It gives me great pleasure and privilege to present my report for the year ended 30 June 2007.

Overview

The bank achieved a year-on-year growth of 22.4% profit after tax, in a challenging environment that was characterised by sluggish growth in non-mining GDP, and high interest rates.

Financial Performance

As indicated in the Chairman’s report above, profit before tax increased by 22.5% for the year ended 30 June 2007. This growth was achieved mainly through strong performance in net interest income and non-interest revenue, which grew by 24.2% and 20.6% respectively, as well as the containment of impairment charges for advances to 13.5%.

Net interest income increased by 20.6% compared to the corresponding period, largely as a result of the growth in our core lending business. Although advances increased by 13.1%, the increase in net interest income from advances was higher as the growth in advances was driven mainly out of the retail segment, which has higher margins. The investment in Bank of Botswana Certificates (BoBCs) of the excess liquidity in the market also contributed to the increase in net interest income though very marginally as the margins are narrow. The growth in net interest of 21.2% followed the growth in interest income and interest expense of 72.1% and 122.3% respectively. The increase in interest expenditure was high to accommodate the primary dealer role that the bank has undertaken in investing in Bank of Botswana Certificates (as opposed to higher yielding advances) and accepting deposits from the market at wholesale rates.

Non-interest revenue grew 24.2% on the
Financial Performance (continued)

In the corresponding period; although foreign exchange trading profits were impacted negatively by the reduction in foreign exchange sales from diamond revenue availed to the market by Debswana, as Government now receives a substantial part of its share of diamond sales revenue directly in US Dollars, Banking commission income continued to perform well despite the halt in price tariff increases for the last few years. The good performance is largely attributable to increased transaction volumes resulting from growth in new customer accounts and increased product offerings. Our service delivery channels, particularly electronic channels, are improving continuously, whilst new channels such as the recently launched Cellphone Banking, are performing in line with expectations. Our merchant card acquiring business also continues to experience strong growth resulting in increased point-of-sale transaction volumes. Our insurance business has also performed well as a result of increased management focus on this business.

The expansion programme to increase our footprint and to introduce new businesses to service specific customers’ needs, as well as positioning our staff to offer superior service in the market place through up-skilling was the main focus throughout the year under review. This programme resulted in the opening of a branch in Kasane and River Walk Plaza in Gaborone, and the establishment of the Islamic Finance Division during the year. This expansion programme has impacted some of our costs resulting in a 22.7% increase in operating expenses during the period. However, this growth in operating expenses is in line with management expectations, as it gives us access to new revenue streams, and much of it, is non-recurring. Despite this expansion programme, the cost to income ratio remains the lowest in the market at 35.4%.

The impairment charge for advances of P22.0 million has increased above the comparative charge for the corresponding period by only 13.5%. Despite the strain of high interest rates in the economy, we have been able to control the bad debts by restructuring our collections processes and continuously monitoring the levels of non-performing loans. The charge also reflects a reduction in our dynamic provisioning as a result of the good quality of the book.

Balance Sheet

Total assets have increased by 16% mainly as a result of a 13.1% increase in advances and a 8% increase in BoBCs. The growth in advances continues to be driven by the Retail, Property Finance and WesBank divisions, which have performed exceptionally well as a result of various initiatives to improve processes and service delivery to our customers.

The deposit book grew by 16.7%, reflecting a normalising trend following last year’s phenomenal growth when Bank of Botswana introduced the policy permitting only commercial banks to trade in BoBCs.

Attributable earnings growth of 22.4% positively influenced the return on equity (ROE) and return on assets (ROA). The ROE, based on period-end balances, including the dividend reserve, increased to 51.0% from 49.6%, following the huge impact in the growth of assets last year as a result of BoBC policy change, asset growth normalized in this financial year. As a result the ROA improved from 3.8% at half year to 4.0%, although still slightly lower than 4.8% in the corresponding period.

The Directors recommend a final dividend.
Balance Sheet (continued)

of 6.1 thebe per share (2006: 5.0 thebe), an increase of 22.0%. The total dividend cover for the year is 1.2 times, marginally down from 1.3 times cover in the previous year.

