First National Bank of Botswana Limited

Annual Report 2010

FNB
First National Bank
Botswana
How can we help you?

Vision

TO BE RECOGNISED BY ALL AS
THE MOST WELL RESPECTED AND
MOST PROFITABLE
LEADING FINANCIAL SERVICES INSTITUTION
FIRST CHOICE, BUILDING
ENDURING AND REWARDING
RELATIONSHIPS WITH ALL OUR CUSTOMERS
AND AMONGST STAKEHOLDERS,
THROUGH THE PROVISION OF
EXCEPTIONAL CUSTOMER SERVICE,
WELL SKILLED PROFESSIONALISM, RELIABLE, EFFICIENT AND
INNOVATIVE PRODUCTS AND SOLUTIONS
BY OUR HIGH ACHIEVING, MOTIVATED, PROUD AND
COMMITTED TEAM,
ENABLING US TO GET AND
KEEP CUSTOMERS.

Mission

WE COLLABORATE,
SUPPORT AND EMPOWER
EACH OTHER THROUGH THE
CONSISTENT APPLICATION OF
OUR ALIGNED STRATEGIES
AND SHARED VALUES,
DELIVERING MAXIMUM VALUE
TO OUR CUSTOMERS
AND SHARING THE CUSTOMER SO AS TO
ADD FURTHER VALUE TO THEM.
THROUGH THIS,
WE GET AND KEEP CUSTOMERS.

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Highlights

"First National Bank of Botswana is the biggest Bank in Botswana in terms of market capitalization, assets & liabilities."

- Euromoney 2010 Awards for Excellence

Highlights

- Profit after taxation **increased by**

7%

- Non-interest income **increased by**

10%

- Impairment losses **increased by only**

7%

from the previous financial year

- Cost to income ratio at

39.8%

- Advances growth of

25%

- Return on average assets **increased to**

3.5% from 3.0%

in the previous financial year

- Non-interest expenditure **increased by**

18%

from the previous financial year despite the expenditure on branch infrastructure revamp and expansion

- Proposed **final dividend** per share **increases by 11%** to

5.0 thebe

A Brief History of FNBB

Established in Botswana in September

1991

1992

Took over the operations of BCCB which was under Bank of Botswana administration and operated 5 branches.

1993

FNB acquired Financial Services Company, a leasing and property finance company.

Obtained listing on the Botswana Stock Exchange.

1994

FNB acquired **Zimbank Limited**.

2005 - 2010

Achieved organic growth and increased foot print to a network of **18 branches in 10 major towns.**

Total assets increased from **P565 million in September 1994** to

P12.2 billion in June 2010.

Maintained largest market capitalisation in the Botswana Stock Exchange since 2006.

FNBB is 'The Best Bank in Botswana'

First National Bank of Botswana Limited has been awarded the 'Best Bank in Botswana 2010' by Euromoney 2010 Awards for Excellence. The award was received by Bomolemo Selaledi and Steven Bogatsu on 8 July 2010 at a cocktail party held in London attended by more than 500 of the world's leading bankers.

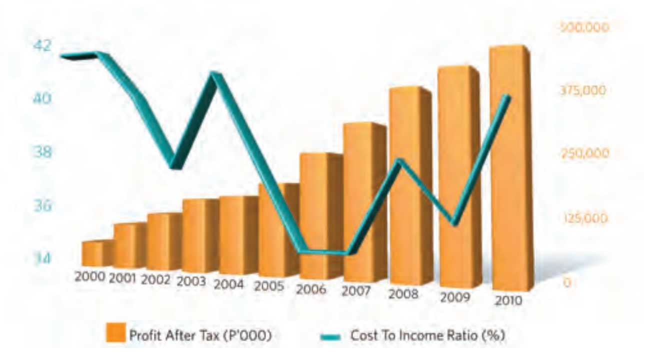
The Awards for Excellence covers over 20 global awards for banking, including the hugely prestigious best global bank and best global investment bank categories; close to 50 regional awards in North America, Latin America and Western Europe, emerging Europe, the Middle East, Africa, Central Asia and Asia-Pacific; and awards for the best banks in almost 100 countries around the world. All of these awards have one central theme: they recognise institutions and individuals that demonstrate leadership, innovation and momentum in the markets in which they excel. This definitely puts FNBB on the world map.

The Best Bank Award is given to institutions with commercial and retail banking capabilities on the basis of both geographical coverage of a region and best practice within a region. Since 1992 Euromoney, the world's leading financial markets magazine, has singled out the outstanding institutions in finance. Over the years, the Awards for Excellence have evolved with the markets they cover. They now incorporate 25 global awards for banking and capital markets; and awards for the best banks and securities houses in almost 100 countries around the world.

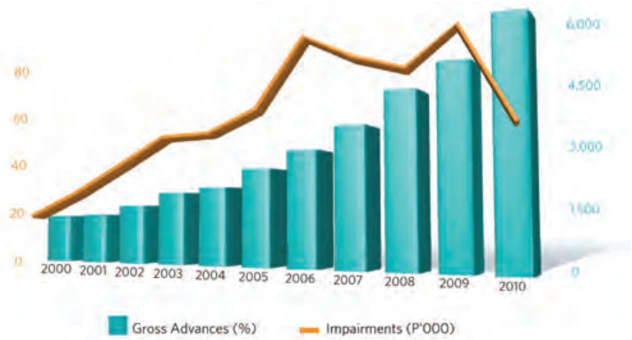
The award was in recognition of outstanding financial performance in 2009 achieved against a backdrop of global financial turmoil. First National Bank of Botswana is the biggest Bank in Botswana in terms of market capitalization, and in terms of balance sheet size. Our profits grew by 9% in 2009 to around P56 million, deposits increased by 8% to P1.5 billion and our loans increased 17% to P562 million whilst maintaining a relatively low non-performing-loan ratio of 2.6%. The sector average is 5.1%. Our cost-to-income ratio and ROE are also healthy at 35.4% and 44.2% respectively.

Financial Highlights - Graphs

Profit After Tax vs Cost to Income Ratio

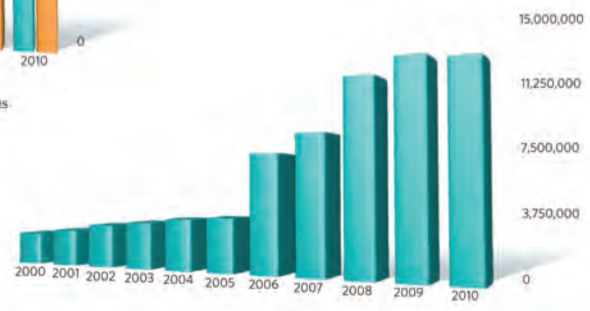


Gross Advances vs Impairments

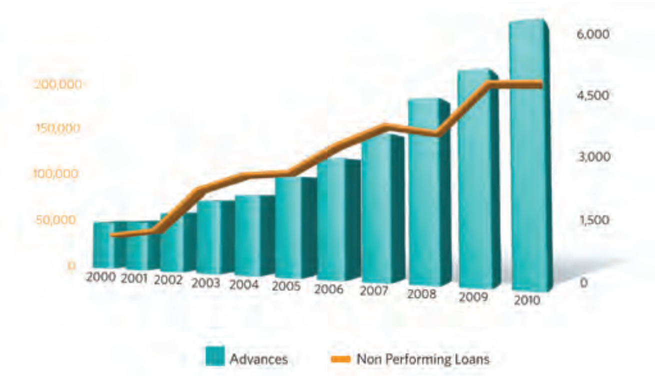


Other Operating Income vs Other Operating Expenses (P'000)

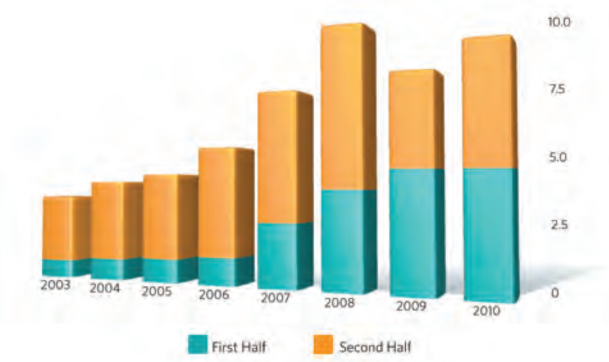
Total Assets (P'000)



Advances vs Non Performing Loans (P'000)

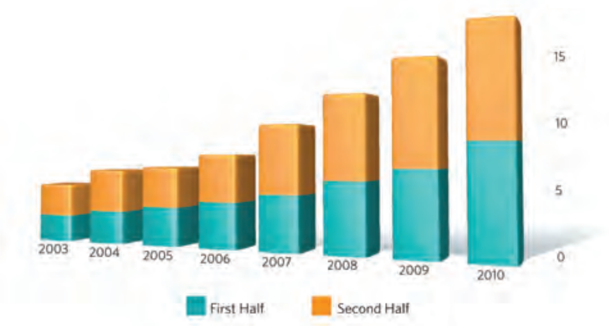


Dividends Per Share (P'000)



Shareholders' Funds vs Capital Adequacy (P'000)

Earnings Per Share (P'000)



Strategy and Performance

“To the invaluable
members of the FNB
Botswana staff,
I extend my
sincerest gratitude.

Let us continue to
strive for excellence
in everything
we do.”

- Lorato Boakgomo-Ntakhwana
Chief Executive Officer

Message from the Chairman of the Board

The past year has been a challenging one for the Botswana economy struggling to emerge from the effects of the global downturn. It is pleasing to note that diamond exports have increased significantly during the last three months of the financial year, but the impact of the European economic crisis, amongst other factors, has again raised fresh concerns over economic recovery in Botswana.

"I AM JUSTIFIABLY PROUD THAT FIRST NATIONAL BANK OF BOTSWANA HAS ACHIEVED MODEST GROWTH AND MANAGED TO CONTAIN IMPAIRMENTS WITHIN TARGET IN AN ENVIRONMENT OF UNPRECEDENTED ECONOMIC UNCERTAINTY."

Bank of Botswana responded aggressively in 2009 by reducing interest rates by 550 basis points to stimulate the economy. Unfortunately, inflation which was contained within the target range of 3 – 6% has once again reached levels in excess of 6% in April 2010 and this trend is likely to continue in the short term as a result of high fuel costs and tariff increases by Botswana Power Corporation.

On the positive side, it is encouraging to note that The World Bank has revised expected growth for Botswana from 4.8% to 5.8% in 2010. Bank of Botswana forecasts a more modest 3 to 5% growth for the same period. Economists predict that the need to stimulate growth in Botswana is likely to result in interest rates being held stable at the current level in the short term.

I am justifiably proud that First National Bank of Botswana has achieved modest growth and managed to contain impairments within target in an environment of unprecedented economic uncertainty.

We must pay tribute to Bank of Botswana for effective supervision of the banking sector under very difficult circumstances. We believe that quick action was taken when necessary as a result of which, the financial sector in Botswana did not suffer erosion in public confidence or insufficient credit availability.

We at First National Bank of Botswana are fully committed to observing banking fundamentals in delivering value to all our stakeholders namely our customers, shareholders, employees, and the community at large.

We acknowledge the important role we play in the country's growth stimulation and achievement of economic targets set by the Government of Botswana. We believe that the achievement of such growth cannot be at the expense of social and environmental responsibility. Our commitment to sustainability means that we are constantly exploring ways to improve efficiency, manage resources more effectively, invest and develop human capital, reach out to the under banked/ unbanked sector and provide assistance to community development. We will continue to reach out to the community through FNB Foundation and our commitment to contribute up to 1% of profit after tax to be donated to various projects throughout the country.

The Board of Directors of First National Bank comprises a well balanced team with a wealth of experience in many fields of expertise. I wish to thank my fellow Directors for their vision, support and guidance during the past year.

I wish to record the gratitude of the Board to the Executive, Management and all staff members for their commitment, professionalism and hard work which contributed to the excellent results achieved under very difficult circumstances.

P.D. SHAH
CHAIRMAN OF THE BOARD OF DIRECTORS

ON THE BALL:
Premchand Shah,
Chairman of the Board

Chief Executive Officer's Report

This year marks my full first year as Chief Executive Officer and I have pleasure in presenting my maiden results. 2010 has been a year with ample challenges but despite these, the Bank has been resilient and faired very well in an economic environment that was somewhat turbulent.

"Amongst our major highlights for the year is an increase of profit after taxation of 7%.

This is a clear testament of the success of the strategies that we put in place at the beginning of the financial year."

The great Reverend Dr. Martin Luther King, Jr. said: "The ultimate measure of a man is not where he stands in moments of comfort and convenience, but where he stands at times of challenge and controversy."

First National Bank of Botswana has shown its true measure as a stable and profitable organisation properly positioned for a successful future. This financial year has been deemed a year where we experienced both sides of the same coin. The first half of our financial year was characterised by a decline in diamond proceeds as a result of the world economic downturn. Government revenues deteriorated, the labour market experienced instability and the economy experienced a recession. Green shoots of a recovery became apparent during the second half of the year, with an increase in credit extension and diamond sales, as well as stabilising labour markets. These positive indications re-enforced sentiments of a recovery. However the general consensus is that it is too early to establish whether this recovery is sustainable.

The prevailing economic environment presented an opportunity for us to review our strategies, realign and fine tune those that have worked for our business and put in place new and more innovative ones more in tune with the current conditions. Given the above, it is with great pride that we present this year's annual report. Amongst our major highlights for the year is an increase of profit after taxation of 7%. This is a clear testament of the success of the strategies that we put in place at the beginning of the financial year.

ALWAYS IN CONTROL:
Lorato Boakgomo-Ntakhwana
Chief Executive Officer

We were voted "the best bank in Botswana 2010" by Euromoney. The award was as a result of the phenomenal efforts of staff in the bank, to whom we extend our deepest appreciation.

Review of 2010 Strategies

Our main strategy during the year was to restructure our balance sheet so as to derive more efficiencies from it. In this regard, we grew our advances by 25%, significantly improving our loan to advances ratio and at the same time focusing on margin management. This strategy assisted us in growing our net interest income in a declining interest rate environment.

What is more pleasing, is that we managed to achieve this whilst ensuring that focus on credit management continues, resulting in good control over credit losses as reflected by both the decline in impairment charge and non-performing loans.

Our Corporate Banking Division continued to focus on building and nurturing enduring and mutually rewarding relationships with our Corporate clientele through focus on talent management to bolster relationship management and service delivery thereby making inroads into being the Corporate Bank of choice for our clients.

The result was a 32% growth in the liability base of the division as new clients moved to FNBB seeking transactional banking efficiencies and a client centric value proposition.

Our delivery channels which consist of the Branch Banking network, ATM's and Electronic Banking acts as the channel through which the entire bank solutions and client orientated products and services are offered. As the Bank continues to invest on these delivery channels, we opened a branch in Molepolole and a new regional office in Francistown. To further improve access to basic transactional banking 14 ATM's were introduced bringing the total network to 98 ATMs. The entire ATM network was upgraded with new software to ameliorate the ATM functionality and availability.

Another noteworthy infrastructure achievement of this financial year was the introduction of the FNBB kiosks in Pick 'n Pay stores across the country, offering our clients service convenience and extended banking hours.

The reorganisation of the Bank resulted in three segments: Retail, Wholesale, Public Sector and seven Product Houses: Treasury, Firstcard, WesBank, Property, Islamic Finance, EBanking and Insurance to bring

In FNBB we believe that our people are our key resource. Attracting and retaining the best talent ensures that our very empowering owner-manager culture stays intact.

synergies between relationship managers and product offering. With an able management team leading the Segments and the Product Houses, this strategy has assisted us to achieve closer collaboration amongst all the businesses and to operate as ”one bank“.

People as a key resource

In FNBB we believe that our people are our key resource, and in keeping with this philosophy we continued to focus our initiatives during the year on the attraction, retention and development of our people.

Attracting and retaining the best talent ensures that our very empowering owner-manager culture stays intact. We see this culture as a competitive leverage through which we have been able to achieve even in tough times.

Support was also extended to our staff in terms of dealing with health and wellness issues. We initiated several programmes and partnered with external service providers to extend support services to staff.

Euromoney Excellence Award

In a fitting end to a year with many highs and lows, we were voted “the Best Bank in Botswana 2010” by Euromoney. We received this award with pride as it fitted perfectly with our strategy to invest on Excellence in our business. The award was as a result of the phenomenal efforts of staff in the bank, to whom management extends its deepest appreciation.

Acknowledgement

Our journey to excellence has begun and our performance to date is a direct result of the dedicated and motivated team that supports this great organisation. To the invaluable members of the FNB Botswana staff, I extend my sincerest gratitude. Let us continue to strive for excellence in everything we do.

To our valuable customers, we endeavour to continue to provide you with innovative products and solutions. As we embrace opportunities that will be ushered in by the recovery, we aspire to ensure that we deliver nothing short of service excellence.

L. E. Boakgomo-Ntakhwana
Chief Executive Officer

Group Executive Committee

Lorato Boakgomo -Ntakhwana
Chief Executive Officer

Steven Bogatsu
Chief Financial Officer

Constance Storom
Senior Manager FirstCard

Bomolemo Selaledi
Head of Marketing & Communications

Ogone Madisa-Kgwarae
Senior Manager Property Division

Grace Setlhare-Mankanku
Head of Corporate Banking

Pauline Motswagae
Treasurer

Cheryl Rabashwa
Head of Human Resources

Dennis Ivins
Chief Operating Officer

Kwanele Ngwenya
Head of Retail

Martin Knollys
Segment Head, Retail

Richard Wright
Deputy Chief Executive Officer

Christo De Wet
General Manager, Wesbank

Boiki Tema
Head of Commercial Banking

Yolisa Phillips-Lejowa
Segment Head Public Sector

Divisional Report

Retail Segment

The Retail Segment comprises of the Branch banking network, ATM's, First Funding, Student Banking and our Wealth Segment - Private Clients.

The Segment is pleased to advise that it opened its 18th branch in Molepolole during the current financial period together with its new regional Head Office in Francistown.

Our ATM platform continued to expand, with the Segment now having 193 ATM's and Mini-ATM's devices. The ATM network was upgraded with new software to ameliorate the ATM functionality and enhance the uptimes of the devices for our clientele.

Notwithstanding the reduction in financial transactions due to the unfavorable economic climate, the Segment was able to grow its advances by 47% and its liabilities by 20% at the same time keeping its impairments under control.

Wholesale and Commercial Segment

During the period under review the Bank split the Wholesale segment into two distinct businesses, namely Wholesale and Commercial. The intention is to focus and grow these two businesses by offering tailor made products specific to their needs.

It is pleasing to note that the Segment was able to grow its advances by 46% and its liabilities by 23% whilst at the same time keeping its impairments to a minimum.

Public Sector Segment

The Public Sector business continues to be one of the primary focus areas of the Bank. The Segment has seen a significant increase in the uptake of its product offerings with its client base doubling in the current financial year resulting in improved profitability.

It is also pleasing to note that the Segment was able to grow its advances by over 100% and its liabilities by 31%.

WesBank Product House

The global economic climate continued its severe impact on the motor industry in Botswana. In 2008 new vehicles sales reported a 30% decline compared to 2007.

This negative trend persisted in the 2009/2010 financial year by declining by a further 24%. Despite the pressure on the business sector, and ultimately households, pro-active arrears management resulted in record low arrear levels with impairments well under control.

