

# UNAUDITED SUMMARISED

FINANCIAL RESULTS AND  
DIVIDEND ANNOUNCEMENT

**for the half year ended 31 December 2014**



**FNB**  
First National Bank

how can we help you?

# Key performance indicators

for the half year ended 31 December 2014

The Directors have pleasure in announcing the unaudited financial results of First National Bank of Botswana Limited (the Company) and its subsidiaries (the Group) for the half year ended 31 December 2014.

## Financial highlights

	Unaudited six months ended 31 December 2014	Unaudited six months ended 31 December 2013	% change
Profit before direct taxation (P'000)	440 051	464 380	(5)
Non-interest income (P'000)	419 315	377 878	11
Deposits from customers (P'000)	14 516 528	13 104 210	11
Advances to Customers (P'000)	12 672 742	10 922 758	16
Ratios			
Cost to income ratio (%)	41.25	39.9	1
Return on Average assets (%)	4.0	4.6	(0.6)

### Profit before tax

-5%

### Non-interest income

+11%

### Advances to customers

+16%

### Deposits from customers

+11%

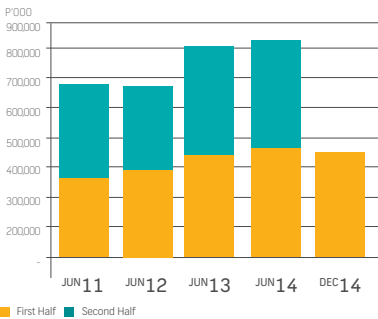
### Cost to income ratio

+1%

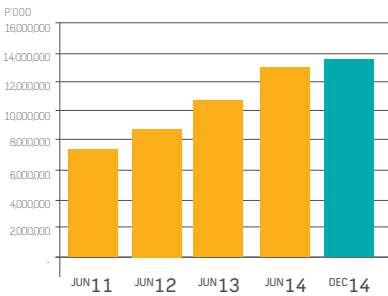
### Dividend (thebe per share)

5

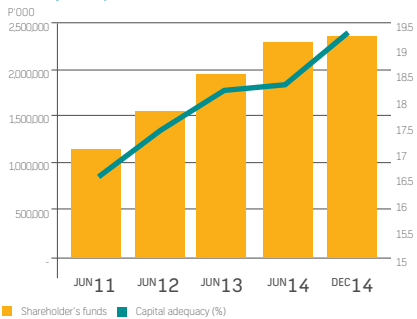
Profit after tax



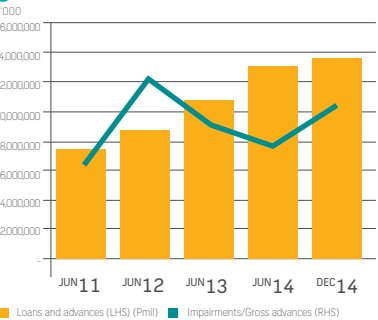
Loans & advances



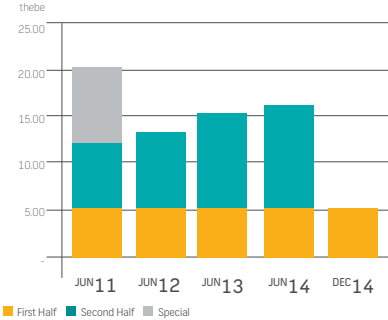
Shareholders' funds vs Capital adequacy



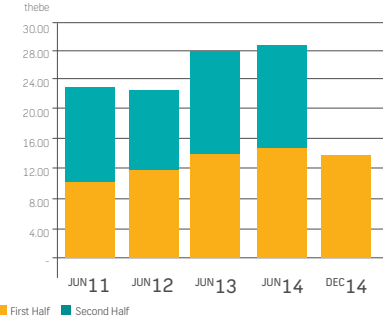
Advances vs impairments to gross advances



