791 | 519 047 | 244 971 |
| 203 509 | 160 956 | 118 973 | 110 360 | 82 296 | 98 350 |
| 19 358 285 | 18 526 459 | 15 375 426 | 13 878 440 | 12 681 753 | 12 010 763 |
| 51 088 | 51 088 | 51 088 | 51 088 | 51 088 | 51 088 |
| 2 329 443 | 2 112 891 | 1 930 885 | 1 620 810 | 1 276 542 | 1 045 804 |
| 153 822 | 282 007 | 282 007 | 256 370 | 205 096 | 51 274 |
| 2 534 353 | 2 445 986 | 2 263 980 | 1 928 268 | 1 532 726 | 1 148 166 |
| 21 892 638 | 20 972 445 | 17 639 406 | 15 806 708 | 14 214 479 | 13 158 929 |

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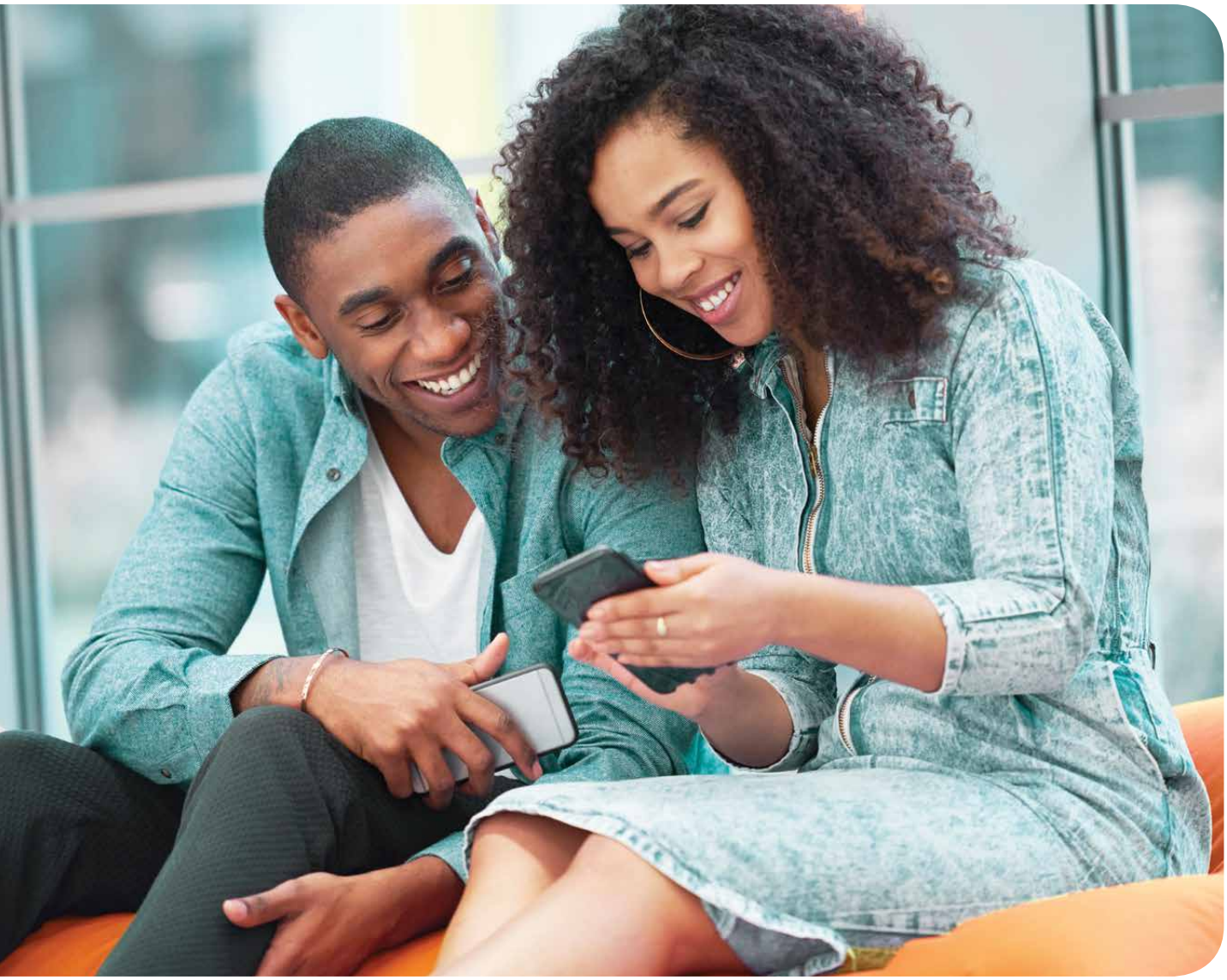

