

OFFICIAL OPENING OF FIRST NATIONAL BANK OF BOTSWANA LIMITED - MOCHUDI BRANCH

Keynote Speech

by

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It is with great pleasure that I join you for the official opening of the Mochudi branch of First National Bank of Botswana (FNB). My team and I are particularly delighted because this is the first branch of the bank in the Kgatleng District. This is indeed a positive response to what the Bank of Botswana has been urging all banks to do, specifically to have a physical presence in all major villages of Botswana including Mochudi. I am assured that the branch is well equipped, to the same standard as is the case with other FNB branches, with modern service facilities, most notably platforms that harness the beneficial features of new information and communication technologies. Through the branch facility and electronic platforms for conducting banking business, FNB, and other banks, offer choice and added convenience to customers; this, again is a welcome development. The widening, deepening and modernisation of financial services, and the related facilities fulfil the nation's Financial Sector Development Strategy and contribute to both financial inclusion and inclusive economic growth.

Distinguished Guests, First National Bank of Botswana Limited is a subsidiary and member of the FirstRand Group, which is a South African financial services Group listed on the Johannesburg Stock Exchange, offering banking, asset management and insurance services. The FirstRand Group has a presence in 8 countries in Africa, namely, Botswana, Lesotho, Mozambique, Namibia, Nigeria, South Africa, Swaziland and Tanzania. As at June 30, 2017, the FirstRand Group had assets amounting to R1.15 trillion, with market capitalisation of R251.5 billion. The Group is, therefore, well-endowed to support the domestic and regional resource needs, with respect to a broad range of financial services. These include participation in mobilisation of large-scale finance and funding of businesses, industrial developments and infrastructure projects. It is also well placed to support sustained operation, expansion and further investment in the local subsidiary, to the benefit of the domestic economy.

In Botswana, the Group offers a variety of financial services through its three brands, namely, FNB, the retail bank, Wesbank, for financing of moveable assets, notably motor vehicles and finance leases for equipment; and RMB in supporting corporates to access investment banking products and services including working capital and trade finance, private equity and global market services. Since commencement of operations in Botswana in 1991, FNB has grown substantially,

initially through the acquisition of Bank of Credit and Commerce Botswana Limited in 1992, Financial Services Company of Botswana Limited in 1993 and Zimbank Botswana Limited in 1994.

More recently, in the past five years, FNB has grown organically to be the largest bank in the country. The bank's total assets increased from P13.9 billion in December 2011 to P23.6 billion in June 2017. In the same period, loans and advances rose from P8.3 billion to P15.6 billion, while deposits grew from P11.8 billion to P18.7 billion. The bank employs a total of 1 269 staff members, most of whom are Batswana; it has a network of 23 branches, 150 cash dispensing Automated Teller Machines, 51 Automated Teller Machines that have deposit taking capabilities, 25 Slimline Automated Teller Machines and 5 600 point of sales machines in retail outlets all over the country.

Overall, in the 26 years of existence and operations in the country, FNB has grown in both size and range of products and services offered. With particular reference to this Mochudi branch, located here at the Pilane Crossing Mall, the bank adds to the opportunities for enhancing access to financial services, notably saving channels, providing financial resources to its customers, ease of transacting, convenient payment and related advisory services. The branch potentially extends the support to economic activity in the local community and

neighbouring areas, and should serve the needs of local industry, businesses, agricultural pursuits and households, including the informal sector.

Distinguished Ladies and Gentlemen, FNB Botswana has embarked on a number of beneficial Corporate Social Responsibility (CSR) initiatives through the FNB Foundation and its Staff Volunteer Programme. The focus of these initiatives is on education; healthcare; skills development; vocational training; support for disadvantaged and handicapped people; arts and culture development; and sports and recreation. Many of the community projects that the Staff Volunteer Programme supports involve infrastructure upgrades, such as the renovation of nursery schools, classrooms and primary healthcare clinics.

I am reliably informed that, here in the Kgatleng District, the FNB Foundation has changed many lives through partnering with Community Development Organisations, such as the Motswedi Rehabilitation Centre, Bakgatla Bolokang Matshelo, Mochudi Resource Centre for the Blind, Stepping Stones, and Pudologong Rehabilitation Centre. Through the Foundation, more than 10 000 pairs of school shoes have been donated to deserving pupils.

Distinguished Ladies and Gentlemen, let me turn to some general, but topical financial sector development issues. I recently made reference to a worrisome trend of non-performing bank loans; a point that, for emphasis, I would like to reiterate here. Non-performing loans, or NPLs, as a proportion of total loans and advances have been on an upward trajectory since 2014; the industry's NPLs rose from 3.6 percent in December 2014 to 3.9 percent in 2015 and 4.9 percent in December 2016. As at July 31, 2017, the NPLs had increased further to 5.9 percent of total bank loans. The trend is a cause for concern. This is despite the fact that these levels of NPLs are relatively low, by international norms, especially in the context of prudent and sound accounting practices as well as the quality and level of capital in the banking system.