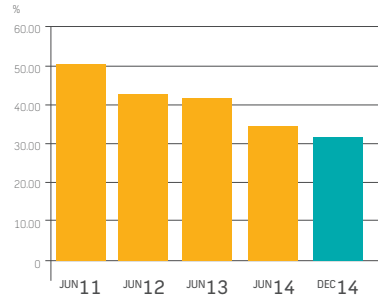
Dividends per share (thebe)



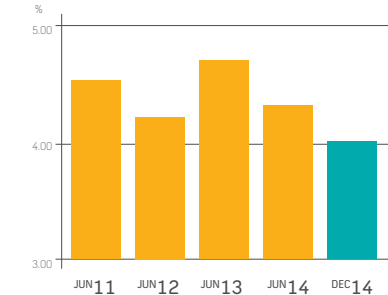
Earnings per share (thebe)



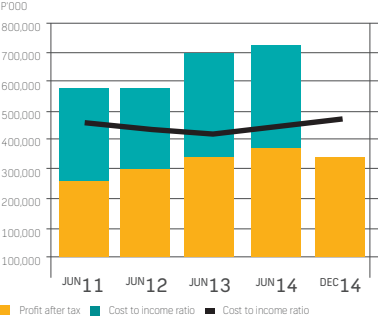
Return on equity (%)



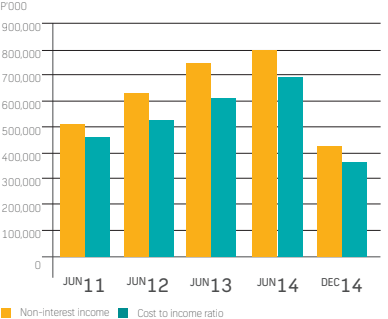
Return on assets (%)



Profit after tax vs cost to income ratio



Non-interest income vs non-interest expenses



## BASIS OF PRESENTATION AND ACCOUNTING POLICIES

1. The summarised financial results have been prepared applying the recognition and measurement criteria in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC').
2. In preparing the underlying consolidated financial statements from which these summarised financial results were extracted, all International Financial Reporting Standards and International Reporting Interpretations Committee interpretations issued and effective for annual periods beginning on or after 1 July 2014 have been applied.
3. The Group's underlying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of the revisions in the standards which have not had a material impact on the financial statements.
4. In the preparation of the summarised consolidated financial results, the Group has applied key assumptions concerning the future and other inherent uncertainties in recording various assets and liabilities. These assumptions were applied consistently to the financial results for the half year ended 31 December 2014. These assumptions are subject to ongoing review and possible amendments.

## SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited six months ended 31 December 2014 P'000	Unaudited six months ended 31 December 2013 P'000	% Change	Audited year ended 30 June 2014 P'000
Interest and similar income	654,444	641,545	2	1,244,817
Interest expense and similar charges	(175,171)	(152,890)	15	(290,200)
<b>Net interest income before impairment of advances</b>	<b>479,273</b>	<b>488,655</b>	<b>(2)</b>	<b>954,617</b>
Impairment of advances	(87,870)	(56,732)	55	(122,510)
<b>Net interest income after impairment of advances</b>	<b>391,403</b>	<b>431,923</b>	<b>(9)</b>	<b>832,107</b>
Non-interest income	419,315	377,878	11	794,557
<b>Income from operations</b>	<b>810,718</b>	<b>809,801</b>	<b>-</b>	<b>1,626,664</b>
Operating expenses	(177,152)	(166,853)	6	(342,988)
Employee benefits costs	(188,324)	(175,224)	7	(350,339)
<b>Profit before taxation</b>	<b>445,242</b>	<b>467,724</b>	<b>(5)</b>	<b>933,337</b>
Indirect taxation	(5,191)	(3,344)	55	(11,098)
<b>Profit before direct taxation</b>	<b>440,051</b>	<b>464,380</b>	<b>(5)</b>	<b>922,239</b>
Direct taxation	(96,689)	(101,505)	(5)	(202,578)
<b>Profit for the period</b>	<b>343,362</b>	<b>362,875</b>	<b>(5)</b>	<b>719,661</b>
Average number of shares in issue during the period (thousands)	2,563,700	2,563,700		2,563,700
+ Earnings per share (thebe) (based on weighted average number of shares outstanding)	13.50	14.27	(5)	28.29
Diluted earnings per share (thebe) (based on weighted average number of shares in issue)	13.39	14.15	(5)	28.28
+ Average number of shares outstanding takes into account 20 million shares held by the FNBB Employees Share Participation Trust				