# Shareholder Information

## Shareholder's diary

| | |
|---|---|
| Dividend and results announcement | 9 September 2020 |
| Publication of Annual Financial Statements | 9 September 2020 |
| Payment of final dividend | 7 October 2020 |
| Annual General Meeting | 4 November 2020 |
| Publication of half-year interim report and dividend announcement | February 2021 |
| Payment of interim dividend | March 2020 |
| Next financial year end | 30 June 2021 |

## Shareholder analysis

FNBB is a public company listed on the Botswana Stock Exchange with a total of 4 946 shareholders and 2 543 700 000 issued ordinary shares. Of the Bank's issued shares, 70% (1 780 590 000) shares are held by First National Bank Holdings (Botswana) (Proprietary) Limited being a non-public shareholder. The balance of 30% (763 110 000) shares is held by public shareholders and currently floats on the Botswana Stock Exchange. Of the public shareholders, there are no individuals holding 10% or more of the stated capital. First National Holdings (Botswana) (Proprietary) Limited is wholly owned by FirstRand EMA Holdings Limited duly incorporated in South Africa.

## Shareholder spread

| | Shareholders | | Shares held | |
|---|---|---|---|---|
| Share Range | Number of holders | % of holders | Shares held | % of issued shares |
| 1 – 5 000 | **3 914** | 79.13% | **3 469 573** | 0.1% |
| 5 001 – 10 000 | **356** | 7.20% | **2 974 751** | 0.1% |
| 10 001 – 50 000 | **415** | 8.39% | **10 032 177** | 0.4% |
| 50 001 – 100 000 | **207** | 4.19% | **42 304 545** | 1.7% |
| 100 001 – 500 000 | **31** | 0.63% | **59 221 406** | 2.3% |
| > 500 000 | **23** | 0.47% | **2 425 697 548** | 95.4% |
| Total | **4 946** | 100.00% | **2 543 700 000** | 100.00% |

## Top 10 shareholders

| | | | |
|---|---|---|---|
| INVESTEC RE DPF | DEBSWANA PENSION FUND | **17 066 360** | 0.67% |
| DEBSWANA PENSION FUND | ALLAN GRAY RE DEBSWANA PENSION FUND | **24 464 054** | 0.96% |
| BOTSWANA INSURANCE FUND MANAGEMENT | STANBIC NOMINEES RE: BIFM | **17 341 826** | 0.68% |
| MOTOR VEHICLE ACCIDENT FUND | MOTOR VEHICLE ACCIDENT FUND | **40 993 910** | 1.62% |
| FNB BOTSWANA NOMS BW (PTY) LTD RE: BPOPF EQUITY PORTFOLIO C | FNB BOTSWANA NOMS BW (PTY) LTD RE: BPOPF EQUITY PORTFOLIO C - ALLAN GRAY | **44 169 269** | 1.74% |
| FNB BOTSWANA NOMINEES (PTY) LTD RE: BIFM BPOPF-EQU | BIFM BPOPF-EQUITY | **57 789 782** | 2.27% |
| FNB BOTSWANA BW NOMS (PTY) LTD RE: IAM BPOPFP 10001031 | IAM BPOPF EQUITY | **64 002 611** | 2.52% |
| FNB BOTSWANA NOMINEES (PTY) LTD RE: AG BPOPF EQUITY PORT B | FNB BOTSWANA NOMINEES (PTY) LTD RE: ALLANGRAY BPOPF EQUITY PORTFOLIO B | **109 620 602** | 4.31% |
| FNB BOTSWANA NOMINEES (PTY) LTD RE: AA BPOPF EQUITY | AA BPOPF EQUITY | **148 776 183** | 5.84% |
| FNBB HOLDINGS BOTSWANA LIMITED | FNBB HOLDINGS BOTSWANA LIMITED | **1 780 590 000** | 70.00% |
| OTHERS | | **238 885 403** | 9.39% |
| | | **2 543 700 000** | **100.00%** |

## Director interests

The direct and indirect shareholding held by directors is as follows:

| Shareholder | Number of shares |
|---|---|
| Sifelani Thapelo | 9 214 |
| Doreen Ncube | 7 930 |
| Bonyongo Family Trust | 6 389 |
| Michael William Ward | 100 |

# **Notice of** Annual General Meeting

Notice is hereby given that the Annual General Meeting (AGM) of shareholders of the Company will be held at Avani Hotel, Gaborone, at 13h00 on Wednesday, 4 November 2020, for the purpose of transacting and considering the following business and if deemed fit, passing, with or without modification, the following resolutions:

## Agenda

### Ordinary business

1. To read the notice of AGM (notice) and ascertain the presence of a quorum required in terms of the Constitution.

2. Ordinary resolution 1:
   RESOLVED THAT, the Audited Annual Financial Statements for the year ended 30 June 2020 together with directors' and auditors' reports thereon be adopted.