Total advances grew by 6% and are now in excess of P1.2 billion

Firstcard Product House

This was an exciting period in the "CARD" space as we embarked on the FIFA 2010 World Cup initiative which brought about the "New Look Limited Edition" Debit and Credit Cards. This initiative impacted on the business positively both from a financial perspective and from our customers' point of view.

It was yet another year of new developments, systems upgrades and infrastructure upgrades. FNB Card acquired an "E-Commerce" license from Visa International, making it the First To Market. This service will enable our merchants to accept card payments via the internet, primarily the Travel & Entertainment Industry.

It is also pleasing to note that the product house was able to grow its advances by 16% and its profitability by 13% in an environment of decreasing interest rates.

Property Finance Product House

The product house has had an exceptional year despite trading in an environment of declining credit appetite with its expected negative impact on profitability.

Total advances grew by 26% compared to prior year which was largely attributed to increased appetite in commercial properties financing and a concerted effort to grow the existing residential properties loans book whilst maintaining the quality of the book.

Strategies adopted by the product house at the beginning of the year to ensure growth while firmly controlling impairments have borne the desired results.

Treasury Product House

Treasury Division, which includes International Trade and Custody and Trustee Services, recorded lower financial results when compared to the same period last year.

Macroeconomic developments, both locally and globally negatively impacted the performance. This was reflected largely on the interest revenue by the negative impact on interest revenue due to a declining interest rate environment.

There was also a shift by some of the bank's clients from deposits towards other investment products such as Government bonds and Treasury bills. Appetite for foreign currency deposits was also greatly reduced as global interest rates plummeted.

Non-interest income increased despite erratic customer flows. Prudent balance sheet, liquidity and interest rate management yielded positive results for the Bank and reduced certain balance sheet risks.

Islamic Finance Product House

This product house was launched in March 2007. It focuses on providing finance for asset purchases in a Sharia'a compliant manner.

The product offering has a fixed repayment structure and is available to any client wishing to opt for fixed financing.

The product house continues to perform well ahead of expectations. Total advances grew by 57% which was largely attributed to an increased appetite in commercial and residential property finance and movable assets.

Corporate Governance

Corporate Governance

EMBRACES FAIRNESS,

DISCIPLINE,

RESPONSIBILITY,

TRANSPARENCY,

ACCOUNTABILITY,

SUSTAINABILITY AND

ENVIRONMENTAL

RESPONSIBILITY

AS CORE VALUES.

- FNBB Corporate Governance Report

Board of Directors

Premchand Shah
– Chairman (Independent non-executive)

Prem is a Fellow of the Botswana Institute of Accountants, a Fellow of the Institute of Chartered of Secretaries and Administrators in the UK. He has a BSc degree in Economics from the University of London. Prem has extensive experience in auditing, financial investigations, liquidations and company secretarial matters. Prem served with PricewaterhouseCoopers for over 38 years and was Senior Partner of the Botswana practice until his retirement in 2003.

He was appointed the Chairman of the Board in 2009. He is a member of the Audit, Risk, Senior Credit, Remco and Directors Affairs & Governance Committees.

Lorato Edith Boakgomo-Ntakhwana
– CEO (Executive Director)

Lorato graduated with a BCom degree in 1985 and an MBA in 1992 whilst working for the Central Bank of Botswana. She joined the South African Reserve Bank in 1996 where she worked her way through the ranks, ultimately appointed Head of the Reserve Management Unit in 1998 and Assistant General Manager in the Financial Markets department in 2002. She joined Rand Merchant Bank's Treasury Division in 2004 as Deputy Treasurer responsible for the Africa Treasuries, the Africa Trading Desk, international bank relations and was a member of the Treasury Management Board. In 2008 she moved to FirstRand where her responsibilities included developed markets relations, Rand Account Services and balance sheet management-Africa. Lorato was appointed Chief Executive Officer, First National Bank of Botswana in June 2009.

She is the only Executive Director of the Board and is a Trustee of the FNB Foundation, the bank's primary vehicle for social and community investment activities.

John Kienzley Macaskill (Non-executive)

John is a BCom graduate of the University of Pretoria and completed his AEP through the UNISA Business School. He has been with First National Bank of South Africa since 1973 and has held various senior positions within the Group including positions in South Africa, London and Hong Kong. John was Chief Executive Officer and Director of First National Bank of Botswana from 1996 until 2003. John is the Chief Investment Officer for FirstRand Africa.

He is a member of the Audit, Risk, Remco and Directors Affairs & Governance Committees.

Jabulani Richard Khethe (Non-executive)

Jabu graduated in South Africa with a BCom in Banking, and subsequently completed his Masters in Business Administration (MBA) with Bond University. He also holds a Marketing Management Diploma, and completed an Executive Management Development Programme in 2001 with GIBS Management College, South Africa and Harvard University. He has extensive banking, insurance and leadership experience with financial institutions in South Africa. Jabu is the Chief Executive Officer of FNB Africa, a division of First National Bank of South Africa, which is in turn a division of FirstRand Bank Ltd, South Africa.

Myra Tshephonyane Sekgororoane
(Independent non-executive)

Myra has a Higher National Diploma in Hotel Management obtained in the Republic of Ireland. She previously worked in the Cresta Group from 1985 till 2000 where she left as the Group Operational Director. Myra is the Chief Executive Officer of Botswana Tourism Organisation and sits on several company Boards as well.

She is Chairperson of the FNBB Foundation, the Bank's primary vehicle for social and community investment activities and the Chairperson of Remco.

Sifelani Thapelo (Independent non-executive)

Sifelani is a graduate of the University of Cambridge with a Master of Laws obtained in 1994, majoring in Corporate Law and Finance and Securities Regulations. He was a part time lecturer at the University of Botswana between 1992 and 1994. Sifelani is an attorney of the High Court of Botswana and a senior partner in the legal firm based in Francistown and is a member of the Cambridge Commonwealth Society, Alumni of the International Development Law Organization as well as being a member of several other Boards.

He is the Chairman of the Directors Affairs and Governance Committee.

Peter David Stevenson (Independent non-executive)

Peter is a Chartered Accountant and a Fellow member of the Botswana Institute of Accountants. He has extensive management, leadership, business and financial experience gained in 28 years service with the Barloworld Group in Botswana, Namibia and Zimbabwe. Peter was formerly the Group Managing Director of Barloworld Botswana. He is a management consultant and is currently a Director/Trustee of several private companies and charitable trusts.

He is the Chairman of the Audit and Risk Committees and is a member of the Senior Credit Committee.

Boupendra Uttam Madhav (Non-executive)

Bobby is a management graduate with 25 years banking experience with the FirstRand Group. He is currently the Provincial Chairman of Gauteng, First National Bank in South Africa and is responsible for some of the new businesses in commercial banking including 2010 strategic business development.

Balisi Mohumi Bonyongo
(Independent non-executive)

Balisi graduated with honors in Mineral Engineering from the University of Leeds in 1992 and obtained an MBA from the University of Cape Town in 2002. He attended a Senior Executive Programme in 2007 at the London Business School. He is currently the General Manager of Debswana Jwaneng Mine and a Director of PEO and Botswana Power Corporation.

He is a member of the Directors Affairs & Governance Committee.

Michael William Ward (Independent non-executive)

Mike, a graduate in hotel management, has over 30 years experience of business in Botswana, mainly in the field of commercial security. He is credited with creating one of Botswana's first home-grown public companies, Inco Holdings, and was CEO of that company until a controlling interest was acquired by an international group to become G4S, which is now one of Botswana's largest employers. Since 2003, Mike has been employed as regional director responsible for developing businesses in many countries in Africa, firstly with the G4S group and then with ADT Security. He is currently a Director and shareholder of a Botswana based private equity company.


FNB
Botswana
How can we help you?

Board and Sub Committees

The mission of the board of Directors is to represent the interests of the shareholders, by perpetuating a successful business that ensures the achievement of the vision of the company.

The board is ultimately accountable and responsible to the shareholders for the performance and affairs of First National Bank of Botswana. The board must, therefore, retain full and effective control over the company and must give strategic direction to the Management of the Bank. The board is also responsible for ensuring compliance with all relevant laws, regulations and codes of

Report of The Audit Committee
Chairman : P D Stevenson
Members : P D Shah and J K Macaskill
Mandate :

To assist the Board of Directors in its evaluation of the adequacy and effectiveness 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, to introduce such measures as, in the Committee's opinion, may serve to enhance the credibility and objectivity of the financial statements and the affairs of the Group and to oversee financial reporting.

Summary of Activities:

During the year we reviewed:

- the financial reports for accuracy and timeliness
- capital adequacy
- dividend policy and recommended dividends to be declared
- internal audit plans and monitored audit reports for effectiveness of internal controls
- external audit plans and interrogated the reports
- recommended the appointment and fees of external auditors

The Audit Committee met four times during the year and reported recommendations to the Board.

P D Stevenson
Chairman Audit Committee
15 July 2010

Report of The Remuneration Committee
Chairman : M T Sekgororoane
Members : P D Shah and J K Macaskill
Mandate :

The subcommittee assists the Board in discharging the responsibilities relating to the remuneration of employees of the Bank and evaluating the adequacy, efficiency and appropriateness of the policies and practices with specific reference there to.

- Ensure alignment of remuneration policy to business strategy and desired culture of the Bank
- Adopt strategy needed to attract, retain and reward high performance individuals
- Ensure adequacy of healthcare and retirement benefits
- Review and propose remuneration of Non Executive Directors.

Summary of Activities:

The subcommittee met three times during the year and effectively discharged the duties as specified above.

M T Sekgororoane (Ms)
Chairman Remuneration Committee
15 July 2010

business practice. In terms of the Constitution of First National Bank of Botswana Article 23.2, "The Directors may delegate any of their powers to any committees as it may think fit including the power to sub-delegate. Such committees may include, but shall not be limited to, an audit committee, remuneration committee, senior credit committee and risk committee.

Any committee so formed may consist of one or more members of the Board, and the Board shall also be entitled to appoint such other person or persons as it considers expedient to a committee but so that at least one of the members of any such committee shall consist of a Director appointed by the Company."

Report of The Directors Affairs & Governance Committee
Chairman : S Thapelo
Members : B M Bonyongo and J K Macaskill
Mandate :

The subcommittee assists the Board in evaluating the adequacy, efficiency and appropriateness of the corporate governance structures and practices of the Bank with specific reference to the following.

- Board and Board Committee structures
- The maintenance of Board directorship continuity programme with a view to ensuring that there is balance of skills, experience and other qualities required to enhance the effectiveness of the Board
- The selection and appointment of new Directors
- Conducting the annual self-assessment of the effectiveness of the Board and the contribution of each Director
- Ensuring that appropriate policies and procedures are put in place to avoid conflicts of interest

Summary of Activities:

The subcommittee met three times during the year and has effectively managed the processes as required. We have provided regular updates to the Board regarding matters of Governance as specified above.

S Thapelo
Chairman Directors Affairs & Governance Committee
15 July 2010

Report of The Risk & Compliance Committee
Chairman : P D Stevenson
Members : P D Shah and J K Macaskill
Mandate :

The duties and responsibilities of the Committee shall include assisting the Board in their evaluation of the adequacy and efficiency of all risk related matters.

Summary of Activities:

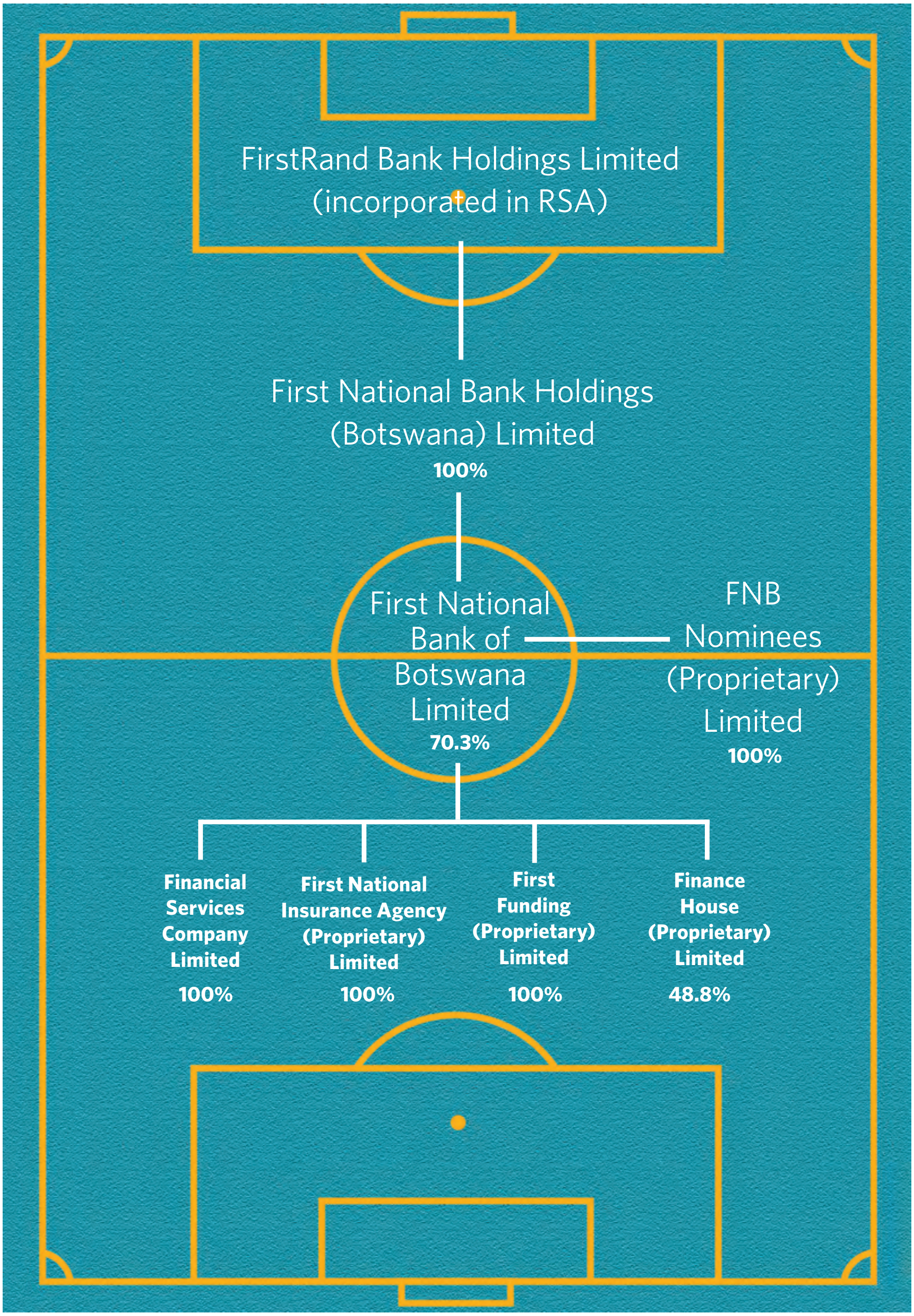
The sub committee was formed during the year to provide special focus on compliance and risk related matters.
During the year we reviewed

- the Charter of the sub committee
- the documenting of the risk management framework and related policies
- identify and monitor all significant risk categories

The Risk and Management committee intends to oversee and add value to the risk management process and report regularly to the Board on the risk profile of the Bank.

P D Stevenson
Chairman Risk & Compliance Committee
15 July 2010

Corporate Structure



Directors
Attendance Register and Fees

Attendance Register	Board	Audit	Risk	Remco	DAGC	Credit	Special
P D Shah (Chairman Board & Credit)	7/7	4/4	2/2	3/3	3/3	7/7	2/2
L E Boakgomo-Ntakhwana (CEO)	7/7	4/4	2/2	3/3		7/7	1/1
B M Bonyongo	7/7				1/2		
J R Khethe	3/7						
J K Macaskill	7/7	4/4	2/2	3/3	3/3		
B U Madhav	6/7						
M T Sekgororoane (Chairperson Remco)	5/7			3/3			
P D Stevenson (Chairman Audit & Risk)	6/7	4/4	2/2			7/7	2/2
S Thapelo (Chairman DAGC)	7/7				3/3		
M W Ward	5/5						1/1

Directors Fees	Board	Audit	Risk	Remco	DAGC	Credit	Special	Total
P D Shah	273,700	78,200	18,855	22,425	29,325	143,696	19,550	585,751
L E Boakgomo-Ntakhwana**								0
B M Bonyongo	136,850	14,663						151,513
J R Khethe*								0
J K Macaskill*								0
B U Madhav*								0
M T Sekgororoane	117,300			38,124				155,424
P D Stevenson	127,075	136,852	32,508			84,525	19,550	400,510
S Thapelo	136,850				49,854			186,704
M W Ward	97,750						9,775	107,525
	889,525	229,715	51,363	60,549	79,179	228,221	48,875	1,587,427

* Included in management fees payable to holding company

** Executive Directors included in salaries

Corporate Governance

Corporate Governance

Corporate Governance is a set of frameworks, policies and procedures which dictates the way in which a company is controlled and administered. It covers all stakeholders, their interactions and the strategic vision of the company. The stakeholders include all those affected by the performance of the company namely shareholders, directors, employees, suppliers, customers, regulators and the society at large. It embraces fairness, discipline, responsibility, transparency, accountability, sustainability and environmental responsibility as core values.

It ensures that the right checks and balances are in place to prevent the risk of mismanagement from conflicting priorities, misallocation of resources, conflict of interests, misaligned incentives and other manifestations of human weaknesses associated with excessive power.

First National Bank of Botswana is committed to international best practice in Corporate Governance and has adopted King II as the basic standard in this regard. We are conducting a gap analysis in assessing compliance with King III and working towards incorporating the new requirements contained therein.

Statement of compliance in terms of Botswana Stock Exchange Listing Requirements Paragraph 8.52(a):

Corporate Governance Objective

The Board determined that the corporate governance objective was to be King II compliant. The annual report would contain explanations if any areas were non-compliant.

Corporate Governance Assessment Table

Within King II Code of Corporate Practices and Conduct, six essential areas of compliance have been identified and evaluated for compliance.

1. The Board and Directors
2. Risk management
3. Internal audit
4. A Code of Ethics
5. Accounting and auditing
6. Capital adequacy and Management

Corporate Governance (continued)

Area Assessed

1. The Board and Directors

1.1 The Board

1.1.1 A Board Charter in place, setting out the Board's responsibilities.

1.1.2 The Board's responsibilities which are inter alia the following, have been met:

- To ensure that the company complies with all relevant laws, regulations, codes of conduct and policies;
- Adherence to the King II Code of Corporate Practices and Conduct as contained in the King II Report on Corporate Governance;
- The responsibility for ensuring that an adequate and effective process of corporate governance which includes the process of risk management is established and maintained.

1.1.3 Disclosure in the Annual Report of Board membership, whether a Board Charter is in place and whether the Board has satisfied its responsibilities in terms of its Charter.

1.1.4 The Board retain full and effective control over the company and monitor management in implementing Company plans and strategies.

1.1.5 Board defined levels of materiality, reserving specific power to itself and delegated other matters with the necessary written authority to management.

1.2 Board composition

1.2.1 Balance of executive and non-executive Directors, with a majority of non-executive Directors of whom the majority are independent.