## SUMMARISED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Unaudited six months ended 31 December 2014 P'000	Unaudited six months ended 31 December 2013 P'000	% Change	Audited year ended 30 June 2014 P'000
Profit for the period	343,362	362,875	(5)	719,661
Other comprehensive income for the period	-	-		-
Total comprehensive income attributable to equity holders of the parent	343,362	362,875	(5)	719,661

## RATIOS AND MARKET INFORMATION

	Unaudited six months ended 31 December 2014	Unaudited six months ended 31 December 2013	% Change	Audited year ended 30 June 2014
Dividend per share (thebe)	5.00	5.00	-	16.00
Dividend cover (times)	2.7	2.8	(4)	1.8
* Cost to income ratio (percent)	41.25	39.9	1	40.27
Return on equity (percent)	31	39	(8)	34
** Return on average assets (percent)	4.0	4.6	(0.6)	4.3
Capital adequacy ratio (percent)	19.28	19.55	(0.3)	18.27
Closing share price (thebe)	362	400	(10)	348
Dividend yield - ordinary shares (percent)	2.7	2.5	0.2	4.6
Price earnings ratio	13.5	14.1	(4)	12.3
* Cost to income ratio is based on total non-interest expenditure including indirect taxation (Value Added Tax).				
** Return on average assets is annualised.				

## SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited at 31 December 2014 P'000	Unaudited at 31 December 2013 P'000	% Change	Audited at 30 June 2014 P'000
<b>ASSETS</b>				
Cash and short-term funds	2,770,766	2,844,679	(3)	2,721,384
Derivative financial instruments	26,784	24,607	9	24,922
Advances to banks	475,511	-	100	461,921
Net advances to customers	12,672,742	10,922,758	16	12,131,415
Investment securities and other investments	1,132,093	1,517,669	(25)	1,536,828
Current taxation	23,604	13,282	78	12,895
Due from related companies	6,305	13,555	(53)	6,272
Accounts receivable	294,143	322,643	(9)	196,112
Non-current assets held for sale	-	3,773	(100)	-
Property and equipment	514,768	493,802	4	520,694
Goodwill	26,963	26,963	-	26,963
<b>Total assets</b>	<b>17,943,679</b>	<b>16,183,731</b>	<b>11</b>	<b>17,639,406</b>
<b>LIABILITIES AND SHAREHOLDERS' FUNDS</b>				
<b>Liabilities</b>				
Deposits from banks	46,314	158,800	(71)	12,157
Deposits from customers	14,516,528	13,104,210	11	14,328,142
Accrued interest payable	46,388	36,543	27	39,027
Derivative financial instruments	16,634	20,703	(20)	18,079
Current taxation	-	-	-	3,870
Due to related companies	44,573	20,756	115	30,499
Creditors and accruals	286,156	234,309	22	274,596
Provisions	43,112	59,343	(27)	60,588
Borrowings	499,478	404,485	23	489,495
Deferred taxation	117,170	109,225	7	118,973
<b>Total liabilities</b>	<b>15,616,353</b>	<b>14,148,374</b>	<b>10</b>	<b>15,375,426</b>
<b>Capital and reserves attributable to Ordinary equity holders</b>				
Stated capital	51,088	51,088	-	51,088
Reserves	2,148,053	1,856,084	16	1,930,885
Dividend reserve	128,185	128,185	-	282,007
<b>Total equity</b>	<b>2,327,326</b>	<b>2,035,357</b>	<b>14</b>	<b>2,263,980</b>
<b>Total equity and liabilities</b>	<b>17,943,679</b>	<b>16,183,731</b>	<b>11</b>	<b>17,639,406</b>
<b>CONTINGENCIES AND COMMITMENTS (OFF BALANCE SHEET ITEMS)</b>				
Undrawn commitments to customers	1,271,112	1,312,747	(3)	1,343,724
Guarantees and letters of credit	1,081,734	1,184,656	(9)	883,026
<b>Total contingencies and commitments</b>	<b>2,352,846</b>	<b>2,497,403</b>	<b>(6)</b>	<b>2,226,750</b>

