



It gives me great pleasure to present my report for the year ended 30 June 2007 to the shareholders and other stakeholders of First National Bank of Botswana Limited (FNBB).

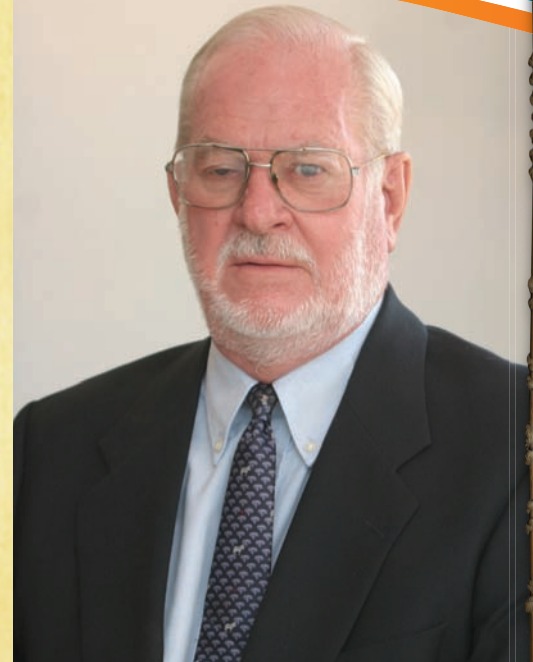
## The Botswana Economy

In years to come, 2006 could well be regarded as an economic watershed for Botswana. After averaging rates of real GDP growth in excess of 9% for the past 49 years, real GDP growth declined by almost 1% in 2005/2006. This was largely attributable to a 4% decrease in output from the three major diamond mines at Orapa, Letlhakane and Jwaneng, which had underpinned Botswana's phenomenal success for the past 40 years. Despite costly efforts on the part of the Government to reduce Botswana's dependence on diamonds, the non-mining sectors, in which the financial sector plays a prominent role, could only achieve a real economic growth rate of 1.8% in 2005/2006. Output from agriculture, manufacturing and the construction industry actually declined.

However, 2006 marked a welcome renewal of investment and economic activity, much of it related to the further exploitation of Botswana's mineral resources. The decision by the Diamond

Trading Company to relocate its diamond sorting, grading and sales operations from London to Gaborone, in recognition of Botswana's importance in the global diamond market, sparked a resurgence of business confidence. The construction on the road to the Sir Seretse Khama Airport of the impressive Diamond Park, which will house the Diamond Trading Company's new headquarters as well as many of the 17 newly licensed diamond cutting and polishing plants, provides tangible evidence of the confidence which the international diamond industry has in Botswana. This has also led to investment in a new diamond mine, Lerela diamond mine, which is set to be commissioned in 2008, and to produce 330,000 carats a year.

What was particularly encouraging in 2006 was the interest shown by international investors in the mining and beneficiation of Botswana's ample non-diamond mineral resources. The construction of a major new refinery at the Tati Nickel Mine in northern Botswana is already well advanced. It will cost about P4 billion and will provide employment to 3,500 people during the construction phase and create 500 permanent jobs thereafter, while adding value to Botswana's exports. Of even greater long term interest are Botswana substantial coal and methane



Henry Christopher Lamb  
Hermans  
Chairman, FNBB





## Chairman's Report (continued)

gas reserves, the commercial development of which could go a long way to alleviating the looming Southern African energy deficit. Construction will commence shortly on the coal-based Mmamabula and Morupule power stations at an estimated cost in excess of P42 billion. Recently completed tests have proven the technical and commercial feasibility of developing the methane gas reserves associated with the Botswana's coalfields. Investments in these coal and gas resources could feed electricity into the regional grid, as well as reducing domestic energy prices. While it is unlikely that broad-based economic diversification will occur outside the mining sector, there are now excellent prospects for private sector-led diversification within the mining sector.