1.2.2 Procedures for appointments to the Board are formal and transparentand a matter for the Board as a whole.

1.3 Chairperson and CEO

1.3.1 Chairperson an independent non-executive Director.

1.3.2 Roles of chairperson and CEO are separate.

1.4 Directors

1.4.1 No one individual or a block of individuals dominate the Board's decision taking.

1.4.2 Directors are individuals of calibre and credibility with the necessary skills and experience.

1.4.3 Directors are fit and proper and not disqualified from being Directors.

1.4.4 In the Annual Report, the status of Directors are categorised (Executive, Non Executive, Independent).

Corporate Governance (continued)

1.5 Remuneration of Directors

1.5.1 Performance related elements constitute a substantial portion of the total remuneration package of executive Directors.

1.5.2 A Remuneration Committee has been appointed.

1.5.3 The Remco has a clear majority of independent non-executive Directors.

1.5.4 Remco is chaired by an independent non-executive Director.

1.5.5 Remco makes recommendations to the Board on executive Director remuneration.

1.6 Board Committees

1.6.1 The establishment of the following Committees:

- Audit
- Directors' Affairs and Governance
- Remuneration
- Risk, Compliance and Capital
- Senior Credit Committee

1.6.2 All Committees have formal charters with clearly agreed upon reporting procedures and a written scope of authority.

1.6.3 Committees receive regular reports from sub-committees.

1.6.4 There is transparency and full disclosure from the Committees to the Board.

1.6.5 Board Committees are preferably chaired by an independent non-executive Director.

1.6.6 Disclosure in the Annual Report whether the Committees have adopted formal charters and if so, whether each Committee has satisfied its responsibilities for the year, in compliance with its charter.

1.6.7 Disclosure in the Annual Report of the membership of each Committee.

1.7 Board and Director Evaluation

1.7.1 Annual self-evaluations of the Board as a whole, its committees and the contribution of each individual Director are performed.

1.7.2 Every Board annually considers whether its size, diversity and required mix of skills and experience make it effective.

2. Risk management

2.1 Management is accountable for the effectiveness of the overall risk management process which is monitored by appropriate board committees and sub-committees.

2.2 The Business Performance and Risk Management Framework (BPRMF) is the overarching framework that governs risk management, and has been distributed, communicated and implemented via the risk governance structures.

Corporate Governance (continued)

2.3 The board appointed Risk and Compliance Committee has articulated the risk-reward appetite in the BPRMF.

2.4 Appropriate risk assessments focusing on key risks are undertaken and reported on via the risk governance structures.

2.5 Appropriate risk reporting is done by management via the risk governance structures to the board.

2.6 The annual report contains appropriate disclosures on risk management.

3. Internal audit

3.1 Status and role

3.1.1 Report to appropriate Audit Committee and Risk Committee meetings.

3.1.2 Internal audit report at a level within the company that allows it to fully accomplish its responsibilities and have regular and ready access to the chairpersons of the Audit Committee and Board.

3.1.3 An internal audit charter in place, approved by the board to determine purpose, authority and responsibility.

3.2 Scope of Internal Audit

3.2.1 An independent, objective assurance in relation to the effectiveness of risk management, governance and internal control as applied by management

3.2.2 Internal audit plan approved by the Audit Committee.

3.2.3 Co-ordination with other internal and external assurance providers that ensures coverage of financial, operational and compliance controls and minimising duplication.

4. Code of Ethics

4.1 Banking Group Code of Ethics

4.1.1 The Board demonstrate commitment to the Code of Ethics (by institutionalising systems and procedures to monitor and enforce the code).

4.1.2 Safe reporting system and ethics helpline will be implemented.

4.2 Board Directors' Code of Ethics (applicable to Board Directors)

4.2.1 The Banking Group Board Directors' Code of Ethics has been adopted.

4.2.2 The Banking Group Board Directors' Code of Ethics is enforced.

5. Accounting and Auditing

5.1 Audit and non-audit services

5.1.1 The external auditors observe the highest level of ethics and specifically, their independence is not impaired in any way.

Corporate Governance (continued)

5.1.2 Compliance with the Banking Group Board's policy document on External Auditor Prohibited Services.

5.2 Reporting of Financial and Non-financial Information

5.2.1 The Board minute the facts and assumptions used in the assessment of the going concern status of the company at the year end.

6 Capital adequacy and Management

6.1 The Internal Capital Adequacy Assessment Process ("ICAAP") framework and Capital Management Frameworks collectively govern the level of capital, allocation of capital, investment of capital and also include relevant strategies and stress testing based on changing business cycles. Said frameworks have been distributed, communicated and implemented via the risk governance structures.

6.2 Management set appropriate capital targets in line with the risk assumed by business units.

6.3 Management regularly review the level of capital to ensure that the bank remains properly capitalised in line with targets set and a changing business cycle via the risk governance structures.

6.4 Appropriate reporting on capital adequacy is done by management via the risk governance structures to the board.

6.5 The annual report contains an appropriate disclosure on capital management, such as strategy, capital targets and actual capitalization levels. It also contains a statement of level of capital given stress scenarios based on different business cycles.

Enterprise Risk Management

One of the biggest challenges facing banks worldwide is striking a balance between risk and return. The impact of the global financial crisis and the subsequent recession has highlighted the importance of risk management at the heart of the banking sector. The purpose of risk management is to identify risk factors which could adversely affect the desired outcomes of the Bank's activities and manage these risks and thereby minimize the incidence of adverse outcomes.

Group enterprise risk management framework

The Bank has aligned its risk management structure with the Business Performance and Risk Management Framework.
The organisational structure of risk management including roles and responsibilities are as follows:

- **The Board of Directors** provide overall direction and take responsibility in managing the risks faced by the bank
- **Board Risk Committee**, which is a sub-committee of the Board, discharges its duties as vested by the Board. Its duties include approving policies and strategies for risk management to be executed by Executive Management
- **Risk Management Committees** has been set up to ensure operational efficiencies across all risk types.
- **Enterprise Risk Management Function** is responsible for the overall risk management leadership and execution. It is important to note however that in line with the First Rand Banking Group practice the responsibility for risk management resides with management at all levels, from members of the board to individuals throughout the Bank.

Specialist Committees reporting to the Main Risk Committee

Asset and Liabilities Committee (ALCO):

ALCO is responsible for managing the Interest Rate Risk, Liquidity Risk and Market Risk on the Bank's balance sheet for both local currency and foreign currency.

Liquidity risk describes the risk of not being able to generate sufficient cash to meet financial commitments to extend credit, meet deposit maturities and fund other transactions in the ordinary course of business.

Interest rate risk is the possibility of incurring losses as a result of changes in interest rates.

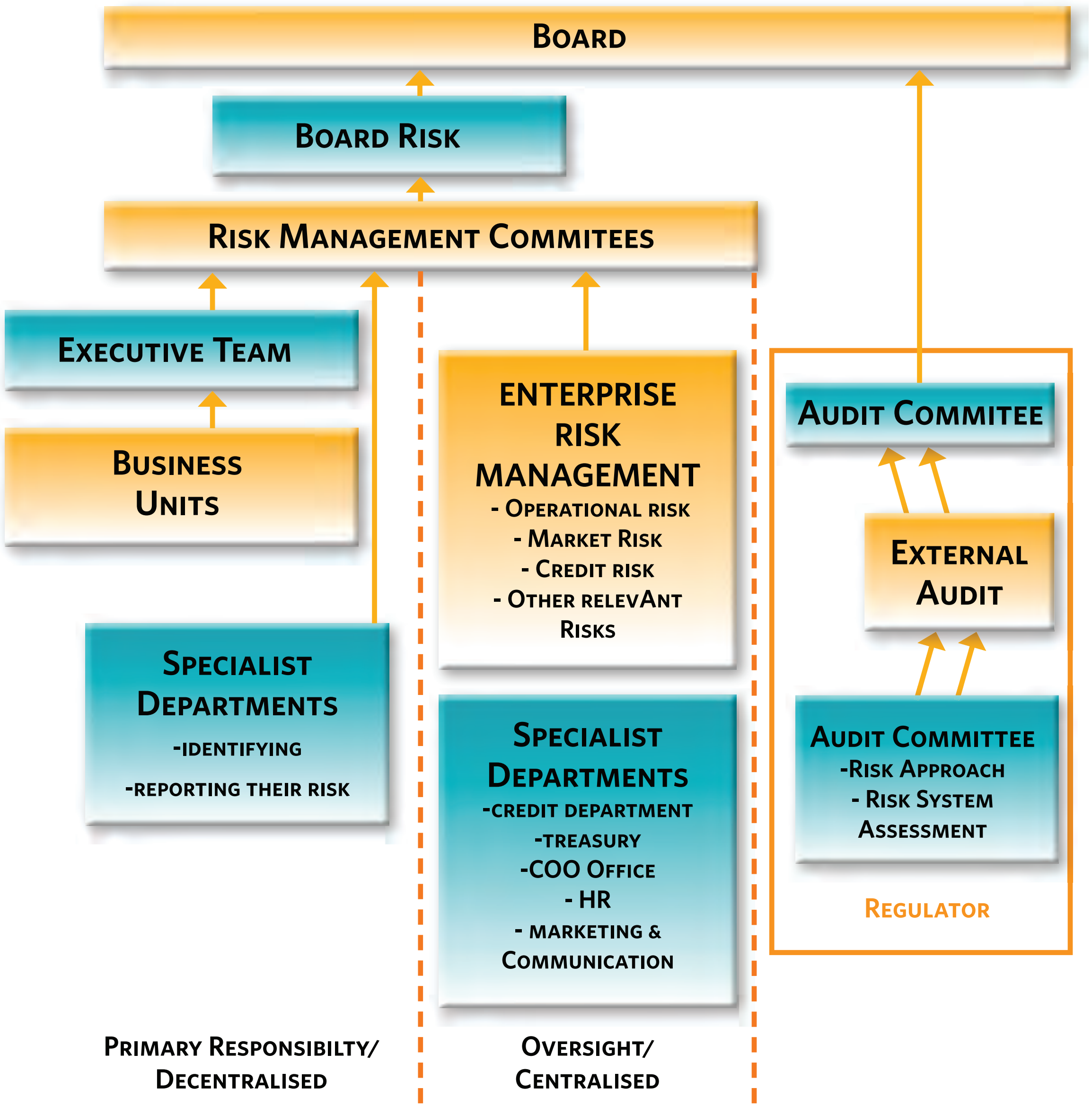
Market risk arises from the negative impact on the current and future earnings potential of the Bank as a result of the movement and volatility of exchange rates or interest rates.

The Graphs overleaf (p.37) represent the liquidity and interest rate gaps as per the ALCO model at 30 June 2010. Both the period and cumulative gaps are shown.

Operational Risk Committee (Risk Co)

Risk Co is responsible for ensuring the effective risk management of the following operational risks:

- Human Resources Risk
- Information Technology Risk
- Information Security Risk
- Legal Risk
- Regulatory Risk
- Project Management Risk
- Process Risk
- Business Continuity Management Risk
- Finance and Taxation Risk
- Physical Security Risk
- Outsourcing Risk
- Reputational Risk



1st line of defense

Business units are considered as primary risk owners and risk takers. Primary responsibilities of the business / support units are:

1. Assume responsibility for identifying, managing and reporting their risks
2. To manage risks through the use of facilities and services provided by specialist risk departments
3. Business units will report to the ERM function

2nd line of defense

ERM has been tasked with measurement and monitoring of all risks through the specialist risk committees. ERM is responsible for:

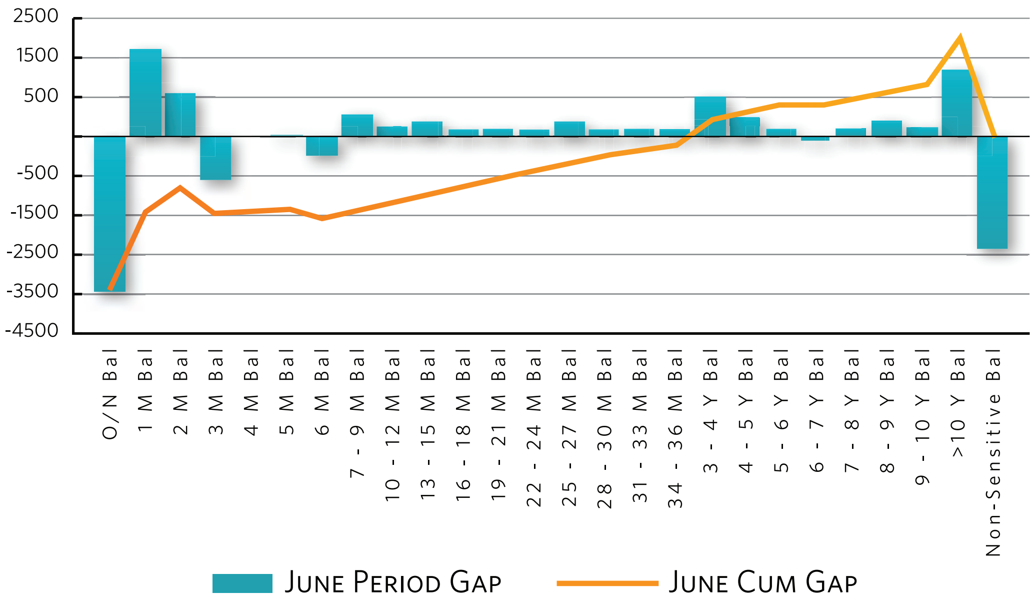
1. Providing support to the business units,
2. Reporting to the board risk committee the overall status of risk management including monitoring risk appetite at an acceptable level
3. Ensuring that the specialist departments offer sufficient support to others
4. Reinforcing of risk culture across the bank

3rd line of defense

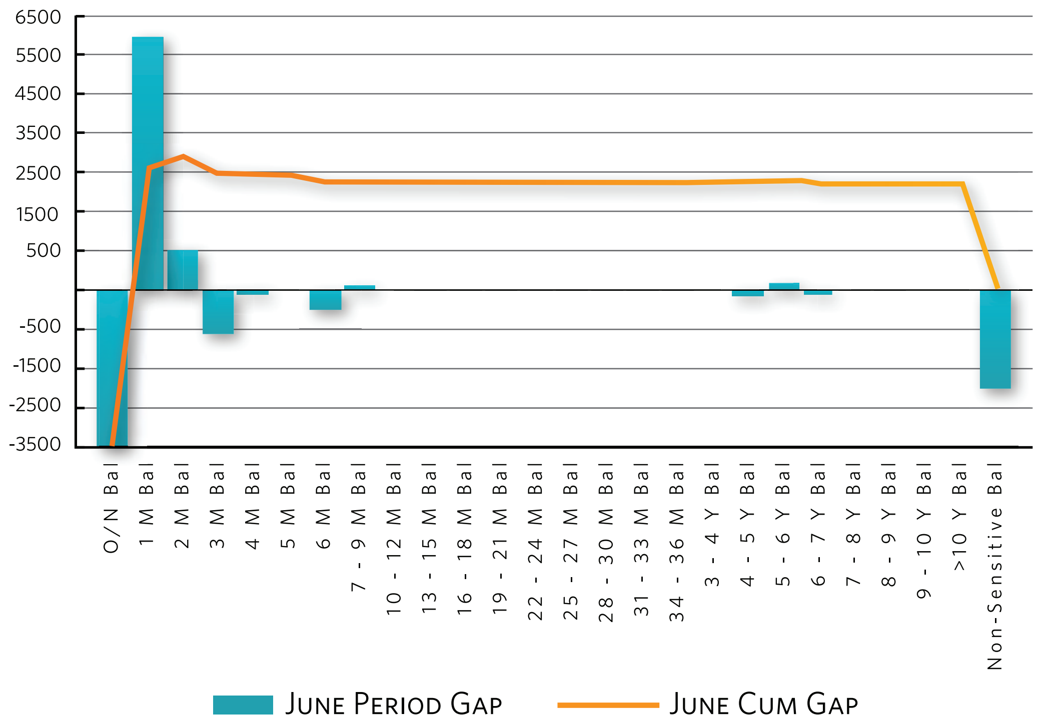
The key roles performed by the Internal Audit Department are to:

1. Providing an independent assurance of the robustness of the different management processes and methodologies
2. Communicate findings to ERM function, Board Risk Committee and Board
3. Ensure that the bank is compliant with necessary regulatory requirements and sufficiently robust in its risk management framework

Liquidity Gap for June 2010



Repricing Gap for June 2010



Credit Risk Committee:

The Credit Risk Committee is responsible for the effective risk management of the Bank's credit profile, monitoring credit risk exposure within acceptable limits including determination of the credit risk appetite.

Credit risk can be defined as the risk that a debtor will default on servicing and repaying a borrowing and also includes the possible shortfall in recovering a debt after realising security. In banking terms this is associated with the principal business of a bank, being that of lending money.

Efficiency of the credit process is also continuously reviewed, as are the efficiency of credit approval processes and the effectiveness of ongoing management of the portfolio. Portfolio credit risk is managed via a categorisation system that identifies and monitors deteriorating credit risks at an early stage.

An established credit process is in place to reduce the risks of experiencing high losses as experienced in the credit crunch of overseas markets. This process involves defining delegated authorities and credit procedures. The objective is to build and maintain high quality assets. The senior credit committee is a sub committee of the Board of Directors.

Management of Risks within the Treasury Division:

The trading portfolio

The risk of adverse movements in comparative rates of exchange between currencies is managed in the Treasury dealing room. Limits are assigned to each dealer based on individual knowledge, expertise and experience. The treasury risk manager monitors the trading portfolio on a daily basis.

Operational risk with regard to market operations

All activities are authorised and conducted using operational systems that are adequate for recording, valuation and settlement of all transactions. Adequate security measures are in place to prevent access of unauthorised persons to the trading and settlement areas and systems. There is adequate segregation of duties in respect of dealing, settlement confirmation and risk exposure measurement.

The non-trading portfolio

The Bank's balance sheet is managed by the ALCO (Asset and Liability Committee), which consists of the Bank's executive management representing key business areas. The committee meets on a fortnightly basis or on a more frequent basis should circumstances require them to do so. The sensitivity to movements in interest rates is measured, using a standard set of rate shocks. The impact of this on the net interest income of the Bank is reviewed monthly.

Counterparty risk

This risk arises from counterparty to a transaction failing to meet a financial commitment. This risk is managed in the Bank's dealing room by allotting counterparty trading limits on foreign exchange and money market transactions. The Treasury Risk Manager monitors these limits daily and deviations are reported to the Treasurer.

Risk Register

Overleaf is the risk register for the Bank that lists the identified key risks, the inherent impact they would have on the Bank's balance sheet and finally the controls that have been put in place to reduce the risk loss.