## UNAUDITED SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital P'000	Other non- distributable reserves P'000	Equity settled employee benefits reserve P'000	Retained earnings P'000	Dividend reserve P'000	Total P'000
<b>Balance at 1 July 2014</b>	51,088	57,257	18,906	1,854,722	282,007	2,263,980
Profit for the period	-	-	-	343,362	-	343,362
Dividend paid - 2014 final	-	-	-	-	(282,007)	(282,007)
Dividend proposed - 2014 interim	-	-	-	(128,185)	128,185	-
Recognition of share based payments	-	-	1,991	-	-	1,991
<b>Balance at 31 December 2014</b>	51,088	57,257	20,897	2,069,899	128,185	2,327,326

## SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited six months ended 31 December 2014 P'000	Unaudited six months ended 31 December 2013 P'000	% Change	Audited year ended 30 June 2014 P'000
<b>Cash flows from operating activities</b>				
Cash generated by operations	543,797	536,839	1	1,053,341
Taxation paid	(109,070)	(111,910)		(200,873)
	434,727	424,929		852,468
Change in funds from operating activities	(456,765)	(1,091,236)		(1,041,299)
<b>Net cash utilised in operating activities</b>	(22,038)	(666,307)		(188,831)
Net cash (used in)/generated from investing activities	(19,006)	895		(16,656)
Net cash used in financing activities	(315,199)	(497,253)		(333,020)
<b>Net decrease in cash and cash equivalents</b>	(356,243)	(1,162,665)		(538,507)
<b>Cash and cash equivalents at the beginning of the period</b>	3,964,168	5,126,833		4,406,155
<b>Cash and cash equivalents at the end of the period</b>	3,607,925	3,964,168	(9)	3,867,648
<b>Cash and short-term funds at the end of the period</b>				
Cash and short-term funds	2,770,766	2,844,679	(3)	2,721,384
Investment in Bank of Botswana Certificates	837,159	1,119,489	(25)	1,146,264
	3,607,925	3,964,168	(9)	3,867,648

## SUMMARISED SEGMENTAL REPORTING (UNAUDITED)

Six months ended 31 December 2014	Consumer P'000	Commercial P'000	RMB P'000	WesBank P'000	Treasury P'000	Other P'000	Total P'000
<b>Income statement</b>							
Interest income	300,910	159,327	58,422	92,887	42,898	-	654,444
Non-interest income	166,390	159,647	86,229	3,902	-	3,147	419,315
<b>Total segment revenue</b>	<b>467,300</b>	<b>318,974</b>	<b>144,651</b>	<b>96,789</b>	<b>42,898</b>	<b>3,147</b>	<b>1,073,759</b>
Interest expenditure	(23,346)	(32,392)	(27,061)	-	(92,372)	-	(175,171)
<b>Segment operating income before impairments</b>	<b>443,954</b>	<b>286,582</b>	<b>117,590</b>	<b>96,789</b>	<b>(49,474)</b>	<b>3,147</b>	<b>898,588</b>
Impairment of advances							(87,870)
<b>Net income after impairment of advances</b>							<b>810,718</b>
Total other expenditure							(365,476)
<b>Profit before indirect taxation</b>							<b>445,242</b>
Indirect taxation							(5,191)
<b>Profit before direct taxation</b>							<b>440,051</b>
Direct taxation							(96,689)
<b>Profit for the period</b>							<b>343,362</b>

## Statement of financial position

<b>Net advances to customers</b>	4,661,336	4,600,856	1,410,897	1,999,653	-	-	12,672,742
<b>Deposits from banks and customers</b>	2,642,020	4,890,001	4,182,527	-	2,848,294	-	14,562,842

In the current period, the Group adopted a new segmentation model to align with internal reporting that is provided to the Chief Executive Officer, which has also resulted in the restatement of prior period segmental results.