The bank comprises a number of distinct business lines, which together form the FNBB Group. The main areas at the moment are Treasury, Retail Banking, Corporate Banking, Property Finance, WesBank (lease and hire purchase finance), FirstCard, Electronic Banking, First Funding and Insurance Division.

Corporate Banking Division

FNBB Corporate Banking Division provides transactional and financing solutions to corporate and institutional clients. The services offered are lending, deposit taking and a wide range of transactional banking solutions through dedicated relationship executives. We operate on the basis of dedicated sector-based relationship executives who form long-term relationships, building capabilities for understanding of client businesses and financial requirements. The team researches industry-specific knowledge, trends and issues, to be able to offer tailor made solutions to customer requirements.

The sluggish growth in non-mining GDP and the high interest rates have posed challenges to our customers, which have impacted the growth of our corporate business. Citing high interest rates as reasons, some of our large corporate customers repaid their facilities as they could access funds at cheaper rates from their parent companies in South Africa. The 50 basis point reduction in the Bank Rate by Bank of Botswana in June 2007, coupled with the rising interest rates in South Africa, augur well for the future for our corporate business. We have already seen most of our corporate customers returning, and taking up their previously repaid facilities. This indeed, is a good reflection of the current high business confidence prevailing in the economy.

The focus for the year ahead will continue to be the offering of customised financial solutions that best suit our clients’ needs and that are competitively priced, as well as an unflinching dedication to service excellence for the benefit of our customers.

Mining and Public Sector

A small-dedicated team within the Corporate Banking Division previously served public sector customers. We have established a new division during the year in an effort to bring more focus to service our clients in this important sector. This Division will focus on servicing our clients in mining (particularly those in the diamond beneficiation and non-diamond mining) as well as the energy sector. The current copper and nickel mining activities in the northern part of the country, as well as the energy sector. The current copper and nickel mining activities in the northern part of the country, as well as the proposed Mmamabula power station, are beneficition and non-diamond mining) as well as the energy sector. The current copper and nickel mining activities in the northern part of the country, as well as the proposed Mmamabula power station, are expected to constitute the new engine of economic growth in the country for some years to come.

Retail bank and service delivery

Our Retail Banking continued to differentiate its product offering through its dedicated efforts to provide exceptional service delivery to ensure that our current and potential service users enjoy a consistently great banking experience. This is an integral part of our strategy to gain market share and to retain our customers. During the year under review, we have continued to work with our external consultants in conducting customer surveys to identify specific customers’ needs and concerns as well as potential shortcomings in our service delivery. The issues identified have been addressed immediately and systems put in place to ensure a lasting solution. I am pleased to report substantial progress with regard to the long standing queuing problem through the implementation of extended operating hours at month-end, allocating additional resources at peak hours, as well as continuously encouraging customers to use alternative channels such as Internet Banking and Cellphone banking to access the bank’s products and services.

During the year under review we embarked on an expansion program to increase our footprint in the country, and we opened two new branches, Riverwalk Plaza and Kasane. Plans are underway to further increase our representation throughout the country, and to take the bank to the people as well as to provide banking services to the unbanked. We have also expanded our delivery channels with the launch of our Cellphone banking, the first of its kind in Botswana. Our existing delivery channels, Internet Banking, Automated Teller Machines (ATMs), Speed Points (Electronic point of sale devices), continue to be improved and expanded. Our extensive network of ATMs and mini ATMs are conveniently positioned across the country, whilst the ATM uptime has been consistently maintained above 97%, which includes servicing down time. The expansion program will continue in the year ahead to ensure that our customers consistently experience great satisfaction.

Property Finance Division

The Property Finance Division offers finance for the purchase and development of property in both residential and commercial sectors. The Division continues to perform exceptionally well, meeting all its key objectives for the year, in terms of growth, profitability, and customer service. I am
Property Finance Division (continued)

pleased to report that the Property loan book has now reached P1.2 billion, and the Division is now recognized in the market as the premier financier of property in Botswana.