Risk Register

Risk Market Risk	Description	Impact Rating	Measures in place
Liquidity Risk	Liquidity risk is the risk of not being able to generate sufficient cash to meet financial commitments to extend credit, meet deposit maturities and fund other transactions in the ordinary course of our business, the aim being to remain prudently and economically liquid.	High	• Liquidity Risk Management Policies and Frameworks • Monitoring of set limits • Monitoring by ALCO & Board Risk Committee • Contingency plans
Interest Rate Risk	Interest rate risk is the possibility of incurring losses as a result of changes in interest rates.	High	• Interest Rate Risk Frameworks • Monitoring by ALCO
Market Risk	Market risk arises from the negative impact on the current and future earnings potential of the bank as a result of the movement and volatility of exchange rates or interest rates.	High	• Market Risk Framework • Monitoring by ALCO
Credit Risk	The risk that a debtor will default on servicing and repaying a borrowing and also includes the possible shortfall in recovering a debt after realising security	High	• Review of Credit Risk Policy • Ongoing credit risk management • Credit Risk Assessment and Portfolio Monitoring • Monitoring of Delegated Authority • Product Lending Limits • Senior Credit Risk Committee , Sub Committee of the Board

Risk Register (continued)

Risk Operational Risk	Description	Impact Rating	Measures in place
Human Resources Risk	The risk of loss caused intentionally or unintentionally by failure to recruit, develop or retain employees with appropriate skills and knowledge The risk of loss due to failure to manage employee relations	Medium	• HR Manual and Procedures • Succession Planning • Regular remuneration review by the Remuneration Committee (REMCO)
Information Technology Risk	The risk of loss by failure, breakdown, or other disruption in technology and/ or processing.	High	• IT Policies and Frameworks • Systems Audits • Project Risk Management Review of IT Projects • Regular maintenance and upgrade
Information Security Risk **Legal Risk**	The risk of loss from piracy, inappropriate use of information or theft of data and information The risk of adverse legal/contractual disputes	High	• Information Risk Policies and Frameworks • Systems Audit • Dedicated Legal Function • Legal Policies and Frameworks
Regulatory Risk	The risk of loss due to non-compliance with regulatory requirements	High	• Compliance Function • Compliance Policies & Procedures • Compliance Monitoring
Project Management Risk	The risk of projects not being completed adequately and on time within set budgets	High	• Project Risk Management Framework • Budgeting • Capacity Building

Risk Operational Risk	Description	Impact Rating	Measures in place
Process Risk	The risk of loss to the company due failed internal controls , fraudulent activities of employees and non-employees, negligence, human errors or through weaknesses of operating procedures	High	• Operational Risk Management Framework • Risk based review of processes • Physical controls & Security • Fraud Management • Internal Audits • Key Risk Indicators and Risk Control Self Assessments
Business Continuity Management Risk	The risk of loss due to inadequate recovery within the set downtime tolerance	High	• Tested Business Continuity Planning • Documented Back-up and Disaster Recovery Procedures
Finance and Taxation Risk	The risk to profitability of Bank's balance sheet , competitiveness and management of taxation risk	High	• Monthly Compliance submissions to regulator • Reviews by Chief Financial Officer • Reviews by Asset and Liability Committee, Executive Committee and Board • Internal Audit
Physical Security Risk	The risk of loss or damage to the physical property or assets to which the company is responsible for	High	• Routine maintenance and checks • Physical Security Policies • Business Continuity Planning
Outsourcing Risk	The risk of failure of key outsourcing arrangements with external parties	High	• Outsourcing Policies and Procedures • Regular Review of Service Level Agreements • Procurement Committee • Internal Audits

Risk Register (continued)

Risk Insolvency Risk	Description	Impact Rating	Measures in place
Insolvency Risk	Insolvency is the chronic condition of being unable to pay one's debts in full. An insolvent bank cannot discharge its debts and must be either liquidated or rescued, usually with public money.	Medium	• Capital Adequacy Monitoring • Regular Review by Board
Reputational Risk	The risk of financial loss due to negative public perception	High	• Media Policies and Procedures • Public Relations Management • Staff Training • Customer grievance handling procedures • Business Continuity Management Planning
Strategic Risk	The risk of loss due to failure to manage strategic goals of the business	High	• Strategic Planning • Corporate Governance • Review by Executive Committee and Board • Staff Training

2008

- Setting up of Risk Management Unit
- Credit and Operational Risk Policies
- Internal Loss Event Data Collection
- Monthly risk reporting to Group
- Gap analysis study and recommendations for Enterprise Risk Management Framework

2009

- Policy gap analysis
- Board Risk Committee established
- Review and development of all Risk / Compliance Policies
- Identification of Key Risk Indicators & Risk Control Self Assessments

2010 and beyond

Data Cleansing on all
- credit facilities
- Obtaining Group professional expertise on further developing Risk Management efforts
- Expanding scope of pre granting Credit Facility review
- Risk Control Self Assessments and Key Risk Indicators
- Basel II

Sustainability

Sustainability Report

FNB Botswana achieved top honours in FY 09 with the acknowledgement as the Best Bank in Botswana by the Euromoney 2010 Awards for Excellence. The award is in recognition of institutions (and individuals) that demonstrate leadership, innovation and momentum in the markets in which they excel. This was achieved during a period of severe pressure on the Botswana economy resulting from the global financial crisis and internal changes which were managed fairly smoothly.

We remain the biggest bank in Botswana in terms of market capitalisation and in terms of assets.
We acknowledge our position of leadership in this regard and are committed to promote the core principles of good governance in creating value for our stakeholders. We strive to operate within the legal and regulatory framework of Botswana and minimise the impact on the environment. To this end we are in constant engagement with our stakeholders namely customers, employees, suppliers and the community.

Customers

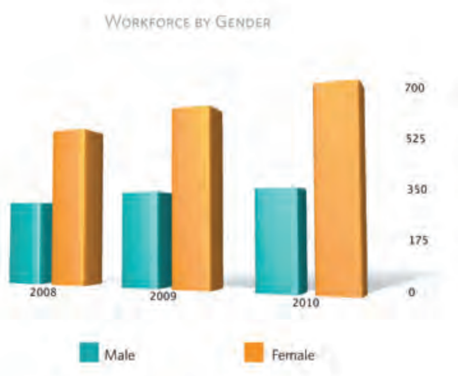
First National Bank of Botswana Limited established its first branch in Botswana in September 1991. In 1992 FNB Botswana acquired the operations of BCCB which was administered by the Bank of Botswana, which then operated five branches.

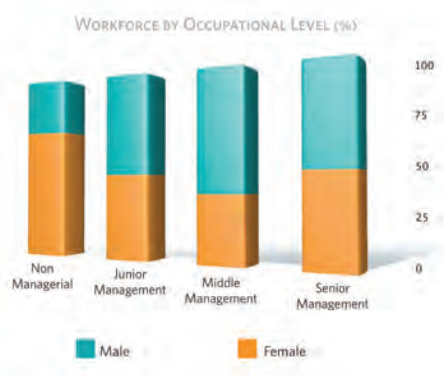
Between 2005 and 2010 organic growth resulted in the expansion of the branch network to 18 located in all major centers in Botswana. With a staff complement in excess of 1,000 employees, the Bank operates 171 ATM/mini-ATM, and over 3,500 point of sale devices though out the country.

The range of solutions and products include:

- Vehicle and Asset finance products - Wesbank
- Treasury solutions
- Commercial and Industrial Property Finance solutions
- International Trade Services products
- Electronic Banking and Online Banking products
- Credit Card, Debit Card and Corporate Card solutions
- Cellphone Banking products and solutions
- Savings and Investment products
- Public Sector Financing
- Islamic Finance

The Bank continues to expand and increase the footprint, through opening new branches and introducing new self-service channels. During the current financial year, the Bank opened a new branch in Molepolole and re-located Francistown branch to a new state of the art building. These branches bring a completely new look and feel, aimed at improved customer-flow and service.





Plans are underway to further increase representation throughout the country, and to take the Bank to the people and extend Banking services to the un-banked market.

Internally, the Bank has set out to further streamline and automate its business processes and to improve support functions. The Bank continues to differentiate its product offering through continued efforts to provide exceptional service delivery, to current and potential customers so that they may enjoy consistently great banking experience.

This is an integral part of a strategy to gain profitable market share and to retain existing customers. The Bank has conducted customer surveys to identify specific needs and concerns, and identify shortcomings in service delivery.

One of the Bank's strategic focus is to continuously build and strengthen a strong customer focused culture that ensures all products are correctly packaged and accessible.

To this end, the Bank has partnered with the Pick n' Pay franchise, which has led to the introduction of new sales and service channels called "FNBB Kiosk" within selected Pick and Pay stores. To date we have 3 kiosks located at Lobatse, Gaborone and Francistown offering services such as account opening, general enquiries, loan applications, credit card applications, internet and cell phone registration and cheque deposits. Customers will enjoy the convenience of extended banking hours at these retail stores.

Employees

Our employees are our greatest asset and they are a vital link to our customers and the community in which we operate. It is for this reason that we collaborate, empower and support each other through the consistent application of our strategies and values to create an enabling environment focused on excellence.

Developing Our Human Capital

We continued to invest in developing our human capital and we have a number of initiatives in place that are aimed at assisting us to achieve this objective. The initiatives include the following:-

- Technical /discipline related training & bank specific training
- Credit Development Programme
- Sales Training
- Management and Soft Skills Training
- Attachments to FNB South Africa
- Executive Training Program (for tertiary graduates)
- Health and Safety Training

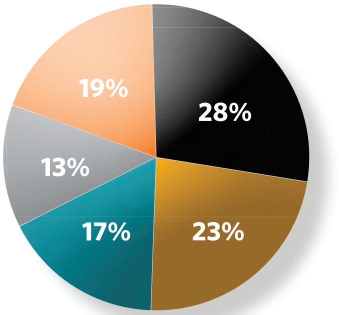
Leadership Development

A total of 3 Senior Managers attended a senior management development programme facilitated by the University of Pretoria and the Gordon Institute of Business Management. The major objective was to develop and enhance leadership and strategic management skills. A programme on Investment in Excellence was also extended to the Executive Committee (15 members) and a total of 71 managers at different levels in the Retail Segment. This programme was also aimed at developing the self and enhancing leadership skills. We will continue to extend this programme further to the other managers in the business in the coming year.

In the financial year 2010, we set ourselves performance targets to address issues that are material to our staff. Progress against these targets is reported as follows:

Objective	Activity
Measure of Employee Engagement	A People Pillar Survey was conducted early this year and indicated a couple of improvement areas; engagement, reward, job satisfaction, performance management, and involvement and empowerment. Initiatives to address these issues have been identified.
Driving a High Performance Culture	A 360° assessment was piloted on the Branch Managers in the Retail Segment. Where gaps were identified, development plans and initiatives have been put into place to address them. A Banking Sector Salary survey was conducted where the three other major banks participated. The initial results have shown only about a 40% match of the initial jobs identified; the process on-going to get a match of all the jobs identified. We continue to move our focus on more wellness related activities, rather than just health and safety. We were able to conduct ergonomical assessments on some of the business areas.
Investment in Human Capital	Investment in skills and leadership development continues to be an area of focus in the business.
Talent Management	Talent Management and key man dependency continue to be focus areas in the business.

Main Procurement Spend 2010



Attachments

One staff member was sent on attachment for a period of two weeks at RMB Private Bank working with the team at Wealth Management. The purpose of the attachment was to expose the staff member to the offering in place at RMB Private Bank and the system that they were using, with a view that when the system is imported locally there is a resource that can immediately use it.

Talent Management

Last year a framework for succession planning was developed, and key positions at executive level with a potential retention risks were identified and possible successors were identified. Development gaps were identified and initiatives to address them were agreed upon. This process is on-going and focus has been in the Retail Segment. Drawing up of development plans is on-going with these individuals and the necessary interventions will be put into place to address the identified gaps.

We also identified a pool of young talent made up of six individuals in the business, who we have put in an accelerated credit development programme. This progamme is targeted for a period of about 18 months and covers 75% exposure in credit and 25% exposure in retail banking and other areas of the business. The aim is to build a pool of credit skills that can be put into the business as and when opportunities arise.

Performance Management

As part of our strategy to drive a performance culture, we rolled out a 360° competency assessment on all Branch Managers in the Retail Segment. The results of the assessments indicated that we need to focus on performance management development. To that end, a comprehensive performance management course was developed internally to equip the managers with the necessary skills and tools to enable them to manage their staff more effectively.

This programme has been launched and all the Branch Managers and the Manager Resources have already been exposed to the training.

We also continually assess our reward practices in comparison with the market. We have for the first time, participated in a salary survey with the three major banks locally. Whilst the process of job matching has not been concluded as yet, we have to date been able to compare 43 major jobs in the bank. This will enable us to benchmark on those jobs and compare them against the other banks.

We will continue to participate in a banking services salary survey and review our salary scales in line with the pay policy of the bank and the market, to enable us to attract and retain our key people.

Employee Wellness

As part of our drive to create an environment where people can deliver great results, we continued to extend our wellness programme to our staff, and the focus moved from HIV/Aids to a more holistic offering of health, safety, trauma, and other wellness issues.

We also continue to collaborate with Lifeline Botswana and other external service providers for additional support when dealing with specific trauma and wellness issues.

Training on occupational health, safety, and the environment is extended annually to our staff. Information and education material is continually shared with staff by the staff representatives (Peer Educators & Safety Representatives) and the Safety, Health and Environmental Co-ordinator.

Suppliers

We continued with a process of meaningful engagement with local suppliers. We hire locally, buy locally and provide local artists with a venue to express their talents. We believe that industry must adopt the "triple bottom line" approach to reporting and recognize that it will contribute to business success and sustainability.

We are fully committed to the policies of the Botswana Government in promoting the values as specified in the UN Charter, and appreciate the efforts of the United Nations in promoting Sustainable Public Procurement (SPP) amongst the member nations. We have incorporated these values in our internal governance structures with a strong commitment to good governance throughout the organization.

We have successfully centralised procurement activities with the aim of utilising economies of scale and avoiding business disruptions of business due to delayed supplies. We continue to support local businesses and encourage promoting good business practices.

Investing in suppliers

We aim to develop mutually beneficial relationships with our suppliers and use our influence to encourage high levels of service and insist upon responsible business practices. Our suppliers are an important source of new ideas, innovation and support. We view supplier diversity as an opportunity rather than an obligation and appreciate difficulties faced by small and medium-sized enterprises (SMEs) such as the lack of resources needed to comply with complex procurement procedures. We are committed to removing barriers and helping more SMEs and local owned companies work with us whilst not compromising our values and standards of procurement. We have a wealth of experience working with subcontractors and partners, using their specialist skills to deliver the most appropriate, responsible and cost effective services.

Cost saving initiatives

We have continued to explore ways and means of saving costs and improving efficiency. To this end we initiated a drive to print all documents on both sides of the paper. The effort has been broadened this year and now extends to the printing of Board packs and other presentation material.

Community

We are committed to uplifting the community within which we operate and demonstrate our efforts through the activities of the FNB Foundation. First National Bank of Botswana contributes up to 1% of profit after taxation to the FNB Foundation. A full report of the activities of the Foundation follows.

FNBFOUNDATION
In Partnership with the Community

Corporate Social Responsibility

THE FNBB FOUNDATION

The FNBB Foundation is the structure that administers the Corporate Social Investment Funds of First National Bank of Botswana. The Foundation provides the Bank with the opportunity for greater involvement and cooperation with the community within which the company operates.

The purpose of the foundation is to aid education, arts, culture, sport, recreation and social welfare development in Botswana by identifying beneficiaries who are in need and are deserving of assistance.


Thank You to FNB
FNB
FNB Botswana

FNBFOUNDATION

In Partnership with the Community

In 2001, the Board of the Bank established an independent Trust to administer the Bank's social responsibility programme. This resulted in the formation of the FNB Foundation Trust Fund. The Fund was established in 2001 on the understanding that the bank would be committed to contributing up to one percent (1%) of its after tax profit annually.

FNBB Foundation Administrative Structure

The Bank, through the Marketing and Communications Department carries out all the Foundation's Administrative work. The Fund Administrators are:

Bomolemo Selaledi,
Head of Marketing and Communication
Oratile Moremong,
Promotions and Sponsorship Manager
Darshini De Silva,
Senior Compliance Officer

The Fund Administrators report to a board of Trustees, which comprises directors of the Bank and independent members:

Mrs L. Boakgomo-Ntakhwana – Trustee and FNBB Chief Executive Officer
Ms M Sekgororoane – The Chairperson of the FNB Foundation
Mr Q. Hermans – Trustee
Mr. A. Mogwe – Trustee

Trustees meetings are convened quarterly. All requests are assessed by the Fund Administrators and recommendations submitted to the Board of Trustees. Projects are encouraged to seek funding from a range of donors and demonstrate that they aim to be as self-sustaining. The Foundation normally considers funding of a capital nature, such as buildings (dormitories, classrooms, multi-purpose halls etc), or vehicles and machinery. Requests for operating expenses may also be considered under certain circumstances.

Trustees

Total contribution from 2001 to date by the Bank equates to

P19.4m

(Standing)
Mrs L. Boakgomo-Ntakhwana, Mr Q. Hermans
(Seated)
Mr. A. Mogwe, Ms M Sekgororoane

Projects should fall within the mandate of the Foundation and are assessed under the following guidelines:

Profile of Activities

- Any formally constituted non-government organisation (NGO) and any non-commercial organisation in Botswana which is registered as a non-profit making entity may apply for funding.
- They should be involved in improving the general welfare of Batswana in some form or other.
- Emphasis is placed on needy communities whose activities touch the lives of many Batswana.

Areas of focus

The Fund specifically focuses on the following areas of need in Botswana:

- Education
- Job creation
- Skills development/vocational training
- Support for the disadvantaged /handicapped, especially children
- Promotion of Arts and Culture
- Provision of sports and recreation facilities for the community

The Foundation does not finance the following:

- Purchase of luxury vehicles
- Seminars
- Overseas travel
- Political parties
- Individuals as opposed to organizations
- Religious interests

All projects supported must demonstrate that they have sound financial systems and controls in place to ensure proper accountability for funding provided. If a grant is approved, full reporting is required from the project management on completion of the work during the funding period. Failure to comply with grant conditions would negatively impact on future requests for support.

Principles upon which decisions are made

Projects must be:

- Properly researched and motivated

- Helping people to help themselves
- Developmental impact should be the primary driver
- Measurable sustainable impact on the future
- Flagships must have a strong FNBB identity

To date the Foundation has donated funds to an array of projects country wide. Contributions range from P10,000 to P1.5m per project.

Total number of projects assisted to date is 75.

STAFF VOLUNTEER PROGRAMME

Staff volunteering is encouraged as one of the most effective aspects of the Bank's community relations policy. It not only helps the community but can also provide members of staff with opportunities for personal and professional development.

The FNBB Staff Volunteer Programme is an initiative that affords our branches and divisions an opportunity to identify and donate funds to a project of their choice in their respective localities. Broadly speaking, the conditions of sponsorship are:

- The Branch staff must have some involvement that goes beyond simply giving financial support.
- The limit for each donation will be P50 000 annually per division per project.
- The proposal must be routed through the Branch Manager who must make the recommendation
- Allowance for a long-term involvement.
- The potential for the support to secure public awareness
- Lasting benefit to the local community.
- Communication and reinforcement of FNBB's commitment to the community.
- Promotes FNBB's brand values.
- The organization should have a positive public image.

Total number of staff volunteer projects assisted to date is

43

FNBFOUNDATION
In Partnership with the Community

Individual Divisions and Branches are encouraged to support NGO's which:

- Project a clean, healthy, dynamic image
- Are within the Division / Branches geographical area of operations
- Cover a range of initiatives including children, the handicapped, environmental maintenance, the aged and other community welfare initiatives.