Six months ended 31 December 2013	Consumer P'000	Commercial P'000	RMB P'000	WesBank P'000	Treasury P'000	Other P'000	Total P'000
<b>Income statement</b>							
Interest income	294,979	156,187	57,271	91,056	42,052	-	641,545
Non-interest income	149,947	143,870	77,707	3,518	-	2,836	377,878
<b>Total segment revenue</b>	<b>444,926</b>	<b>300,057</b>	<b>134,978</b>	<b>94,574</b>	<b>42,052</b>	<b>2,836</b>	<b>1,019,423</b>
Interest expenditure	(20,376)	(28,271)	(23,619)	-	(80,624)	-	(152,890)
<b>Segment operating income before impairments</b>	<b>424,550</b>	<b>271,786</b>	<b>111,359</b>	<b>94,574</b>	<b>(38,572)</b>	<b>2,836</b>	<b>866,533</b>
Impairment of advances							(56,732)
<b>Net income after impairment of advances</b>							<b>809,801</b>
Total other expenditure							(342,077)
<b>Profit before indirect taxation</b>							<b>467,724</b>
Indirect taxation							(3,344)
<b>Profit before direct taxation</b>							<b>464,380</b>
Direct taxation							(101,505)
<b>Profit for the period</b>							<b>362,875</b>

## Statement of financial position

<b>Net advances to customers</b>	4,017,650	3,965,522	1,216,065	1,723,521	-	-	10,922,758
<b>Deposits from banks and customers</b>	2,406,202	4,453,536	3,809,208	-	2,594,064	-	13,263,010

# Commentary on unaudited summarised financial results and dividend announcement

for the half year ended 31 December 2014

## Return on equity

31%

As a result of the above, profit before tax posted a 5% year - on - year decline with key metrics remaining strong, with acceptable levels of return on assets being at 4% and return on equity at 31%.

## Bank rate

7.5%

Over the last year the Monetary Policy Committee (MPC) has maintained the bank rate at a decade low of 7.5% since December 2013 due to a benign inflationary environment.

## Inflation

4.0%

We expect inflation to average around 4.5% for 2014 before declining to an average of 4% for 2015. The continued drop in oil prices will also provide relief on inflation.

## OVERVIEW OF RESULTS

### GLOBAL ECONOMIC OVERVIEW

There have been positive developments in global growth as Real GDP grew by 5.9% in 2013, compared to 4.3% in 2012. Global output is projected to grow by 3.3% and 3.8% in 2014 and 2015, weighed down by slow progress in structural reforms, weakness in the financial sector, macro economic imbalances across countries and geopolitical tensions.

### BOTSWANA ECONOMY

#### GDP

Economic growth in Botswana has remained resilient as GDP increased by 5.9% in 2013 and is expected to be 5.0% in 2014 fuelled by growth of 8.3% and 4.7% in mining and non-mining respectively.

The economy continues to be heavily reliant on the Mining sector which contributed 21.5% in the third quarter of 2014, followed by Trade, Hotels & Restaurants and General Government at 15.6% and 14.9% respectively. In the same period, real export of goods and services decreased by 10.8% compared to 15.8% in the third quarter of 2013, while imports decreased by 3.6% in the third quarter of 2014 compared to a 24.1% decrease in the third quarter of 2013.

The current account has remained positive since 2013 and stood at P5.193million in the third quarter of 2014 compared to P3.359million in the same quarter of 2013.



## MONETARY POLICY

Over the last year the Monetary Policy Committee (MPC) has maintained the bank rate at a decade low of 7.5% since December 2013 due to a benign inflationary environment.

We expect inflation to average around 4.5% for 2014 before declining to an average of 4% for 2015. The continued drop in oil prices will also provide relief on inflation.

## CREDIT EXTENSION AND LIQUIDITY

Despite the low interest rate environment, total credit extension by commercial banks slowed down year - on - year from 20% to 15%. Credit extension to households continued on a downward trend whilst credit growth to business started rising to levels exceeding that of households.