Focus for the year ahead, will be on improving efficiencies in response to customer expectations, as well as repositioning ourselves to have a strong presence in the new areas of economic development, so as to take advantage of these developments which are expected to impact the property market.

The Division will also be launching new innovative products to the market in line with stakeholder expectations. Visibility of the brand will continue to be achieved through community initiatives and sponsorships of events such as the Home Expo.

WesBank

High interest rates and the inflow of non-franchise motor vehicle imports into Botswana continued to put pressure on the motor vehicle industry in the country. Nevertheless, the declining trend in the sales of new motor vehicles experienced in the previous year has been reversed during the year, largely as a result of improved business confidence in the country. I am pleased to report that WesBank posted a year-on-year growth in its loan book of 19.8%. The new system implemented in the previous year, to assist with credit decisions, has served the division well during the year, as the level of arrears has been driven down for the second year running, whilst the quality of the loan book has significantly improved.

Overall, it has been a good year for WesBank, and the focus will continue to be on staff training, and improving processes to ensure that efficiencies are consistently maintained and improved.
Electronic Banking

This division provides electronic delivery channels for the bank’s products. The various products such as inContact, payment and collections, cash management, Internet Banking for individuals and businesses, as well as Cell Phone banking, have positioned the bank as the market leader in technology in Botswana. Through the innovative solutions provided by this division, customers are also able to register for Internet Banking using eReg card, view and print their statements online and ensure a safe platform through the use of the “Digi Tag” security code device.

Marketing initiatives are in place to ensure that these products are used for the benefit of our customers. The division will continue to launch new products to ensure that the bank maintains its position as market leader, and to provide customers with an exhilarating banking experience.

FirstCard

FirstCard Division continued to perform exceptionally well in providing unparalleled service in the merchant acquiring business. The Division continues to expand its network, and to offer an exceptionally high level of service, and to be very uncompromising in its quest to ensure that the bank’s Speed Points (electronic point of sale devices) become the natural choice for merchants and credit/debit card customers alike. I am pleased to report that the division is now a major contributor to the bank’s non-interest income.

In collaboration with other divisions, new products and services will continue to be offered in order to meet the growing expectations by customers and maintain market leadership.
Human Resources

Our focus on staff development continued during the year. Attraction, retention and development of our human capital are viewed by management as crucial in the execution of the bank’s strategy.

Various training interventions have been put in place during the year to upskill staff members in various areas of specialisation. Some of our staff members have also been seconded to our parent company in South Africa on attachment ranging between six and twelve months, to learn best practice so as to offer a seamless quality of service across the geographical locations in which we operate.

The bank has already successfully rolled out the balanced scorecard measurement and performance management system in the retail branches, to align the bank’s objectives with those of the individuals. The roll out for the various divisions is in progress.

The Human Resources department has been restructured to ensure that the department effectively supports the strategic objectives of the bank, as well as providing support to the various divisions of the bank to achieve their strategic objectives for the year ahead.

Corporate Social Responsibility

The bank’s corporate and social responsibility is administered through the FNBB Foundation.

In line with the bank’s commitment on uplifting the community, as well as promoting awareness of banking among the youth, we sponsored for the second year running, the annual junior schools athletics competition. This event which was hosted by the Retail Banking Division, was held at the University of Botswana Stadium, and officiated by the Minister of Youth and Sport. The event was a huge success.

The bank has also entered into a five year sponsorship programme estimated to cost half a million Pula with the Botswana Golf Union for their youth golf development programme.

Acknowledgement

I wish to thank the Board of Directors for their support during the year. They have made a valuable contribution towards the achievement of these results. I also wish to thank Management and staff for their hard work and dedication. Indeed their unflinching willingness to go the extra mile in serving our valued customers is evident not only in these results but also in the periodic customer service surveys conducted by independent consultants.

I look forward to the road ahead, as we position ourselves to taking head-on, the challenges and opportunities of the year ahead.

Thank you all.