To date the Bank's staff have assisted an array of projects countrywide, ranging from P30,000 to P336,000 per project.

Total number of staff volunteer projects assisted to date is 43.

Applications should be forwarded to:

FNB Foundation
P O Box 1552
Gaborone
Or delivered to:

Marketing and Communications Department
3rd Floor, Finance House
Plot 8843
Khama Crescent
Gaborone

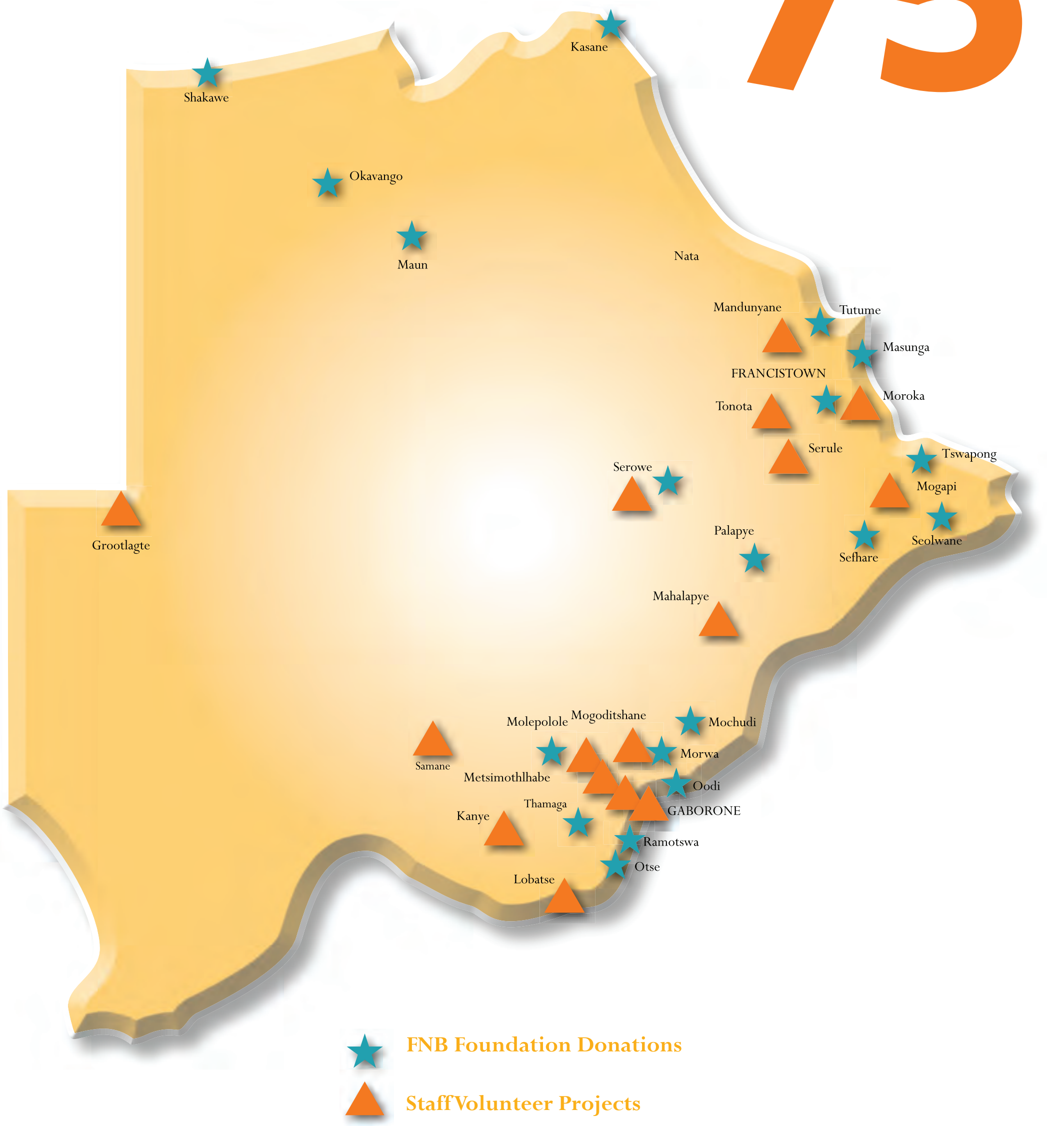
Telephone: 3642674 / 364 2600
Fax: 3906679
Email: omoremong@fnbbotswana.co,bw
bselaledi@fnbbotswana.co.bw

FNBFOUNDATION

In Partnership with the Community

Footprints

Total number of projects assisted to date is 75




FNB
Botswana
How can we help you?

Financial Performance

"The bank maintained profit before tax at P532 million, and increased profit after tax to P436 million"

- Steven Bogatsu, Chief Financial Officer

Chief Financial Officer's Report

Bank overall performance

The impact of rate cuts and economic slowdown on First National Bank Botswana Limited was margin squeeze and reduced volumes, impacting both interest income and non-interest revenue. The unstable labour market usually impacts customers' ability to service obligations, triggering an increase in impairment charge. Despite these challenges, the Bank managed to keep afloat by maintaining profit before tax at P532 million (2009:P528 million), and increasing profit after tax to P436 million (2009:P407 million), an increase of 7%.

Income Statement

Net interest Income and impairments

During the financial year, interest rates were cut by a total 550 basis points. While the rate cuts eased the burden on customers' ability to service their obligations, it had an adverse impact on the margins of the Bank, resulting in reduced interest income. The bank responded by restructuring the balance sheet resulting in a higher loans to deposit ratio, and ensuring that greater efficiencies were achieved. The increase in advances occurred in the latter part of the financial year and had not fully translated into income by year end.

In an effort to curb the growth in the impairment charge emanating from job losses, the Bank focused on credit risk management, resulting in increased bad debt charge of only 7%, P43 million (2009:P41 million). The ratio of impairment charge to advances remains in line with management expectations and compares favourably with the market.

These mitigating measures resulted in the Bank protecting net interest income from corrosion, and growing to P500 million (2009:P482 million), an increase of 4%.

TABLE 1 SHOWS THAT BOTH IMPAIRMENT CHARGE TO ADVANCES AND NON PERFORMING LOANS TO ADVANCES REDUCED DURING THE YEAR, DESPITE THE ECONOMIC CHALLENGES.

TABLE 2 SHOWS DECLINING NON PERFORMING LOANS, DESPITE A SHARP INCREASE IN ADVANCES.

Non-interest income

Despite declining volumes, the Bank grew non-interest income by 10% during the financial year. This increase was driven mainly by the Card Division and the branch network, as a result of increased footprint and improved automated teller machine (ATM) up-time.

TABLE 3 SHOWS THAT THE BANK CONTINUES TO COVER ALL NON-INTEREST EXPENDITURE WITH NON INTEREST INCOME.

In the last quarter of the Bank's financial year, transactional volumes started growing in line with the economic recovery that is expected in 2011.

A SAFE PAIR OF HANDS:
Steven Lefentse Bogatsu
Chief Financial Officer

Operating expenses

In an effort to ensure that maximum benefits are derived from the economic recovery, the Bank invested in technology and branch infrastructure. A new branch in Molepolole, and a regional head office in Francistown were opened during the financial year. Several branches were also revamped to give them a "New look and feel", and in order to improve service to customers, focus was placed on ATM availability and improved uptime throughout the network. These initiatives, as well as structures to focus on enterprise risk management, impacted the costs of the bank resulting in an increase of 18% from prior year, to P373 million, (2009:P317 million).

Despite reduced income and pressure on costs, the cost to income ratio of the bank remains the lowest in the market at 39.8%, and in line with management expectation.

TABLE 4, DECLINING REVENUES AND INCREASING INVESTMENT COSTS IMPACTED THE COST TO INCOME RATIO.

Taxation

The effective tax rate improved to 18% from 23% last year based on current accounting practice and a lower dividend declared in the prior year.

Balance Sheet

The slowdown in the economy led to a decline in earnings and income for both corporates and individuals. Most corporates therefore resorted to utilising their deposits in order to finance working capital. This led to a reduction in deposits for the Bank resulting in an overall balance sheet decline of 2%.

In order to mitigate the margin shrinkages, the Bank focused on improving the loans to deposit ratio, resulting in an increase in loans and advances by 25% mainly from property finance and retail business. The growth in loans and advances occurred during the latter part of the financial year, and therefore the average growth is much lower than the year end growth.

The growth in loans and advances, as well as reduction in deposits, resulted in an overall reduction in investment securities, comprising mainly Bank of Botswana Certificates by 19%, to P4.9 billion (2009:P6.1 billion).

A long term liability maturing in less than a year has been reclassified to creditors and accruals, resulting in 50% reduction in long term liabilities and 102% increase in creditors and accruals.

Capital Management

The Bank continues to manage its capital in line with the Board approved capital management framework and group adopted Basel II. 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 assess if the Bank is appropriately capitalised from an economic risk point of view.

The Bank's capital adequacy ratio, which excludes the dividend reserve, has been maintained at 17.4 % as

Impairment Charge Analysis (%)

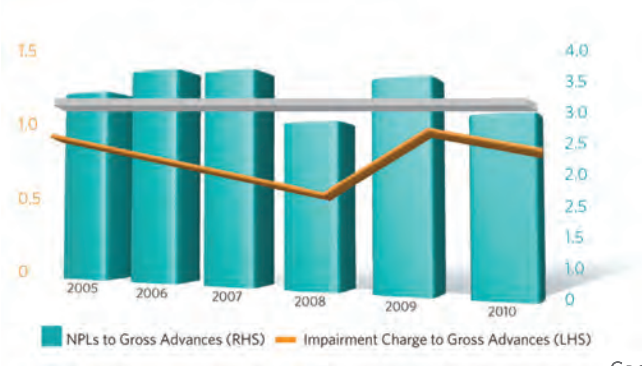


Table 1

Table 2

Gross Advances (P'Millions) vs Non Performing Loans

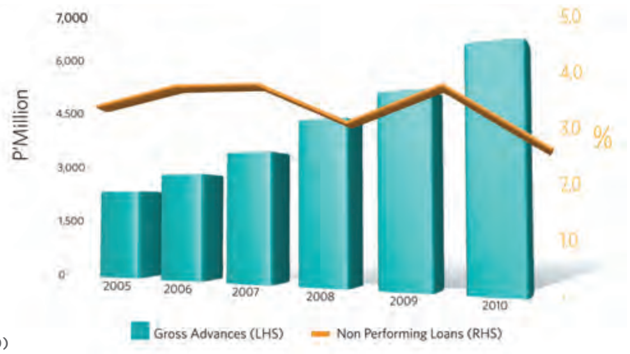


Table 3

Non Interest Revenue vs Non Interest Expenditure (P'000)

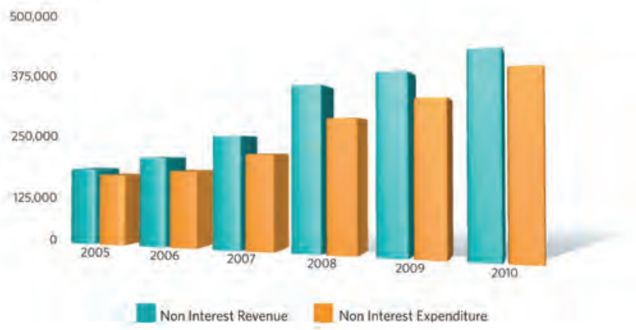


Table 4

Cost To Income Ratio

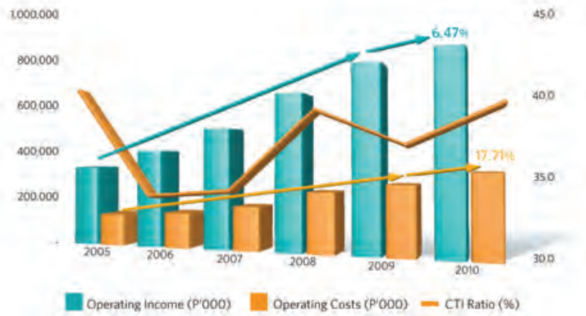


Table 5

Capital Adequacy (%)

Signs that the economy is recovering from the recession have been evidenced during the period January to June 2010. The Botswana economy is now showing signs of growth.

at 30 June 2010, and is in line with the Bank's capital management framework and the required ratio by Bank of Botswana, of 15%.

Table 5, capital adequacy ratio still above regulatory requirement, represented by the green line.

In line with the substantial growth in assets as well as the need to cater for developments with respect to BASEL II, the Directors believe it appropriate to continue with the prudent approach to capital management and dividend policy.

Conclusion

Signs that the economy is recovering from the recession have been evidenced during the period January to June 2010. The Botswana economy is now showing signs of growth. Full recovery is however still distant.

The investment in both infrastructure and technology that the Bank made during the year is expected to benefit the Bank in the next financial year.

Steven Lefentse Bogatsu
Chief Financial Officer

Value Added Statements

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
Value added				
Value added is the wealth the Group has been able to create by providing clients with a quality value added service.				
Income earned by providing banking services	1,470,930	1,666,632	1,458,110	1,660,875
Cost of services	(664,747)	(908,302)	(677,024)	(908,426)
Value added banking services	806,183	758,330	781,086	752,449
Non-operating and other income and expenditure	(72,901)	(62,221)	(62,901)	(53,320)
Value added	733,282	696,109	718,185	699,129
Value allocated				
To employees				
Salaries, wages and other benefits	183,073	159,210	181,974	158,444
To providers of capital				
Dividends to shareholders	230,734	205,097	230,734	205,097
			-	
To Government			-	
Taxation	101,936	130,179	98,071	128,466
To expansion and growth				
Retained income	205,316	191,622	195,635	197,573
Depreciation	12,223	10,001	11,771	9,549
	217,539	201,623	207,406	207,122
	-		-	
	733,282	696,109	718,185	699,129
	-		-	
Summary	%	%	%	%
Employees	25.0	22.9	25.3	22.7
Providers of capital	31.5	32.0	32.1	31.9
Government	13.9	18.7	13.7	18.4
Expansion and growth	29.7	26.4	28.9	27.1
	100.0	100.0	100.0	100.0

Ten Year Consolidated Review of Financial Position

	30 June 2010 P'000	30 June 2009 P'000	30 June 2008 P'000	30 June 2007 P'000	30 June 2006 P'000
INCOME STATEMENT					
Interest and similar income	1,062,618	1,296,474	1,168,337	1,005,074	583,923
Interest expense and similar charges	(518,978)	(773,578)	(768,085)	(657,297)	(295,654)
Net interest income before impairment of advances	543,640	522,896	400,252	347,777	288,269
Impairments losses on loans and advances	(43,420)	(40,752)	(20,804)	(22,012)	(19,393)
Net interest income after impairment of advances	500,220	482,144	379,448	325,765	268,876
Non interest income	410,610	371,196	348,980	244,931	197,471
Income from operations	910,830	853,340	728,428	570,696	466,347
Operating expenses	(378,858)	(316,534)	(279,148)	(205,052)	(167,184)
Income before taxation	531,972	528,480	449,280	365,644	299,163
Direct taxation	(95,922)	(130,085)	(75,253)	(55,797)	(45,920)
Income after taxation	436,050	406,720	374,027	309,847	253,243
Dividends paid and proposed	(230,734)	(230,734)	(205,097)	(252,525)	(192,278)
Retained income for the year	205,316	175,986	168,930	57,322	60,965
STATEMENT OF FINANCIAL POSITION					
ASSETS					
Cash and short term funds	1,201,491	1,185,914	1,796,013	904,941	570,245
Advances to customers	5,803,767	4,665,852	4,029,010	3,091,685	2,716,404
Investment securities	4,946,059	6,085,772	5,363,202	4,060,061	3,760,394
Accounts receivable	63,835	367,348	183,940	198,598	96,171
Investment in associated company	3,151	2,037	2,297	2,421	2,499
Property and equipment	187,306	115,601	80,737	63,184	39,354
Goodwill	26,963	26,963	26,963	26,963	26,963
Total assets	12,232,572	12,449,487	11,482,162	8,353,070	7,212,030
LIABILITIES					
Deposits from customers	10,309,191	10,587,938	9,965,448	6,888,579	6,024,126
Accrued interest payable	45,661	70,412	86,594	85,100	60,902
Creditors and accruals	386,856	349,859	194,274	271,307	109,240
Provisions	23,830	24,741	43,267	34,776	34,532
Long term liabilities	207,827	416,612	424,694	430,907	438,851
Deferred taxation	100,648	79,071	43,267	34,776	33,507
Total liabilities	11,074,013	11,528,633	10,757,544	7,745,445	6,701,158
EQUITY					
Stated capital	51,088	51,088	51,088	51,088	51,088
Reserves	979,286	754,669	583,800	400,151	331,599
Dividend reserve	128,185	115,367	89,730	156,386	128,185
Total ordinary equity holder's funds	1,158,559	921,124	724,618	607,625	510,872
Total equity and liabilities	12,232,572	12,449,487	11,482,162	8,353,070	7,212,030

	30 June 2005 P'000	30 June 2004 P'000	30 June 2003 P'000	30 June 2002 P'000	30 June 2001 P'000
INCOME STATEMENT					
Interest and similar income	468,543	439,510	397,884	332,765	284,897
Interest expense and similar charges	(223,956)	(212,722)	(185,246)	(161,931)	(148,207)
Net interest income before impairment of advances	244,587	226,788	212,638	170,834	136,690
Impairments losses on loans and advances	(21,142)	(22,962)	(16,919)	(8,747)	(3,456)
Net interest income after impairment of advances	223,445	203,826	195,719	162,087	133,234
Non interest income	161,832	138,649	124,923	104,519	78,693
Income from operations	385,277	342,475	320,642	266,606	211,927
Operating expenses	(151,752)	(145,899)	(130,076)	(111,725)	(89,740)
Income before taxation	233,525	196,576	190,566	154,881	122,187
Direct taxation	(40,877)	(29,786)	(31,778)	(29,671)	(21,424)
Income after taxation	192,648	166,850	158,788	125,210	100,763
Dividends paid and proposed	(138,440)	(211,505)	(104,086)	(87,679)	(61,529)
Retained income for the year	58,254	(45,929)	54,702	37,531	39,234
STATEMENT OF FINANCIAL POSITION					
ASSETS					
Cash and short term funds	334,887	420,681	429,959	194,671	156,150
Advances to customers	2,513,929	2,053,400	1,916,745	1,574,490	1,320,651
Investment securities	391,845	545,168	436,979	457,230	459,740
Accounts receivable	59,673	112,229	77,201	408,563	305,601
Investment in associated company	2,302	1,694	1,721	12,604	22,231
Property and equipment	37,601	38,559	40,915	39,510	36,645
Goodwill	26,963	26,963	22,193	23,393	-
Total assets	3,367,200	3,198,694	2,925,713	2,710,461	2,301,018
LIABILITIES					
Deposits from customers	2,484,190	2,319,577	2,220,438	2,044,579	1,787,673
Accrued interest payable	17,302	18,520	18,818	15,461	15,671
Creditors and accruals	167,602	234,977	113,435	141,157	56,470
Provisions	-	-	-	-	-
Long term liabilities	195,137	200,933	106,276	111,203	115,745
Deferred taxation	42,432	45,491	45,412	38,984	29,534
Total liabilities	2,906,663	2,819,498	2,504,379	2,351,384	2,005,093
EQUITY					
Stated capital	51,088	51,088	51,088	25,637	25,637
Reserves	299,210	240,942	288,208	263,657	224,141
Dividend reserve	110,239	87,166	82,038	69,783	46,147
Total ordinary equity holder's funds	460,537	379,196	421,334	359,077	295,925
Total equity and liabilities	3,367,200	3,198,694	2,925,713	2,710,461	2,301,018

Directors' Statement of Responsibility

The directors are responsible for the preparation of these annual financial statements in accordance with International Financial Reporting Standards and in compliance with the Companies Act (Companies Act , 2003) and the Banking Act (Cap 46:04).