Nonetheless, I should emphasise that the concern is not with respect to the level or growth of credit in the economy. In fact, the current Private Sector Credit to GDP, of about 30 percent, is low by international standards, suggesting that there is greater scope for the banking sector to perform better in mobilising resources to support economic activity through credit provision. Broadly, growth in credit that is commensurate with rate of increase in economic activity and incomes should be sustainable. Indeed, affordable credit, when put to good use, is beneficial for economic activity, investment, wealth creation and, ultimately, increase in living standards. The challenge

arises when there is high leverage, or over-indebtedness, relative to incomes, and where there is weak financial management. A combination of these factors, as well as subdued economic growth, can undermine the ability to repay bank loans. If left unchecked, unsustainable personal indebtedness not only leads to financial ruin but threatens the safety and soundness of banks and, by extension, depositors' funds. It is, therefore, critically important to expand financial education and literacy.

Distinguished Guests, it is for this reason that the Bank of Botswana and the commercial banks continue to engage in public education on financial matters through various platforms. Furthermore, the Bank of Botswana will continue to emphasise the role of banks and other lenders in the country of instilling financial discipline, as well as promote 'truth-in-lending' through greater transparency of credit terms and the true cost of borrowing over the life of a loan facility. Furthermore, concerted efforts are required to educate the public, in particular, consumers of financial services with respect to borrowing and debt management. I, therefore, call upon other key stakeholders, including schools, NGOs, trade and credit unions, social clubs, consumer watch dogs and professional counsellors to intensify public education on financial matters.

Distinguished Ladies and Gentlemen, on a related matter, please allow me to implore you to be on guard and vigilant with respect to the mushrooming of illegal deposit taking activities in the form of pyramid schemes. I thought it would be appropriate, to use this forum to appeal to Batswana and to you all, Distinguished Guests, that you should neither participate nor peddle any of these “get rich quick” schemes. These can only lead to financial ruin, resulting from loss of hard-earned money and sources of livelihood. I urge you to be suspicious and stay away from anybody offering exceptional returns. The general guide is that, in any country, returns or rate of profit on any investment should be around the general level of interest rates, the growth rate of the economy or the average return of the companies listed on the stock exchange. Anything substantially higher is either too risky to be worthwhile or fraud. As they say, ‘if something sounds too good to be true, it probably is too good to be true’. Unfortunately, even the educated, professionals and people who should be financially literate and, I may add, some in the financial sector, are gullible and do fall prey to these illegal and unfair trading schemes. While it is difficult for the Bank of Botswana to recommend where to look for advice if confronted by a tricky financial investment situation, and you are unsure; you may wish to consider the general guide I have just highlighted.

Director of Ceremonies, Distinguished Guests, a formal, sound and well-regulated financial sector is the foundation of effective intermediation, productive use of financial resources and, in turn, reasonable returns for savers and investors. In this respect, successful and sustainable banks are essential for the development of well-functioning money and capital markets. This is particularly so in Botswana where the banking sector is a substantial component of the financial system. Moreover, banks also benefit as deeper and more efficient markets provide alternatives for sources and placement of funds as well as more effective liquidity management. This includes the interbank market, through which banks lend to one another, typically on a short-term basis. In turn, this improves the overall allocation of financial resources, including real returns to depositors and investors, and the channelling of funds to productive use in diverse areas of economic activity.

Director of Ceremonies, in this context, it is a matter of public policy concern that money and capital markets in Botswana are in a rudimentary state of development. As a result, there is a limited range of instruments and relatively low turnover and activity in the various markets, more so in relation to instruments for risk-sharing, distribution and mitigation. This tends to result in volatility of both prices and volumes, and limits the choice of instruments necessary for efficient financial and business management. For the banks, in particular, a diverse

source of funds that includes a large number of retail depositors and structured long-term funds represents stable funding. This facilitates maturity transformation and support for the range of financial resource requirements of businesses, including infrastructure and utilities projects, as well as households.

Regarding the short-term interbank market, it is important that banks, although competitors, operate in a collaborative spirit to address any structural impediments to this lack of development and low efficiency, with a view to improving the flow of liquidity and its management in the banking system. The central bank should only be required to provide or absorb liquidity in the market after mutually beneficial trading opportunities among banks are exhausted. The Bank of Botswana already facilitates such collaboration through industry-wide fora that address issues of mutual concern related to market development in order to foster enhanced and effective support for real economic activity. It is, therefore, important that banks strive for constructive engagement, in this regard, in order to achieve the best outcomes in terms of effective policy transmission and enhanced contribution by the financial system to economic performance.

Distinguished guests, ladies and gentlemen, as I conclude, let me thank the Chief Executive Officer, Mr Bogatsu, the Board, Management and staff of FNBB, for inviting me to be part of this

occasion. I wish the bank well and look forward to many more invitations for the opening of FNBB delivery channels or yet another “brick and mortar” branch, especially in major villages, such as Mochudi and, of course, the rural areas. To Bakgatla, Dikgosi tsame, Member of Parliament for Mochudi West, District Commissioner, Council Chairman and Council Secretary, Honourable Councillors, the entire district leadership and all Distinguished Guests, in addition to the other banks, there is now a branch of FNB Botswana near you; patronize it; and do not give Mr Bogatsu and his team an excuse to close the branch, shortly after its opening, on account that it is not profitable.

Distinguished ladies and gentlemen, with those few remarks, it is now my singular honour and privilege to declare the First National Bank of Botswana Mochudi branch, officially open.

I thank you for your kind attention.