Growth of the Botswana economy in 2006 continued to be constrained by relatively high levels of inflation and high positive commercial interest rates. The national inflation averaged 11.6 percent in 2006, compared to 8.6 percent in 2005. The higher inflation in 2006 was due to the combination of higher world prices for petroleum, the one-off transitory effect of the May 2005 introduction of the new exchange rate regime, and the impact of the January 2006 introduction of school fees in public secondary schools. Inflation maintained a downward trend during 2006, with the rate declining to 8.5 percent in December 2006. Domestic inflation declined further in the subsequent period, to the 6-7 percent range, which is in line with the Bank of Botswana 2007 short-term inflation objective of 4-7 percent, and the three-year (2006-08) medium term inflation objective of 6-7 percent. There are, however, risks of inflation volatility in the short-term, due to faster price increases in South Africa arising from supply shortages of some goods and services, as well as possible large increases in some administered prices. It is expected that inflation will remain

close to the upper end of the range in the short-term. Since October 2006, underpinned by a positive economic outlook, the annual growth of commercial bank credit has remained above Bank of Botswana's target range of 11-14 percent, which is considered consistent with Bank of Botswana's annual inflation objective. However, under-spending of the Government budget together with the restrictive monetary policy, have mitigated the impact of these factors on domestic demand pressures.

Interest rates remained high in 2006, and, following the declining trend in the national annual inflation rates, the Monetary Policy Committee of the Bank of Botswana reduced the Bank Rate from 15 percent to 14.5 percent in June 2007. The commercial banks reciprocated with a corresponding reduction in the prime-lending rate from 16.5 percent to 16 percent.

According to the March 2007 Business Survey by Bank of Botswana, the improved business outlook reflects expectations of resumed economic growth resulting from the expansionary Government budget for 2007/2008, and the more explicit commitments made by Government in the 2007 Budget Speech to ensure successful project implementation, together with the positive progress made with major infrastructure projects (e.g. the Mmamabula power station). Businesses were also optimistic about the levels of employment, production, and volumes of sales, as well as the growth of exports and imports.

The above augurs well for the economy in general and the banking industry in particular. To ensure that FNBB adequately services the needs of the banking public arising from these developments, it initiated various measures in 2006/2007, including investment in new branches in Kasane

and Riverwalk Plaza, and the expansion of the Francistown branch. New services, including Islamic and cell-phone banking, were also introduced during the year.

### Financial Performance

Against the backdrop of the above economic perspective, the bank performed very well, achieving growth in profit before tax of 22.5% for the year ended 30 June 2007. The FNBB's performance is more fully discussed in the Chief Officer's report below. The Board is delighted with these results.

### Board Composition

The Board consists of ten Directors, six of whom are non-executive. There were no changes in the composition of the Board during the year. However, subsequent to the year-end, Mr. M.T. Lategan resigned from the Board as a result of reassignment of his responsibilities and the restructuring of reporting lines within the FirstRand Group. I wish to acknowledge Mr. Lategan's valuable leadership and contribution to our Board over the period he has been with us and to wish him well in his new position and future endeavours.

### Corporate Governance

The Board and Management have responsibility for ensuring that the bank's operations are conducted in accordance with all applicable laws and regulations, including the responsibility to:

- ensure that an adequate and effective process of corporate governance, including effective risk management is established and maintained in accordance with recommended current best practice;
- establish and maintain internal controls and report material malfunctions as required by the applicable Laws and





## Corporate Governance (continued)

Regulations; and

- ensure that the bank operates currently and in the years ahead as a going concern.

The Board comprises a majority of independent, non-executive Directors and meets regularly. It oversees executive management performance and retains effective control over the bank.

The Board is assisted by Board committees, which are responsible for different aspects of governance. The main boards are the Audit, Senior Credit Risk, Directors' Affairs and Governance, and the Remuneration Committees.