The independent auditor is responsible to express an independent opinion on the fair presentation of these annual financial statements based on their audit of the affairs of the First National Bank of Botswana Limited in accordance with International Standards on Auditing.

After making enquiries the directors have no reason to believe that the Group will not be a going concern in the foreseeable future. For this reason they continue to adopt the going concern basis in preparing these annual financial statements.

The directors are satisfied that management introduced and maintained adequate internal controls to ensure that dependable records exist for the preparation of the Group and Company annual financial statements of First National Bank of Botswana Limited, to safeguard the assets of the Group and to ensure that all transactions are duly authorised.

Against this background, the directors accept responsibility for the Group and Company annual financial statements presented on pages 66 to 149, which were approved on 11 August 2010 and are signed on its behalf by:

P.D. SHAH
Chairman of the Board of Directors

L.E. BOAKGOMO-NTAKHWANA
Chief Executive Officer

S. THAPELO
Director

Independent Auditor's Report

to the members of First National Bank of Botswana Limited

We have audited the Group and Company annual financial statements of First National Bank of Botswana Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2010, and the consolidated and separate income statements, consolidated and separate statements of other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 66 to 149.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the Companies Act (Companies Act, 2003) and the Banking Act (Cap 46:04).

This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of First National Bank of Botswana Limited as at 30 June 2010, and its consolidated and separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act (Companies Act, 2003) and the Banking Act (Cap46:04).

Deloitte & Touche

11 August 2010
GABORONE

Deloitte.

Report of the Audit Committee

to the shareholders and other users of the financial statements

The Group's Audit Committee comprises mainly 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 responsibility 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 published annual 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:

1. 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;

2. To provide a forum for communication between the Board of Directors, Management and the internal and external auditors; and

3. To introduce such measures as, in the opinion of the committee, may serve to enhance the credibility and objectivity of the annual financial statements and affairs of the Group.

The committee has met its objectives and has found no material weaknesses in controls. The committee is satisfied that the annual financial statements have been prepared in accordance with International Financial Reporting Standards and in compliance with the Companies Act (Companies Act, 2003) and the Banking Act (Cap 46: 04) .

P.D. Stevenson
Chairman
11 August 2010
Gaborone

Directors` Report

The Directors have pleasure in submitting their report together with the financial statements of First National Bank of Botswana Limited (the Bank or the Company) and the consolidated annual financial statements of the Company and its subsidiaries (the Group) for the year ended 30 June 2010.

The annual financial statements are prepared in accordance with International Financial Reporting Standards and in the manner required by the Companies Act (Companies Act, 2003) and the Banking Act (Cap 46:04).

The Bank 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 Bank's assets. 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 annual financial statements. The directors have no reason to believe that the Bank will not be a going concern in the foreseeable future based on forecasts and available cash resources.

Nature of business

The Bank 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 Bank has four subsidiary companies. The subsidiaries comprise one property owning company, a group loan scheme company, an insurance agency and an insurance premium finance company. The property owned by the subsidiary is used primarily for branch and office accommodation.

Trading results

The consolidated income after tax attributable to ordinary shareholders of P436.0 million (2009: P406.7million) increased by 7% percent compared to the results for the year to 30 June 2009. Interest income was derived mainly from advances, instalment credit, and Bank of Botswana Certificates. Non-interest income was derived from the branch network, firstcard, treasury and international trade business.

Stated capital

The Company's stated capital consists of 2,563,700,000 ordinary shares, of which First National Bank Holdings (Botswana) Limited holds 1,780,590,000 shares (69.45%), 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 95,649 (2009: 1,156,620), which represents approximately 0.0037% (2009: 0.045%) of the stated capital of the Company.

Directors` Report (continued)

Dividends

An interim dividend of 4.50 thebe (2009 - 4.50 thebe) has been paid during the year to holders of ordinary shares. The Directors propose a final dividend of 5.0 thebe per share (2009 - 4.50 thebe per share).

Directorate

The composition of the Board as at 30 June 2010 was as follows:

P.D. Shah	Chairman (Kenyan)
B.M. Bonyongo	Independent Non Executive Director (Motswana)
L.E. Boakgomo-Ntakhwana	Chief Executive Officer (Motswana)
J.R. Khethe	Non-Executive Director (South African)
J.K. Macaskill	Non-Executive Director (South African)
B.U. Madhav	Non-Executive Director (South African)
M.T.Sekgororoane	Independent Non-Executive Director (Motswana)
P.D. Stevenson	Independent Non-Executive Director (Motswana)
S. Thapelo	Independent Non-Executive Director (Motswana)
M.W. Ward (Appointed 25 August 2009)	Independent Non-Executive Director (British)
R. Wright	Deputy CEO (Alternate to L.E Boakgomo-Ntakhwana)
L.J. Haynes (Appointed 29 January 2010)	Non-Executive Director (South African) (Alternate to J.K. Macaskill)

Transfer Secretaries

PriceWaterhouseCoopers
Plot 50371
Fairgrounds Office Park
PO Box 294 Gaborone

Auditor

Deloitte & Touche
Deloitte & Touche House
Plot 50664
Fairgrounds Office Park
PO Box 778 Gaborone

1 INTRODUCTION

Reference to "Company" relates to First National Bank of Botswana Limited, and reference to "Group" relates to First National Bank of Botswana Limited (the Company) and its subsidiaries.

The Group adopts the following accounting policies in preparing its consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2 BASIS OF PRESENTATION

2.1 Standards and interpretations affecting amounts reported in the current period.

The Group's 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 following standards and interpretations:

- IFRS 2 Share-based Payment was amended during June 2009. The amendment clarifies how a share-based payment transaction should be measured in a group share-based payment transaction. The amendment effectively replaces IFRIC 11 IFRS 2 – Group and Treasury Share Transactions and IFRIC 8 Group Cash-settled Share-Based Payment Transactions. This amendment is effective for annual periods commencing on or after 1 January 2010. The Group has elected to early adopt the amendments to IFRS 2 for the year ended 30 June 2010. This amendment has had no significant impact on the Group's results.
- IFRS 7 Financial Instruments: Disclosures was amended in 2008 and these amendments are effective for annual periods commencing on or after 1 January 2009. The amendments require enhanced disclosures about the fair value measurements, and have established a three-level hierarchy for disclosing fair value measurements. These enhanced disclosures do not have an impact on the recognition or measurement of amounts relating to financial instruments. The enhanced disclosures are only required for the period in which the amendments are effective and there is no requirement for comparative amounts to be presented. The disclosures in line with this requirement have been made in Note 39.4.
- IFRS 8 Operating Segments is effective for annual periods beginning on or after 1 January 2009. This Standard replaces IAS 14 Segment Reporting and requires an entity to report financial and non financial information about its reportable operating segments. The adoption of this Standard will affect disclosures about the operating segments of the Group but will not affect recognition and measurement. Further details are provided in accounting policy Note 25.
- IAS 1 Presentation of Financial Statements (revised) is effective for annual periods beginning on or after 1 January 2009. The revised Standard prescribes the basis of the presentation of general purpose financial statements, guidelines for their structure and minimum requirements for their content. The adoption of this Standard will affect the presentation of the financial statements for both the current and comparative period, but will not affect recognition and measurement of any amounts recognised in the financial statements. The Group has elected to present the income statements and statements of other comprehensive income as two separate statements as permitted by IAS 1.

- IAS 27 Consolidated and Separate Financial Statements was amended in 2008. These amendments are effective for annual periods beginning on or after 1 July 2009. The amendments affect the treatment of non-controlling interests and transactions with non-controlling interests where control in the subsidiary is retained by the Group. The amendments also affect the allocation of losses of a subsidiary to the non-controlling interest.

These changes are to be prospectively applied and do not require the restatement of amounts recognised prior to 1 July 2009. Further details are provided in accounting policy Note 3.

2.2 Standards and interpretations adopted with no effect on the financial statements.

- IFRS 3 Business Combinations (revised) is applicable to business combinations for which the acquisition date is on or after the first annual period beginning on or after 1 July 2009. The Standard is to be applied prospectively. The Standard applies to and prescribes the treatment of all transactions entered into by the Group which meet the definition of a business combination. Further details are provided in accounting policy note 3.
- IAS 23 Borrowing Costs: was amended to remove the option to immediately recognise borrowing costs related to a qualifying asset as an expense and is effective for annual periods commencing on or after 1 January 2009. This amendment does not impact the Group, as it is the Group's accounting policy to capitalise borrowing costs on qualifying assets.
- IAS 32 Financial Instruments: Presentation was amended to require that certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro-rata share of the entity only on liquidation

as equity. This amendment has had no significant impact on the Group results for the year ended 30 June 2010 and has not resulted in the restatement of prior year comparatives.

- IAS 39 Financial Instruments: Recognition and Measurement: was amended to clarify that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows of a recognised financial instrument. The amendment also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging instrument in a hedge of a financial or non-financial item and to improve hedge effectiveness. This amendment is applicable for annual periods commencing on or after 1 July 2009 and has had no significant impact on the Group's results.
- As part of its annual improvements project, the IASB made amendments to a number of accounting standards. The aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. The annual improvements project for 2008 is effective for annual periods commencing on or after 1 January 2009. The Group has adopted the amendments made as a result of the annual improvements project for 2008 during the current financial year. These amendments have not had a significant impact on the Group's results nor has it resulted in the restatement of prior year comparatives.
- IFRIC 15 Agreements for the Construction of Real Estate is effective for annual periods commencing on or after 1 January 2009. This Interpretation clarifies when real estate sales should be accounted for in terms of IAS 11 Construction Contracts or IAS 18 Revenue. This Interpretation is not applicable to the Group.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation is effective for annual periods commencing on or after 1 October 2008. This Interpretation clarifies which risks can be hedged under a hedge if a net investment in a foreign operation and by which entities within the Group the hedging instruments can be held in order to qualify as such a hedge. The Group does not currently apply hedge accounting to net investments in foreign operations and therefore this Interpretation is not applicable.
- IFRIC 17 Distributions of Non-cash Assets to Owners is effective for annual periods beginning on or after 1 July 2009. This Interpretation provides guidance on how distributions by the entity of assets other than cash as dividends to owners should be accounted for. The requirements of this Interpretation are to be prospectively applied. This Interpretation has no effect on the current reporting period as no such distributions have been made during the period.
- IFRIC 18 Transfers of Assets from Customers is effective for annual periods beginning on or after 1 July 2009. This Interpretation clarifies the accounting treatment of agreements in which an entity receives property, plant and equipment from a customer that must be used to connect the customer to a network or provide the customer with ongoing access to a supply of services or goods. This Interpretation has no effect on the Group's financial statements as no such arrangements have been entered into.

The Group prepares the company and consolidated financial statements in accordance with the going concern principle. The financial statements have been prepared on the historical cost basis except for the revaluation of certain non-current assets and financial instruments.

The financial assets and liabilities carried at fair value include:

i. financial assets and liabilities held for trading;
ii. financial assets classified as available-for-sale;
iii. derivative financial instruments; and
iv. financial instruments elected to be carried at fair value through profit or loss.

The preparation of the consolidated and company financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in Note 43 to the annual financial statements.

Standards and interpretations issued but not effective have been disclosed in note 43 of the annual financial statements.

All monetary information and figures presented in these financial statements are stated in thousands of Pula (P`000), which is the Group's functional and presentation currency, unless otherwise indicated.

3 CONSOLIDATION

3.1 Subsidiaries

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Group, directly or indirectly holds the majority of the voting rights, has the power to exercise control over the operations for its own benefit. The Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the date that control over the subsidiary ceases.

The Group consolidates a special purpose entity ("SPE") when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

3.2 Business combinations

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured, at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, which are recognised and measured at fair value less costs to sell.

The excess of the consideration transferred, the amount of any non-controlling interest in the subsidiary (also refer to accounting policy 3.3) and the acquisition date fair value of any previous equity interest in the subsidiary over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.3 Associates and joint ventures

Associates are typically entities in which the Group holds an equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control. Joint ventures are entities in which the Group has joint control over the economic activity of the joint venture, through a contractual arrangement. Investments acquired and held exclusively with the view to dispose in the near future (12 months) are not accounted for using the equity accounting method, but carried at fair value less cost to sell in terms of the requirements of IFRS 5.

The Group includes the results of associates and joint ventures in its consolidated financial statements using the equity accounting method, from the effective date of acquisition to the effective date of disposal. The investment is initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss.

Earnings attributable to ordinary shareholders include the Group's share of earnings of associates and joint ventures. Reserves include the Group's share of post-acquisition movements in reserves of associates and joint ventures. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associate or joint venture.

The Group discontinues equity accounting when the carrying amount of the investment in an associate or joint venture reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

After discontinuing equity accounting the Group applies the requirements of IAS 36 to determine whether it is necessary to recognise any impairment loss with respect to the net investment in the associate or joint venture as well as other exposures to the investee. Goodwill on the acquisition of an associate or joint venture is included in the carrying amount of the investment. The goodwill is assessed for impairments annually in terms of IAS 36.

The Group increases the carrying amount of investments with its share of the associate or joint venture's income when equity accounting is resumed. The Group resumes equity accounting only after its share of the profits equals its share of the losses not recognised.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

4 INTEREST INCOME AND EXPENSE

The Group recognises interest income and expense in the consolidated income statement for instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant expected life of the financial instrument or portfolios of financial instruments.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

From an operational perspective, the Group suspends the accrual of contractual interest on non-recoverable advances. However, in terms of IAS 39, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance. This difference between the discounted and undiscounted recoverable amount is released to interest income over the expected collection period of the advance.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities. Dividends received or paid on these instruments are included and accrued in interest income and expense using the effective interest method.

5 FAIR VALUE GAINS/(LOSSES)

The Group includes gains, losses and fair value adjustments on trading financial instruments as well as financial instruments designated at fair value through profit or loss in trading income as it is earned.

6 FEE AND COMMISSION INCOME

The Group generally recognises fee and commission income on an accrual basis when the service is rendered.

Loan commitment fees for loans that are likely to be drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate of the loan. These fees and transactions costs are recognised as part of the net interest income and not as non-interest income.

Commission income on acceptances, bills and promissory notes endorsed is credited to income over the lives of the relevant instruments on a time apportionment basis.

7 DIVIDEND INCOME

The Group recognises dividends when the Group's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

8 FOREIGN CURRENCY TRANSLATION

8.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Pula ("P"), which is the functional and presentation currency of the Group.

8.2 Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement, except when deferred in other comprehensive income from qualifying cash flow hedging instruments or qualifying net investment hedging instruments.

All foreign exchange gains and losses recognised in the consolidated income statement are presented net in the consolidated income statement within the corresponding item. Foreign exchange gains and losses on other comprehensive income items are presented in other comprehensive income within the corresponding item.

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for-sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.
Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

9 BORROWING COSTS

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset up to the date on which construction or installation of the assets is substantially completed. Other borrowing costs are expensed when incurred.

10 INDIRECT TAXATION

Indirect taxes consist of Value Added Tax (VAT) and Withholding Tax (WHT) paid to the tax authorities.
Indirect taxes are disclosed separately from direct tax in the consolidated income statement.

11 RECOGNITION OF ASSETS

11.1 Assets

The Group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the entity.

11.2 Contingent assets

The Group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Group's control.

12 LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

12.1 Liabilities and provisions

The Group recognises liabilities, including provisions, when:

- it has a present legal or constructive obligation as a result of past events:
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and
- a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligation as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be insignificant.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation.

12.2 Contingent liabilities

The Group discloses a contingent liability when:

i. it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or
ii. it is probable that an outflow of resources will be required to settle an obligation, or
iii. the amount of the obligation cannot be measured with sufficient reliability.

13 CASH AND CASH EQUIVALENTS

In the cash flow statement, cash and cash equivalents comprise:

i. coins and bank notes;
ii. money at call and short notice;
iii. balances with central banks;
iv. Bank of Botswana Certificates (BoBCs);
v. balances guaranteed by central banks; and
vi. balances with other banks.

All balances included in cash and cash equivalents have a maturity date of less than three months from the date of acquisition.

14 FINANCIAL INSTRUMENTS

14.1 General

All financial assets and liabilities which include derivative financial instruments have been recognised in the consolidated statement of financial position and measured in accordance with their assigned category.

Financial instruments carried on the consolidated statement of financial position include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, commodities, property and equipment, assets and liabilities of insurance operations, deferred tax, tax payable, intangible assets, inventory and post retirement liabilities.

The Group recognises financial assets and financial liabilities on its consolidated statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the instrument.

14.2 Financial assets

The Group classifies its financial assets in the following categories:

i. financial assets at fair value through profit or loss;
ii. loans and receivables;
iii. available-for-sale financial assets; and
iv. held-to-maturity investments.

Management determines the classification of the asset at initial recognition.

Financial assets are initially recognised at fair value plus transaction costs for those financial assets that are subsequently measured at armotised cost.
Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried subsequently at amortised cost using the effective interest method, less any impairment. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement as gains and losses from investment securities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in the income statement as part of interest income. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The Group recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset, is delivered or received. Otherwise such transactions are treated as derivatives until settlement.

The fair values of financial assets quoted in active markets are based on current bid prices. Alternatively, fair values are derived from cash flow models or other appropriate valuation models where an active market does not exist. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

14.2.1 Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as a trading instrument if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

The Group classifies certain assets on initial recognition at fair value through profit and loss to the extent that it produces more relevant information because it either:

i. results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or

ii. is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or

iii. is a financial asset containing significant embedded derivatives that clearly require bifurcation.

The Group recognises fair value adjustments on financial assets classified at fair value through profit and loss in fair value income within non-interest income. Interest income on financial assets is included in interest income..

14.2.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised using the effective interest method less any impairment.

This category also includes purchased loans and receivables, where the Group has not designated such loans and receivables in any of the other financial asset categories.

14.2.3 Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Should the Group sell other than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale for a period of two years.

The Group carries held-to-maturity financial assets and investments at amortised cost using the effective interest method, less any impairment.

14.2.4 Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The Group recognises gains and losses arising from changes in the fair value of available-for-sale assets, in equity. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate. Interest income is excluded from the fair value gains and losses reported in other comprehensive income. When the advances and receivables or investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in the consolidated income statement as gains and losses from investment securities.

14.3 Financial liabilities

Financial liabilities are initially recognised at fair value less transaction costs for all financial liabilities not carried at fair value through profit and loss. Financial liabilities are subsequently measured at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

A financial liability is classified as a trading instrument if incurred principally for the purpose of repurchasing in the short term, if it forms part of a portfolio of financial liabilities in which there is evidence of short term profit taking or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as effective hedges.
The Group designates certain liabilities on initial recognition at fair value through profit and loss to the extent that it produces more relevant information because it either:

i. results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
ii. is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or
iii. is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

The Group recognises fair value adjustments on financial liabilities classified at fair value through profit and loss in fair value gains and losses.