3. Ordinary resolution 2:
   RESOLVED THAT dividends of 7 Thebe per ordinary share declared on 6 February 2020 and 8 Thebe per ordinary share declared on 20 August 2020 for the year ended 30 June 2020 be approved as recommended by the directors and the distribution be ratified thereof.

4. Ordinary resolutions 3 and 4:
   RESOLVED THAT the following directors of the Company who retire by rotation in terms of the Company's Constitution and being eligible and available, offer themselves for re-election be re-elected by way of separate resolutions:

   ***Mr M Davias*** *(Non-Executive Director)*

   ***Mr E Letebele*** *(Independent Non-Executive Director)*

   It is recorded that ***Mr N Mokgethi*** retires as an Independent Non-Executive Director of the Company in terms of the Constitution and does not offer himself for re-election and will retire as a director of the Company at the AGM.

   Biographical information of the directors to be re-elected is set out on page 67 of the Integrated Report. The Board recommends the re-election of these directors.

5. Ordinary resolution 5:

| RESOLVED THAT the annual fees of the Non-Executive Directors remain unchanged from the previous year and be approved for 2021 as below: | **Proposed 2021 fee (BWP)** |
|---|---|
| First National Bank of Botswana Limited Board | |
| Member | **112 840** |
| Chairperson | **225 680** |
| Audit Committee | |
| Member | **64 480** |
| Chairperson | **128 960** |
| Risk, Capital Management and Compliance Committee | |
| Member | **64 480** |
| Chairperson | **128 960** |
| Remuneration Committee | |
| Member | **18 138** |
| Chairperson | **27 203** |
| Directors' Affairs and Governance Committee | |
| Member | **36 276** |
| Chairperson | **54 414** |

| RESOLVED THAT the annual fees of the Non-Executive Directors remain unchanged from the previous year and be approved for 2021 as below: | Proposed 2021 fee (BWP) |
|---|---|
| **Board Credit Risk Committee** | |
| Member | 225 680 |
| Chairperson | 257 920 |
| **Policies and Frameworks Committee** | |
| Member | 51 584 |
| Chairperson | 51 584 |
| **Strategy** | 28 210 |
| **Training** | 48 360 |

*Additional information in respect of Ordinary Resolution 5*

i. Executive Directors and Non-Executive Directors employed by the FirstRand Group do not receive fees as members of the Board.

ii. Fees are based on an hourly rate (currently P4030 capped at seven (7) hours for Board meetings) and are reviewed annually in line with industry benchmarks.

iii. The Chairpersons of the Board, the Audit Committee and Risk, Capital Management and Compliance Committee are paid at a 200% premium of the hourly rate. The Chairpersons of the Directors' Affairs and Governance Committee and the Remuneration Committee are paid at a premium of 150% of the Board hourly rate. The Chairperson of the Board Credit Risk Committee does not earn a premium.

iv. The members of the Audit Committee and Risk, Capital Management and Compliance Committee are paid 80% of the Board hourly rate.

v. The members of the Directors' Affairs and Governance Committee , the Remuneration Committee and the Board Credit Risk Committee are paid 70% of the Board hourly rate.

vi. Additional Board or Committee meetings called are paid at the hourly rates agreed for the Board or Committee for preparation and attendance.

vii. For work of an ad hoc nature, or attendance on an advisory basis where no fee is specifically approved, members are paid at the hourly rate for the Board or Committee preparation and attendance.

viii. A contingent retainer of 50% of Board and Committee member fees are paid if a director is unable to attend a Board or Committee meeting through valid cause.

6. Ordinary resolution 6:
RESOLVED THAT, as recommended by the Audit Committee of the Company, Deloitte & Touche be re-appointed as auditors of the Company and authorise the directors to determine their remuneration thereof.

*Additional information in respect of Ordinary Resolution 6*
The remuneration of the Company's auditors is determined by the Audit Committee as per the Audit Committee Charter.

7. To transact any other business which maybe transacted at an AGM.

## Voting and proxies

All holders of ordinary shares entitled to vote will be entitled to attend and vote at the AGM.

A holder of shares who is present in person, or by authorised representative or by proxy shall have one vote on a show of hands and have one vote for every ordinary share held on a poll.

Each shareholder entitled to attend and vote at the AGM is entitled to appoint one or more proxies (none of whom need be a shareholder of the Company) to attend, speak and subject to the Constitution of the Company vote in his/her/its stead.

The Integrated Report and form of proxy which sets out the relevant instructions for its completion can be found on the FNB Botswana website *www.fnbbotswana.co.bw.*

To be effective, a duly completed form of proxy must be received at the Transfer Secretaries, PwC, Plot 50371, Fairgrounds Office Park, and PO Box 294, Gaborone by not later than 12h00 on Monday, 2 November 2020.