Recent trends show a decline in household arrears, whilst arrears in business and non-financial institutions are increasing. In September 2014, household arrears as a percentage of advances were 4.24%, whilst business and non - financial institutions were 5.86% of advances. Much of household debt is still held in unsecured loans at 63.8% compared to 36.2% in secured loans.

Liquidity conditions in the market remained tight with commercial banks' deposits growing by only 9% year - on - year as at October 2014. The market loan-to-deposit ratio (excluding foreign currency) was reported at 97% in October 2014. This presents a challenge for financial institutions to participate in growth opportunities in the country. However, offshore investments remain relatively high at 56% for October 2014, which presents an opportunity to develop structured products so as to compete with the international markets.

## STATEMENT OF FINANCIAL POSITION

The bank has delivered a fair set of results for the half year ended December 2014, considering the prevailing economic conditions. Despite the challenging environment, it is pleasing to note that the bank's balance sheet grew by 11% to P17.9 billion from P16.2 billion in December 2013. Advances to customers, grew by 16%, reaching a new high of P12.7 billion. This growth came from Property Finance, WesBank and RMB term loans. The bank has maintained its conservative credit risk appetite and the growth in advances is predominately in secured asset classes.

In order to achieve the level of growth in advances, the bank had to actively manage its liquidity position amid increasing liquidity pressures in the market. The bank was successful in this regard and managed to grow deposits from customers by 11%, thus maintaining its leading position in market share.

The efficiency of the bank's balance sheet improved as witnessed by the Bank of Botswana Certificates (BOBCs) reducing by 25% year - on - year as the liquidity in the market tightened, leading to an increased loan-to-deposit ratio.

## STATEMENT OF COMPREHENSIVE INCOME

Notwithstanding growth of 16% in advances, combined with a decline of 25% in BOBCs, total interest income and similar income grew by 2%, which is a result of the prudent approach taken by the bank to grow its assets in more secure asset classes which typically exhibit lower yields. This strategy will help preserve the income-generating ability of the bank in the future.

## Commentary on unaudited summarised financial results and dividend announcement (continued)

The increase in cost of funding in the market has led to a 15% increase in interest expense.

Impairment of advances increased by 55%, which reflects the bank's prudent provisioning methodology. Given the current stress in the market the bank has maintained a more stringent credit assessment process.

The bank has seen a significant increase in transaction volumes which has translated into an 11% increase in non-interest income. The increase in volumes is predominately from the introduction of innovative banking solutions such as the recently launched Automated Deposit Taking Machines (ADTs), Rand-dispensing ATMs, prepaid electricity via the cell phone banking channel and the recently launched \*174# payment solution. This growth in non interest income has been achieved without any increase in bank charges.

During the period under review, focus was placed on ensuring that cost containment was realised through rationalisation of service providers as well as standardisation of prices for consumables. Overall, this adoption of procurement best practice assisted the bank in curtailing costs which only increased by 6%.

As a result of the above, profit before tax posted a 5% year - on - year decline with key metrics remaining strong, with acceptable levels of return on assets being at 4% and return on equity at 31%.

### LOOKING AHEAD

Within the current difficult economic climate, the bank's fundamentals remain strong. Opportunity lies in the customer-centric strategy that the bank has embarked on which is on the back of a refined segmentation model.

### CAPITAL MANAGEMENT

The bank's objective when managing capital, which is a broader concept than "equity" as shown on the statement of financial position, is to comply with the regulations, to safeguard shareholders' returns, to maintain the ability to continue as a going concern and to ensure the bank has a strong capital base to support growth and development of the business.

The bank continues to manage its capital in line with the Board's approved capital management framework and Basel II/III, being the new Bank of Botswana requirements which will be adopted during 2015, and with parallel runs currently underway.

As part of our capital management strategy, we assess on a regular basis if the bank is appropriately capitalised from an economic risk point of view. Economic capital is defined as the capital which the group must hold, commensurate with its risk profile, under severe stress conditions. This is to give comfort to stakeholders that the bank 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.