The fair values of financial liabilities quoted in active markets are based on current offer prices. If the market for a financial liability is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

14.4 Embedded derivatives

The Group treats derivatives embedded in other financial or non-financial instruments, such as the conversion option in a convertible bond, as separate derivatives when:

i. their risks and characteristics are not closely related to those of the host contract;
ii. they meet the definition of a derivative; and

iii. the host contract is not carried at fair value, with gains and losses reported in the income statement.

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

14.5 Sale and repurchase agreements and lending of securities

The financial statements reflect securities sold subject to a linked repurchase agreement ("repos") as available-for-sale investment securities. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate at amortised cost.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers as appropriate and recognised at amortised cost. The difference between purchase and resale price is treated as interest and accrued over the life of the reverse repos using the effective interest method.
Securities lent to counterparties are retained in the financial statements of the Group.

The Group does not recognise securities borrowed in the financial statements, unless sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return these securities is recorded as a liability at fair value.

14.6 Offsetting financial instruments

The Group offsets financial assets and liabilities and reports the net balance in the statement of financial position where:

i. there is a legally enforceable right to set off, and
ii. there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

14.7 Past due and renegotiated advances

A financial asset is past due when a counterparty has failed to make a payment when contractually due. Advances are considered to be past due in the following circumstances:

i. Loans with a specific expiry date are treated as overdue when the principal or interest totalling one or more instalment is overdue for one day and remains unpaid at the reporting date;
ii. Consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue when one or more payments are overdue for one day and remains unpaid as at the reporting date;
iii. An amount payable in instalments includes the full amount not yet written off, outstanding under the transaction concerned, including, in the case of an amount payable in instalments, such instalments not yet due and penalty interest, if any, incurred in respect of overdue amounts;
iv. An amount with a specific expiry date includes the principal, or interest payable on the principal, still outstanding as at the reporting date;
v. Bankers acceptances includes the principal, or the interest payable on the principal, still outstanding as at the reporting date;
vi. A bill payable at a determinable date includes the full amount outstanding after the maturity date; and
vii. A sight bill in respect of imported goods includes the full amount still outstanding within one month after presentation.

Advances are restructured or renegotiated when the original terms and conditions of the advances are altered or modified and the client is currently within the renegotiated terms. Advances that are renegotiated, but current are those renegotiated loans that are not overdue or in arrears in terms of the new terms and conditions.

14.8 Impairments of financial assets

14.8.1 Assets carried at amortised cost

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or portfolio is impaired includes observable data that comes to the attention of the Group about the following loss events:

i. significant financial difficulty of the issuer or obligor, or
ii. a breach in contract, such as default or delinquency in interest or principal payments, or
iii. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider, or
iv. it becomes probable that the borrower will enter bankruptcy or other financial reorganisation, or
v. the disappearance of an active market for that financial asset because of financial difficulty, or
vi. observable data indicating that there is a measurable

decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the portfolio, including :

- adverse changes in the payment status of such borrowers in the portfolio; and
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement.

If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.
The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due in accordance with the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude).

The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

14.8.2 Assets classified as available-for-sale

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired.

If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

14.9 Derecognition of financial assets and liabilities

The Group derecognises a financial asset when:

i. the contractual rights to the asset expires, or
ii. where there is a transfer of the contractual rights that comprise the asset, or
iii. the Group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset.

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the Group recognises any income on the transferred asset and any expense incurred on the financial liability.

Where the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset. In this case:

i. if the Group has not retained control, it derecognises the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; or
ii. if the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The Group derecognises a financial liability, or part of a financial liability, when it is extinguished, i.e. when the obligation is discharged or cancelled or expired.

15 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the statement of financial position at fair value. Derivatives are subsequently re-measured at their fair value with all movements in fair value recognised in the income statement.

The fair value of publicly traded derivatives are based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held.

The fair value of non-traded derivatives is based on discounted cash flow models and option pricing models as appropriate. The Group recognises derivatives as assets when the fair value is positive and as liabilities when the fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e, the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable market information. When such evidence exists, the Group recognises profits or losses on day one.

Where fair value is determined using valuation techniques whose variables include non-observable market data, the difference between the fair value and the transaction price ("the day one profit or loss") is deferred in equity and released over the life of the instrument. However, where observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to profit or loss.

The Group does not apply hedge accounting.

16 COMMODITIES

Commodities where the Group has a longer-term investment intention are carried at the lower of cost or net realisable value. Cost is determined using the weighted average method. Cost excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Cost of commodities includes the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases of commodities. Commodities where the Group has a shorter-term trading intention are carried at fair value less cost to sell in accordance with the broker-trader exception in IAS 2.

Forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle a further derivative contract, are recognised as derivative instruments and fair valued.

17 PROPERTY AND EQUIPMENT

The Group carries property and equipment at historical cost or valuation less depreciation and impairment, except for land which is carried at cost less impairment. Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

The carrying amount of the replacement part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and buildings held for use in the supply of services, or for administrative purposes, are stated in the statement 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 decease previously charged. A decrease in the carrying amount arising on the revaluation of such land and buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Property and equipment are depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings. The difference between the depreciation charge based on the revalued amount and the depreciation charge based on historical cost is transferred from the properties revaluation reserve to retained earnings for each reporting period.

The periods of depreciation used are as follows:

• Leasehold buildings and improvements	
Shorter of estimated life or period of lease	
• Freehold buildings:	
•Buildings and structures	50 years
•Mechanical and electrical components	20 years
•Sundries	3 - 5 years
•Motor vehicles	5 years
•Furniture and equipment	
•Computer equipment	3 – 5 years
•Furniture and fittings	3 – 10 years
•Office equipment	3 – 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in the income statement on disposal.

18 LEASES

18.1 A group company is the lessee

18.1.1 Finance leases

The Group classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments.

The Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is recognised in the income statement over the lease period.

The property and equipment acquired are depreciated over the useful life of the assets, unless it is not probable that the Group will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

18.1.2 Operating leases

The Group classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. It recognises operating lease payments in the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments. Contingent rentals are expensed in the period incurred.

The Group recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

18.2 A group company is the lessor

18.2.1 Finance leases

The Group recognises as advances assets sold under a finance lease at the present value of the lease payments. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Lease income is recognised over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

18.2.2 Operating leases

The Group includes assets held under operating lease as part of leasehold land and buildings. It depreciates these assets over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised on a straight-line basis over the lease term.

18.3 Instalment credit agreements

The Group regards instalment credit agreements as financing transactions and includes the total rentals and installments receivable, less unearned finance charges, in advances.

The Group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to income in proportion to capital balances outstanding.

19 INTANGIBLE ASSETS

Intangible assets comprise separately identifiable intangible items arising from business combinations and other intangible assets. Intangible assets are recognised at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Group have a definite useful life. At each date of the statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. The Group chooses to use the cost model for the measurement after recognition.

Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired.

19.1 Goodwill

Goodwill represents the excess of the consideration transferred, the fair value of the previous equity interests held and the non-controlling interest of an acquisition over the attributable fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For impairment purposes goodwill is allocated to the lowest components of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill ("cash generating unit"). Each cash generating unit represents a grouping of assets no higher than a primary business or reporting segment.

20 INCOME TAXATION

20.1 Current income taxation

The tax payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the reporting date.

20.2 Deferred income taxation

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements.

However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by 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.

The Group recognises deferred tax assets if the directors of First National Bank of Botswana Limited consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts and tax losses carried forward.

Deferred tax is provided on temporary differences arising from investments in subsidiaries and associates, 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 tax related to fair value re-measurement of available-for-sale financial assets and property revaluations, which are credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in the income statement together with the deferred gain or loss on disposal of the asset.

20.3 Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to other comprehensive income, in which case the tax is also recognised directly in other comprehensive income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination.

21 EMPLOYEE BENEFITS

21.1 Post employment benefits

The Group operates a defined contribution scheme, the assets of which are held in separate trustee-administered fund. The pension plan is generally funded by payments from employees and the Company, taking account of the recommendations of independent qualified actuaries. The Provident Funds Act (CAP27:03) governs its administration. The fund is in an actuarially sound position. The liability of the Group is limited to the contributions made during the employment of the employee. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

21.2 Post-retirement medical benefits

The Group does not provide post retirement healthcare benefits to its employees.

21.3 Termination benefits

The Group recognises termination benefits as a liability in the statement of financial position and as an expense in the income statement when it has a present obligation relating to termination.

The Group has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

21.4 Leave pay provision

The Group recognises in full employees' rights to annual leave entitlement in respect of past service based on their total cost of employment.

21.5 Bonuses

Management and staff bonuses are recognised as an expense in staff costs as incurred when it is probable that the economic benefits will be paid and the amount can be reliably measured.

22 BORROWINGS

The Group initially recognises borrowings, including debentures, at the fair value of the consideration received. Borrowings are subsequently measured at amortised cost. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective interest rate on the debentures over their life span. Interest paid is recognised in the income statement on an effective interest rate basis.

The Group separately measures and recognises the fair value of the debt component of an issued convertible bond in liabilities, with the residual value separately allocated to equity. It calculates interest on the debt portion of the instrument based on the market rate for a non-convertible instrument at the inception thereof.

Instruments with characteristics of debt, such as redeemable preference shares, are included in liabilities. Dividends paid on such instruments are included in interest expense.

Where the Group purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in trading income.

23 STATED CAPITAL

23.1 Share issue costs

Shares form part of the stated capital and are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown as a deduction from equity. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

23.2 Dividends paid

Dividends on ordinary shares and non-cumulative non-redeemable preference shares are recognised against equity in the period in which they are approved by the Company's shareholders.

23.3 Treasury shares

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, is included in shareholders' equity.

24 ACCEPTANCES

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group accounts for and discloses acceptances as a contingent liability.

25 SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenues and incur expenses. An operating segment is also a component of the Group whose operating results are regularly reviewed by the Chief Operating Decision maker allocating resources, assessing its performance and for which distinct financial information is available. The Chief Operating Decision maker has been identified as the Chief Executive Officer of the Group. The Group's identification and measurement of operating segments is consistent with the internal reporting provided to the Chief Executive Officer. The operating segments have been identified and classified in a manner that reflects the risks and rewards related to the segments' specific products and services offered in their specific markets. Additional information relating to each segment's specific products and services, geographical areas and major customers is also provided in the notes to the financial statements.

Operating segments whose total revenue, absolute profit or loss for the period or total assets are 10% or more of all the segments revenue, profit or loss or total assets, are reported separately.

Assets, liabilities, revenue or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The Group accounts for the inter-segment revenues and transfers as if the transactions were with third parties at current market prices.

Funding is provided to business units and segments based at internally derived transfer pricing rates taking into account the funding structures of the Group. The Group has disclosed the following business segments which are reportable: Retail Banking, Corporate Banking, Property Division, Vehicle Finance, Treasury and Support.

26 FIDUCIARY ACTIVITIES

The Group excludes assets and the income thereon in the statement of financial position and income statement respectively, together with related undertakings to return such assets to customers, where it acts in a fiduciary capacity such as nominee, trustee or agent. The Group, however, discloses the assets and income in the notes to the financial statements.

27 SHARE-BASED PAYMENT TRANSACTIONS

The Group operates equity and cash settled compensation plans for employees.

27.1 Equity settled share based compensation plan

The Group expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share-based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.
The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the Group revises its estimate of the number of options expected to vest. The Group recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through the statement of comprehensive income. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the share based payment reserve and credited against retained earnings.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

28 COMPARATIVES

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information in accordance with IAS 1.

29 STANDARDS AND INTERPRETATIONS IN ISSUE BUT NOT YET EFFECTIVE

Details of the Standards and Interpretations, which were in issue at the date of the authorisation of these financial statements, but not yet effective, are set out in note 43 to the annual financial statements.

Income Statements

for the year ended 30 June 2010

	Notes	Group 30 June 2010 P'000	Group 30 June 2009 P'000	Company 30 June 2010 P'000	Company 30 June 2009 P'000
Interest and similar income	2	1,062,618	1,296,474	1,062,618	1,296,474
Interest expense and similar charges	3	(518,978)	(773,578)	(518,978)	(773,578)
Net interest income before loan impairment of advances		543,640	522,896	543,640	522,896
Impairment of advances	13	(43,420)	(40,752)	(43,420)	(40,752)
Net interest income after loan impairment of advances		500,220	482,144	500,220	482,144
Non-interest income	4	408,312	370,158	395,492	364,401
Income from operations		908,532	852,302	895,712	846,545
Operating expenses	5	(192,380)	(162,100)	(191,907)	(161,741)
Employee benefits	6	(180,464)	(154,434)	(179,365)	(153,668)
Net income from operations		535,688	535,768	524,440	531,136
Share of profit of associate company	17	2,298	1,038	-	-
Profit before taxation		537,986	536,806	524,440	531,136
Indirect taxation	7	(6,014)	(8,326)	(6,006)	(8,323)
Profit before direct taxation		531,972	528,480	518,434	522,813
Direct taxation	7	(95,922)	(121,760)	(92,065)	(120,143)
Profit for the year		436,050	406,720	426,369	402,670
Basic earnings per share (thebe)	8	17.14	15.99		
Diluted earnings per share (thebe)	8	17.11	15.86		

Statements of Other Comprehensive Income

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
Profit for the year	436,050	406,720	426,369	402,670
Other comprehensive income				
Net gains arising on available-for-sale financial assets during the year	4,183	(6,199)	4,183	(6,199)
Gains on revaluation of property	33,601	-	18,550	-
Other comprehensive income/(loss) for the year before tax	37,784	(6,199)	22,733	(6,199)
Taxation relating to components of other comprehensive income	(9,295)	(1,133)	(5,579)	(1,150)
Other comprehensive income/(loss) for the year	28,489	(7,332)	17,154	(7,349)
Total comprehensive income for the year attributable to equity holders of the parent	464,539	399,388	443,523	395,321

Statements of Financial Position

as at 30 June 2010

	Notes	Group 30 June 2010 P'000	Group 30 June 2009 P'000	Company 30 June 2010 P'000	Company 30 June 2009 P'000
ASSETS					
Cash and short term funds	10	1,201,491	1,185,914	1,201,491	1,185,914
Derivative financial instruments	11	758	22,611	758	22,611
Advances to customers	12	5,803,009	4,643,241	5,810,009	4,650,242
Investment securities	14	4,946,059	6,085,772	4,946,059	6,085,772
Current taxation	32	1,041	-	2,235	-
Due from related companies	15	5,075	3,956	5,075	3,938
Accounts receivable	16	57,719	363,392	52,438	360,327
Investment in associate company	17	3,151	2,037	955	955
Investment in subsidiary companies	18	-	-	47,244	48,285
Property and equipment	19	187,306	115,601	154,845	97,739
Goodwill	20	26,963	26,963	-	-
Total assets		12,232,572	12,449,487	12,221,109	12,455,783
EQUITY AND LIABILITIES					
Liabilities					
Deposits from banks	22	4,000	13,851	4,000	13,851
Deposits from customers	21	10,304,632	10,552,699	10,304,632	10,552,699
Accrued interest payable		45,661	70,142	45,661	70,142
Derivative financial instruments	11	559	21,388	559	21,388
Current taxation	32	-	7,494	-	5,910
Due to related companies	15	50,209	175,827	78,626	196,425
Creditors and accruals	24	336,647	166,538	332,012	163,861
Provisions	25	23,830	24,741	23,830	24,741
Long term liabilities	23	207,827	416,612	207,827	416,612
Deferred taxation	7	100,648	79,071	95,289	77,900
Total liabilities		11,074,013	11,528,363	11,092,436	11,543,529
Capital and reserves attributable to ordinary equity holders					
Stated capital	28	51,088	51,088	58,088	58,088
Reserves	29	979,286	754,669	942,400	738,799
Dividend reserve		128,185	115,367	128,185	115,367
Total ordinary equity holders' funds		1,158,559	921,124	1,128,673	912,254
Total equity and liabilities		12,232,572	12,449,487	12,221,109	12,455,783

Statements of Changes in Equity

as at 30 June 2010

	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
Group						
Balance as at 1 July 2008	51,088	27,312	3,223	553,265	89,730	724,618
Profit for the year				406,720		406,720
Other comprehensive loss for the year		(7,332)				(7,332)
2008 final dividend paid					(89,730)	(89,730)
2009 interim dividend paid				(115,367)		(115,367)
2009 final dividend proposed				(115,367)	115,367	-
Recognition of share based payments			2,215			2,215
Decrease in associate company reserves		(260)		260		-
Transfer from revaluation reserve (note 29)		(258)		258		-
Balance as at 30 June 2009	51,088	19,462	5,438	729,769	115,367	921,124
Profit for the year				436,050		436,050
Other comprehensive income for the year		28,489				28,489
2009 final dividend paid					(115,367)	(115,367)
2010 interim dividend paid				(115,367)		(115,367)
2010 final dividend proposed				(128,185)	128,185	-
Recognition of share based payments			3,630			3,630
Decrease in associate company reserves		1,114		(1,114)		-
Transfer from revaluation reserve (note 29)		(114)		114		-
Balance as at 30 June 2010	51,088	48,951	9,068	921,267	128,185	1,158,559
Company						
Balance as at 1 July 2008	58,088	20,378	3,223	548,396	89,730	719,815
Profit for the year				402,670		402,670
Other comprehensive loss for the year		(7,349)				(7,349)
2008 final dividend paid					(89,730)	(89,730)
2009 interim dividend paid				(115,367)		(115,367)
2009 final dividend proposed				(115,367)	115,367	-
Recognition of share based payments			2,215			2,215
Transfer from revaluation reserve (note 29)		(144)		144		-
Balance as at 30 June 2009	58,088	12,885	5,438	720,476	115,367	912,254
Profit for the year				426,369		426,369
Other comprehensive income for the year		17,154				17,154
2009 final dividend paid					(115,367)	(115,367)
2010 interim dividend paid				(115,367)		(115,367)
2010 final dividend proposed				(128,185)	128,185	-
Recognition of share based payments			3,630			3,630
Balance as at 30 June 2010	58,088	30,039	9,068	903,293	128,185	1,128,673