By order of the Board

**Gaone Setlhake**
*Company Secretary*

# **Form of** Proxy

## For completion by holders of ordinary shares

(Registration number BW00000790476)
(Incorporated in the Republic of Botswana)
(FNBB or "the Company")

***PLEASE READ THE NOTES OVERLEAF BEFORE COMPLETING THIS FORM.***

**EXPRESSIONS USED IN THIS FORM SHALL, UNLESS THE CONTEXT REQUIRES OTHERWISE, BEAR THE SAME MEANINGS AS IN THE NOTICE TO SHAREHOLDERS OF FNBB ISSUED ON 29 SEPTEMBER 2020.**

For use at the Annual General Meeting (AGM) of shareholders of the Company to be held at Avani Hotel, Gaborone at 13h00 on Wednesday, 4 November 2020.

I/We _____

(name/s in block letters)

of _____

(Address)

appoint (see note 2):

1. _____ or failing him/her,

2. _____ or failing him/her,

3. ☐ the Chairperson of the AGM,

as my/our proxy to act for me/us at the AGM which will be held, in addition to considering the ordinary business, for the purpose of considering and if deemed fit, passing with or without modification, the resolutions to be proposed under the special business vote thereat and at each adjournment thereof, and to vote for or against the resolutions and/or abstain from voting in respect of the ordinary shares registered in my/our name in accordance with the following instructions (see note 2):

| | Number of ordinary shares | | |
|---|---|---|---|
| | For | Against | Abstain |
| 1. Ordinary Resolution 1 | | | |
| 2. Ordinary Resolution 2 | | | |
| 3. Ordinary Resolution 3 | | | |
| 4. Ordinary Resolution 4 | | | |
| 5. Ordinary Resolution 5 | | | |
| 6. Ordinary Resolution 6 | | | |
| 7. Ordinary Resolution 7 | | | |

Signed at _____ on _____ 2020

Signature _____.

Assisted by (where applicable)

Each shareholder is entitled to appoint one or more proxies (who need not be member/s of the Company) to attend, speak and vote in place of that shareholder at the AGM.

**Please read the notes on the reverse side hereof.**

## Notes

1. A shareholder must insert the names of two alternative proxies of the shareholder's choice in the space provided, with or without deleting "Chairperson of the AGM". The person whose name appears first on the form of proxy, and whose name has not been deleted will be entitled to act as proxy to the exclusion of those whose names follow.
2. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the shareholder in the appropriate space provided. Failure to comply herewith will be deemed to authorise the proxy to vote at the AGM as he/she deems fit in respect of the shareholder's votes exercisable thereat, but where the proxy is the Chairperson, failure to comply will be deemed to authorise the proxy to vote in favour of the resolution. A shareholder or his/her proxy is obliged to use all the votes exercisable by the shareholder or by his/her proxy.
3. Forms of proxy must be lodged at or posted to the Transfer Secretaries of the Company , PWC, Plot 50371, Fairgrounds Office Park, PO Box 294, Gaborone to be received before 12h00 on 2 November 2020.
4. The completion and lodging of this form will not preclude the relevant shareholder from attending the AGM and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such shareholder wish to do so.
5. The Chairperson of the AGM may reject or accept any form of proxy not completed and/or received other than in accordance with these notes provided that he is satisfied as to the manner in which the shareholder concerned wishes to vote.
6. An instrument of proxy shall be valid for the AGM as well as for any adjournment thereof, unless the contrary is stated thereon.
7. A vote given in accordance with the terms of a proxy shall be valid, notwithstanding the previous death or insanity of the shareholder, or revocation of the proxy, or of the authority under which the proxy was executed, or the transfer of the ordinary shares in respect of which the proxy is given, provided that no intimation in writing of such death, insanity or revocation shall have been received by the Company not less than one hour before the commencement of the AGM or adjourned AGM at which the proxy is to be used.
8. The authority of a person signing the form of proxy under a power of attorney or on behalf of a company must be attached to the form of proxy, unless the authority or full power of attorney has already been registered by the Company or the Transfer Secretaries.
9. Where ordinary shares are held jointly, all joint shareholders must sign.
10. A minor must be assisted by his/her guardian, unless relevant documents establishing his/her legal capacity are produced or have been registered by the Company.

**First National Bank** of Botswana Limited

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Registered Bank • Registration Number BW00000790476 • S.W.I.F.T. • FIRNBWGX

Share Transfer Secretaries • PricewaterhouseCoopers • Plot 50371 • Fairgrounds Office Park • Gaborone

**Marketing and Communications**

Telephone: +267 370 6000 • Facsimile: +267 390 6679 • Email: FNBBCommunications@fnbbotswana.co.bw