The regulatory capital requirements are strictly observed when managing economic capital.

The bank's capital adequacy ratio, which excludes the dividend reserve, has been maintained at 19.28% as at 31 December 2014, and is above the bank's internal limit as well as the Bank of Botswana required ratio of 15%.

In line with the substantial growth in assets, the planned impact of the introduction of Basel II/III, and the effect that these factors will have on the capital adequacy ratio, the Directors believe that it is appropriate to continue with the prudent approach to capital management.

On this basis the Directors propose an interim dividend of 5 thebe per share.

Despite the challenging environment, it is pleasing to note that the bank's balance sheet grew by 11% to P17.9 billion from P16.2 billion in December 2013.

Advances to customers, grew by 16%, reaching a new high of P12.7 billion. This growth came from Property Finance, WesBank and RMB term loans. The bank has maintained its conservative credit risk appetite and the growth in advances is predominately in secured asset classes.

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**The bank has delivered a fair set of results for the half year ended December 2014, considering the prevailing economic conditions.**

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EVENTS AFTER THE REPORTING DATE

There were no material events that occurred after the reporting date that require adjustment to the amounts recognised in the financial statements or that require disclosure.

For and on behalf of the Board.

**P D Stevenson**  
Chairman

**R C Wright**  
Acting Chief Executive Officer

**Gaborone, 27 January 2015**

CORPORATE GOVERNANCE

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

- Adequate and effective management of corporate governance and risk and in accordance with recommended current best practice;
- Maintenance of appropriate internal controls including the reporting of material malfunctions; and
- The bank's continued capability to operate as a going concern.

TRANSFER SECRETARIES

PriceWater House Coopers (Proprietary) Limited  
Plot 50371, Fairgrounds  
PO Box 294  
Gaborone

The Board comprises a majority of independent, non-executive Directors and meets regularly, overviews executive management performance and retains effective control over the bank. The Board is assisted by committees, which are responsible for different aspects of governance, namely, Audit, Credit, Directors' Affairs and Governance, Risk and Compliance, and Remuneration.

SOCIAL RESPONSIBILITY

The bank remains aware of its social responsibility to the community, which function it performs through the FNBB Foundation.

The FNBB Foundation, which has an independent board, supports educational, arts and culture, and social welfare development in Botswana by identifying beneficiaries who are in need and deserving of assistance, and where such assistance will have real and lasting benefits.

FNB Botswana has committed to contributing up to 1% of its profit after tax to the Foundation. Since the inception of the Foundation in 2001, the bank has made grants in excess of P38 million to the Foundation, and in turn, the Foundation has approved donations and pledges to qualifying beneficiaries. Details of the foundation and criteria for eligibility can be found at the Group's website: [www.fnbbotswana.co.bw](http://www.fnbbotswana.co.bw).

DECLARATION OF DIVIDEND

Notice is hereby given that an interim dividend of 5 thebe per share has been declared for the period ended 31 December 2014. The dividend will be paid on or about 23 March 2015 to shareholders registered at the close of business on 6 March 2015. The transfer registers will be closed from 9 March to 13 March 2015, both dates inclusive.

In terms of the Income Tax Act (Cap 52.01) as amended, withholding tax at the rate of 7.5% will be deducted by the Group from gross dividends. If a change of address or dividend instructions is to apply to this dividend, notification should reach the Transfer Secretaries by 13 March 2015.

#### **DIRECTORS:**

P.D. Stevenson (Chairman), L.E. Boakgomo-Ntakhwana, J.R. Khethe (S.A.),  
D.H. Zandamela (S.A.), D.A. Kgosietsile, S. Thapelo, M.W. Ward (U.K.),  
J.K. Macaskill (S.A.), L. J. Haynes (alternate to D.H. Zandamela)(S.A.),  
R.C. Wright (Acting CEO)

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Log on to [www.fnbbotswana.co.bw](http://www.fnbbotswana.co.bw) to access our latest  
and historic financial reports.

#### **MARKETING & COMMUNICATIONS**

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