## Capital management

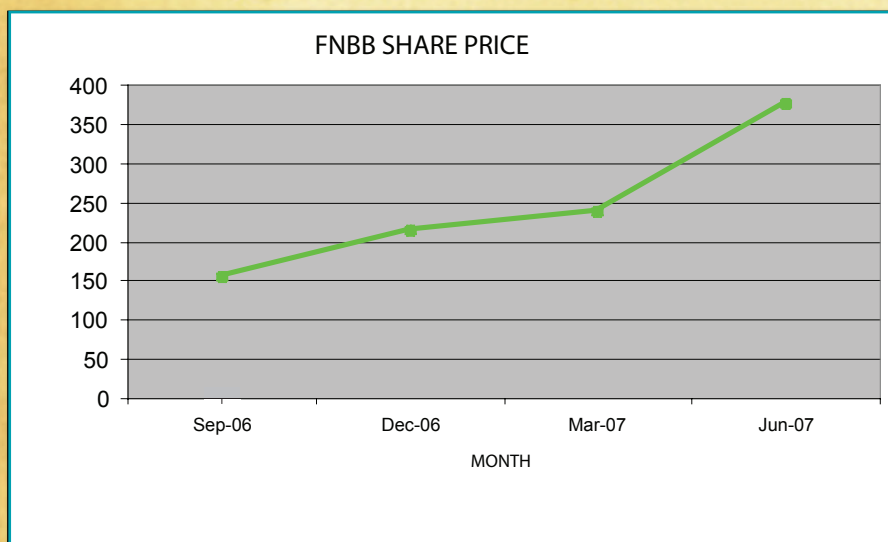
The bank continues to manage its capital in line with the Board approved capital management framework. The purpose of the framework is to create objectives, policies and principles relating to the capital optimisation process of book capital (shareholders funds or accounting capital - Net Asset Value), regulatory capital and economic capital. Economic capital is defined as the capital which the bank must

hold, commensurate with its risk profile, under severe stress conditions, to give comfort to third party stakeholders that it will be able to discharge its obligations to third parties in accordance with an indicated degree of certainty even under stress conditions, and would continue to operate as a going concern. Tests have been performed and will continue to be performed on a regular basis to ensure that the bank is appropriately capitalised from an economic risk point of view.

The bank's capital adequacy ratio, which excludes the dividend reserve, registered 15.4% at 30 June 2007. This is the same level as that achieved in the previous accounting period, and is in line with the bank's capital management framework. The ratio is well above accepted international norms, and the Bank of Botswana's requirement of 15%.

## Share Capital and Share Price

I am pleased to report that the bank's share price on the Botswana stock exchange continued to perform exceptionally well during the year, as reflected by the graph below.







## Chairman's Report (continued)

### Share Capital and Share Price (continued)

In order to make the shares of the bank more affordable and marketable, an Extraordinary General Meeting was held on 13th June 2007. A special resolution was passed in terms of which the authorised and issued ordinary shares in the Company were sub-divided by a factor of 10 from ordinary shares with a par value of 10 thebe each to ordinary shares with a par value of 1 thebe each. Consequently the authorised share capital now consists of 3,000,000,000 ordinary shares with a par value of 1 thebe each, and the issued share capital consists of 2,563,700,000 ordinary shares.

### Social Responsibility

The bank established the FNBB Foundation in 2001 for the purpose of aiding educational, arts and culture, and social welfare development in Botswana by identifying beneficiaries who are in need and deserving of assistance. The bank is committed to contributing up to 1% of its profit after tax to the Foundation. Since the inception of the Foundation, the bank has made grants in excess of P9.8 million to the Foundation, and, in turn, the Foundation has approved donations and pledges amounting to more than P8.7 million to qualifying beneficiaries. Details of the Foundation and criteria for eligibility can be found at the bank's website: [www.fnbbotswana.co.bw](http://www.fnbbotswana.co.bw).

In addition, the bank's employees run The FNB Staff Volunteer Programme, which is an initiative that affords the FNB Strategic Business Units (SBUs) an opportunity to identify and donate funds to deserving projects. Broadly speaking, the conditions of sponsorship are:

- the staff of the SBU must have some involvement that goes beyond simply giving financial support;
- the limit for each donation is P30,000 per project;
- the proposal must be routed through the SBU Manager who must make the recommendation to the administrators of the Foundation; and
- the beneficiary must be a registered non-profit making organisation.

The initiative has been very successful, as staff have responded very positively and the communities have also welcomed the opportunity to work hand in hand with their benefactors, thereby promoting the vision of a just and caring society.

### Acknowledgement

I wish to thank the Board of Directors for their vision, support and guidance during the past year. I must also record the Board's deep gratitude to the bank's Management and staff for their commitment, professionalism and continued hard work which contributed so significantly to the excellent results achieved by FNBB in the 2006/2007 financial year.