Statements of Cash Flows

for the year ended 30 June 2010

	Notes	Group		Company	
		30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
Cash flows (utilised in)/from operating activities					
Cash generated by operations before taxation and working capital changes	30	590,308	579,191	578,625	572,812
Taxation paid	31	(92,002)	(84,768)	(88,379)	(84,000)
		498,306	494,423	490,246	488,812
Decrease in amounts due to other banks		(9,851)	(128,459)	(9,851)	(128,459)
(Decrease)/increase in deposit and current accounts	33	(248,067)	789,075	(248,067)	789,075
(Decrease)/ increase in balances due to related companies		(125,618)	78,240	(117,799)	80,496
Decrease in accrued interest payable		(24,481)	(16,452)	(24,481)	(16,452)
(Decrease)/increase in creditors and accruals		(81,903)	50,788	(83,861)	52,261
(Decrease)/increase in provisions		(911)	5,043	(911)	5,043
Increase in investments - held for trading		(17,412)	(76,321)	(17,412)	(76,321)
Increase in advances to customers - loans and receivables	34	(1,203,188)	(714,497)	(1,203,187)	(714,498)
Decrease/(increase) in accounts receivable		305,673	(181,481)	307,889	(179,616)
Increase in amounts due from related companies		(1,119)	(1,927)	(1,137)	(1,909)
Net cash (utilised in)/ from operating activities		(908,571)	298,432	(908,571)	298,432
Cash flows utilised in investing activities					
Purchase of property and equipment to maintain operations	19	(50,505)	(44,865)	(50,505)	(44,865)
Proceeds on disposal of property and equipment		17	36	17	36
Dividends from associate company	17	1,184	1,298	1,184	1,298
Net cash utilised in investing activities		(49,304)	(43,531)	(49,304)	(43,531)
Cash flows utilised in financing activities					
Dividends paid	35	(230,734)	(205,097)	(230,734)	(205,097)
Repayments of borrowings		(8,073)	(7,455)	(8,073)	(7,455)
Borrowings raised		50,000	-	50,000	-
Net cash utilised in financing activities		(188,807)	(212,552)	(188,807)	(212,552)
Net (decrease)/increase in cash and cash equivalents		(1,146,682)	42,349	(1,146,682)	42,349
Cash and cash equivalents at the beginning of the year		7,095,437	7,053,088	7,095,437	7,053,088
Cash and cash equivalents at the end of the year	36	5,948,755	7,095,437	5,948,755	7,095,437

Notes to the Annual Financial Statements

for the year ended 30 June 2010

	Group		Company	
1. ACCOUNTING POLICIES The accounting policies of the Group are set out on pages 71 to 85.	**30 June 2010 P'000**	**30 June 2009 P'000**	**30 June 2010 P'000**	**30 June 2009 P'000**
2. INTEREST AND SIMILAR INCOME				
Held for trading				
- Investment securities	9,464	10,876	9,464	10,876
Loan and receivables				
- Advances	623,129	681,858	623,129	681,858
- Cash and short term funds	31,914	72,830	31,914	72,830
- Unwinding of discounted present value of security on non-performing loans (Note 13)	(2,426)	(2,221)	(2,426)	(2,221)
Available-for-sale financial assets				
- Investment securities	400,537	533,131	400,537	533,131
	1,062,618	1,296,474	1,062,618	1,296,474
3. INTEREST EXPENSE AND SIMILAR CHARGES				
Financial liabilities at amortised cost				
- Term deposit accounts	284,248	369,458	284,248	369,458
- Current accounts	169,036	305,614	169,036	305,614
- Savings deposits	21,294	44,755	21,294	44,755
- Deposits from banks and other financial institutions	2,540	5,224	2,540	5,224
- Loans from related parties (Note 15)	29,709	37,391	29,709	37,391
- Debentures	12,151	11,136	12,151	11,136
	518,978	773,578	518,978	773,578
4. NON-INTEREST INCOME				
Loans and receivables				
- Card commissions	80,463	73,251	80,463	73,251
- Insurance commissions	22,662	15,498	13,973	9,806
- Facility fees	30,881	26,411	30,881	26,411
- Commissions - guarantees and indemnities	7,679	6,165	7,679	6,165
Financial liabilities at amortised cost				
- Cash deposit fees	20,607	16,800	20,607	16,800
- Commissions - bills, drafts and cheques	33,879	26,758	33,879	26,758
- Service fees	89,111	77,860	89,111	77,860
- Commissions-customer services	26,219	24,908	26,219	24,908
Held for trading				
- Gains on bond trading	1,245	5,515	1,245	5,515
- Foreign exchange trading income	82,220	84,892	82,220	84,892
Non-financial assets and liabilities				
- (Loss)/gain on sale of property and equipment	(161)	36	(161)	36
- Dividend received from an associate company	-	-	1,184	1,298
- Other non-interest income	13,507	12,064	8,192	10,701
	408,312	370,158	395,492	364,401

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
5. OPERATING EXPENSES				
Auditors` remuneration				
Audit fees				
- current year	2,413	2,044	2,413	2,044
- prior year	(174)	142	(174)	142
	2,239	2,186	2,239	2,186
Depreciation				
Buildings	3,459	2,928	3,007	2,476
Motor vehicles	718	643	718	643
Furniture and equipment	8,046	6,430	8,046	6,430
	12,223	10,001	11,771	9,549
Directors' remuneration				
For services as directors	1,587	1,754	1,597	1,754
For other services	2,609	4,776	2,609	4,776
	4,196	6,530	4,206	6,530
Exchange losses/(gains) on revaluation	711	(11,027)	711	(11,027)
Operating lease charges				
Premises	17,753	13,925	18,350	14,593
- Contractual	16,453	13,885	17,050	14,553
- Straight line lease rental adjustment	1,300	40	1,300	40
Equipment	4,030	4,487	4,030	4,487
	21,783	18,412	22,380	19,080
Other operating expenses				
Advertising and marketing	22,653	16,022	22,600	16,022
Communication	14,482	13,691	14,481	13,691
Computer expenditure	12,295	12,558	12,289	12,558
Property maintenance	25,613	24,601	25,574	24,403
Stationery, storage and postage	15,773	15,015	15,691	15,015
Service fees	9,841	9,950	8,954	9,950
Service fees paid to Group	22,159	11,877	21,593	11,697
Write down of investments	-	-	1,193	-
Other	19,740	12,598	19,575	12,432
	142,556	116,312	141,950	115,768
Professional fees	8,662	19,686	8,650	19,655
Total operating expenses	192,370	162,100	191,907	161,741
6. EMPLOYEE BENEFITS EXPENSES				
Salaries, wages and allowances	139,832	124,503	138,830	123,836
Contributions to pension, medical and other staff funds	16,856	12,128	16,759	12,053
Share based payments expense - equity settled	3,630	2,215	3,630	2,215
Share based payments expense - cash settled	1,255	-	1,255	-
Leave pay expense	6,649	4,317	6,649	4,317
Other	12,242	11,271	12,242	11,247
	180,464	154,434	179,365	153,668

Details of the post retirement benefits are provided separately in note 27.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
7. TAXATION				
Indirect taxation				
Value added tax	6,014	8,326	6,006	8,323
Direct taxation				
Income taxation expense				
Current tax at 15%	72,576	72,927	70,637	71,907
Additional company tax at 10%	48,385	48,556	47,091	47,941
Overprovision in prior years	(3,567)	(4,237)	(3,567)	(4,237)
Withholding tax on dividends	(33,927)	(30,157)	(33,927)	(30,157)
	83,467	87,089	80,234	85,454
Deferred taxation				
Charge to income statement				
- current year	12,347	10,516	11,723	10,534
- prior year under provision	108	24,155	108	24,155
	12,455	34,671	11,831	34,689
Total taxation expense per income statement	95,922	121,760	92,065	120,143
Additional company taxation				
Opening	28,417	10,018	27,802	10,018
	14,458	18,399	13,164	17,784
Arising during the year	48,385	48,556	47,091	47,941
Utilised against withholding tax on dividends in current year	(33,927)	(30,157)	(33,927)	(30,157)
Available for set off against withholding tax on future dividends payable	42,875	28,417	40,966	27,802
Reconciliation of taxation charge				
Profit before direct taxation	531,972	528,480	518,434	522,813
Taxation at current rate on profit for the year	132,993	132,120	129,609	130,703
Withholding tax on dividends	(33,927)	(30,157)	(33,927)	(30,157)
Overprovision of current tax in prior years	(3,567)	(4,237)	(3,567)	(4,237)
Underprovision of deferred tax in prior years	108	24,155	108	24,155
Disallowed expenses	315	(121)	(158)	(321)
Total tax expense per income statement	95,922	121,760	92,065	120,143
Deferred taxation				
Balance at the beginning of the year	79,071	43,267	77,900	42,061
Temporary differences for the year	12,347	10,516	11,723	10,534
Prior year (over)/underprovison	(65)	24,155	123	24,155
Deferred tax on valuation of available-for-sale investments	1,828	1,173	1,828	1,173
Transfer to revaluation reserve	(28)	(40)	(18)	(23)
Deferred tax arising on revaluation of properties	7,495	-	3,733	-
Balance at the end of the year	100,648	79,071	95,289	77,900

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
7. TAXATION (continued)				
Deferred taxation (continued)				
The balance comprises:				
Accelerated capital allowances	99,550	84,204	98,926	84,612
Revaluation surplus	8,648	1,152	4,884	1,151
Other temporary differences	(7,550)	(6,285)	(8,521)	(7,863)
	100,648	79,071	95,289	77,900

8. EARNINGS PER SHARE

Basic earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company and 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.

There were no movements during the current year, in the number of shares in issue or the number of ordinary shares held by the Employees Share Participation Scheme, classified as treasury shares.

	Group 30 June 2010 P'000	Group 30 June 2009 P'000	Company 30 June 2010 P'000	Company 30 June 2009 P'000
Earnings attributable to equity holders	436,050	406,720		
Number of ordinary shares in issue at beginning and end of year (thousands)	2,563,700	2,563,700		
Less treasury shares (thousands)	(20,000)	(20,000)		
Weighted average number of ordinary shares in issue (thousands)	2,543,700	2,543,700		
Basic earnings per share (thebe)	17.14	15.99		

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutable potential ordinary shares.

	Group 30 June 2010 P'000	Group 30 June 2009 P'000	Company 30 June 2010 P'000	Company 30 June 2009 P'000
Earnings attributable to equity holders	436,050	406,720		
Weighted average number of ordinary shares in issue (thousands)	2,549,068	2,563,700		
Basic diluted earnings per share (thebe)	17.11	15.86		

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

9. 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 page 71 to page 85 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 statement of financial position per category of financial instrument to which they are assigned and therefore by measurement basis:

	Group		Company	
	30 June 2010 P'000	**30 June 2009 P'000**	**30 June 2010 P'000**	**30 June 2009 P'000**
ASSETS				
Loans and receivables				
Cash and short-term funds	1,201,491	1,185,914	1,201,491	1,185,914
Advances to customers	5,803,009	4,643,241	5,810,009	4,650,242
Due from related companies	5,075	3,956	5,075	3,938
Accounts receivable	57,719	363,392	52,438	360,327
Available-for-sale financial assets				
Investment securities	4,775,469	5,932,594	4,775,469	5,932,594
Held for trading				
Investment securities	170,590	153,178	170,590	153,178
Derivative financial instruments	758	22,611	758	22,611
Non-financial assets				
Current taxation	1,041	-	2,235	-
Investment in associate company	3,151	2,037	955	955
Investment in subsidiary companies	-	-	47,244	48,285
Property and equipment	187,306	115,601	154,845	97,739
Goodwill	26,963	26,963	-	-
Total assets	12,232,572	12,449,487	12,221,109	12,455,783
LIABILITIES				
Financial liabilities at amortised cost				
Amounts due to other banks	4,000	13,851	4,000	13,851
Deposit and current accounts	10,304,632	10,552,699	10,304,632	10,552,699
Long term liabilities	207,827	416,612	207,827	416,612
Accrued interest payable	45,661	70,142	45,661	70,142
Due to related companies (Note 15)	50,209	175,827	78,626	196,425
Creditors and accruals	336,647	166,538	332,012	163,861
Provisions	23,830	24,741	23,830	24,741
Held for trading				
Derivative financial instruments	559	21,388	559	21,388
Non-financial liabilities				
Current taxation	-	7,494	-	5,910
Deferred taxation	100,648	79,071	95,289	77,900
Total liabilities	11,074,013	11,528,363	11,092,436	11,543,529

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
10. CASH AND SHORT TERM FUNDS				
Coins and bank notes	123,132	107,334	123,132	107,334
Money at call and short notice				
- related companies (note 15)	292,803	562,436	292,803	562,436
- other banks	303,526	99,717	303,526	99,717
Balances with Bank of Botswana				
- Mandatory reserve balance	472,695	408,011	472,695	408,011
Balances with Bank of Botswana				
- Statutory account balance	(1,665)	3,416	(1,665)	3,416
Balances with other banks	11,000	5,000	11,000	5,000
	1,201,491	1,185,914	1,201,491	1,185,914
The carrying value of cash and short term funds approximates the fair value.				
Amounts denominated in foreign currencies included in above balances	594,937	662,153	594,937	662,153
Mandatory reserve balances	472,695	408,011	472,695	408,011

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 32 days or less.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

11. DERIVATIVE FINANCIAL INSTRUMENTS

Group and company

Strategy in using hedging instruments

Interest rate swaps

Interest rate derivatives comprising mainly interest rate swaps, and forward rate agreements are utilised for 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 variable rates and uses fixed 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.

Further information pertaining to the risk management strategy of the Group is set out in note 39.

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 statement of financial position. The fair value adjustments arising from valuation of both options are recognised in the profit or loss as part of other 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 means 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 contracts which were unsettled as at year end.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Assets		Liabilities	
2010	**Notional P'000**	**Fair value P'000**	**Notional P'000**	**Fair value P'000**
Currency derivatives:				
Currency options	-	-	-	-
Trading derivatives	104,006	758	123,414	559
	104,006	758	123,414	559
Related party derivatives included in above balances				
Currency derivatives:				
Trading derivatives	11,560	295	12,842	72
	11,560	295	12,842	72
2009				
Currency derivatives:				
Currency options	185,462	19,948	185,462	19,144
Trading derivatives	26,171	2,663	9,187	2,244
	211,633	22,611	194,649	21,388
Related party derivatives included in above balances				
Currency options	185,462	19,948	-	-
Trading derivatives	18,967	1,930	3,423	836
	204,429	21,878	3,423	836

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
12. ADVANCES TO CUSTOMERS				
Sector analysis				
Agriculture	44,838	35,597	44,838	35,597
Building and property development	259,689	122,980	259,689	122,980
Business and trade	2,517,106	2,261,621	2,524,106	2,268,622
Government and public authorities	2	86	2	86
Individuals	2,597,869	1,894,265	2,597,869	1,894,265
Manufacturing	341,716	276,637	341,716	276,637
Mining and quarrying	51,223	64,429	51,223	64,429
Transport and communications	112,170	93,435	112,170	93,435
Gross advances	5,924,613	4,749,050	5,931,613	4,756,051
Contractual interest suspended	(26,340)	(27,460)	(26,340)	(27,460)
Gross advances after contractual interest suspended	5,898,273	4,721,590	5,905,273	4,728,591
Less : impairment of advances (Note 13)	(95,264)	(78,349)	(95,264)	(78,349)
Net advances	5,803,009	4,643,241	5,810,009	4,650,242
Category analysis				
Overdrafts and managed accounts debtors	1,146,519	949,203	1,153,520	956,203
Personal loans	1,068,982	617,111	1,068,982	617,111
Lease payments receivable	493,599	455,779	493,599	455,779
Suspensive sale debtors	766,099	755,725	766,099	755,725
Property loans	2,273,493	1,555,525	2,273,493	1,555,525
Other loans and advances	175,921	415,707	175,920	415,708
Gross advances	5,924,613	4,749,050	5,931,613	4,756,051
Contractual interest suspended	(26,340)	(27,460)	(26,340)	(27,460)
Gross advances after contractual interest suspended	5,898,273	4,721,590	5,905,273	4,728,591
Less : impairment of advances (Note 13)	(95,264)	(78,349)	(95,264)	(78,349)
Net advances	5,803,009	4,643,241	5,810,009	4,650,242
Maturity analysis				
Maturity within one year	1,425,732	1,089,946	1,432,732	1,096,947
Maturity between one and five years	1,599,638	1,943,864	1,599,638	1,943,864
Maturity more than five years	2,899,243	1,715,240	2,899,243	1,715,240
	5,924,613	4,749,050	5,931,613	4,756,051
Included in above advances are instalment loans maturing within:				
-one year	77,951	57,921	77,951	57,921
-one to five years	1,181,747	1,153,583	1,181,747	1,153,583
	1,259,698	1,211,504	1,259,698	1,211,504

These loans have been made under normal commercial terms and conditions. The above advances only expose the Group to credit risk in Botswana.

Included in the above are advances to:				
- Directors	5,628	3,627	5,628	3,627

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

13. IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the Credit Division and impaired according to the Group's impairment policy when an indication of impairment is observed.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:
- The estimated amount of collateral held against the loans and advances;
- Breaches of loan covenants and conditions;
- The time period of overdue contractual payments;
- Loss Given Default (LGD), Probability of Default (PD) and Exposure At Default (EAD);
- Actuarial credit models;
- Loss of employment or death of the borrower; and
- The probability of liquidation of the customer.

		2010	
Group and Company	**Total impairment P'000**	**Retail P'000**	**Corporate and commercial P'000**
Specific impairment			
At the beginning of the year	54,181	50,497	3,684
Amounts written off	(28,931)	(27,145)	(1,786)
	25,250	23,352	1,898
Impairment loss recognised in the income statement	38,121	36,915	1,206
New and increased provision	42,994	41,164	1,830
Recoveries of bad debts previously written off	(4,873)	(4,249)	(624)
At the end of the year	63,371	60,267	3,104
Present valuation of security adjustment			
At the beginning of the year	9,894	9,651	243
Unwinding of discounted present value of security on non-performing loans (Note 2)	2,426	2,364	62
At the end of the year	12,320	12,015	305
Portfolio impairment			
At the beginning of the year	10,532	9,606	926
Charge to the income statement	3,711	2,817	894
At the end of the year	14,243	12,423	1,820
IBNR impairment			
At the beginning of the year	3,742	3,307	435
Charge to income statement	1,588	1,588	-
At the end of the year	5,330	4,895	435
Total charge to the income statement	43,420	41,320	2,100
Total impairment at the end of the year	95,264	89,600	5,664

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

13. IMPAIRMENT OF ADVANCES (continued)

Group and Company	Total impairment P'000	2009 Retail P'000	Corporate and commercial P'000
Specific Impairment			
At the beginning of the year	48,614	43,537	5,077
Amounts written off	(26,665)	(24,578)	(2,087)
	21,949	18,959	2,990
Impairment loss recognised in the income statement	42,126	41,432	694
New and increased provision	42,753	41,931	822
Recoveries of bad debts previously written off	(5,237)	(5,109)	(128)
Impairment adjustments	4,610	4,610	-
At the end of the year	54,181	50,497	3,684
Present value of security adjustment			
At the beginning of the year	7.673	7,474	199
Unwinding of discounted present value of security on non-performing loans (Note 2)	2,221	2,177	44
At the end of the year	9,894	9,651	243
Portfolio Impairment			
At the beginning of the year	8,660	7,095	1,565
Charge/(credit) to the income statement	1,872	2,511	(639)
At the end of the year	10,532	9,606	926
IBNR impairment			
At the beginning of the year	6,988	6,385	603
Charge to income statement	(3,246)	(3,078)	(168)
At the end of the year	3,742	3,307	435
Total charge to the income statement	40,752	40,865	(113)
Total impairment at the end of the year	78,349	63,410	5,045

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

13. IMPAIRMENT OF ADVANCES (continued)

Non-performing advances - loans and receivables

Group and Company	Total including interest suspended	Security held	Contractual Interest suspended	Specific Impairment
	P'000	P'000	P'000	P'000
Sector analysis - 2010				
Agriculture	145	54	26	65
Building and property development	1,555	583	274	698
Individuals	91,010	34,069	16,059	40,882
Manufacturing and commerce	16,234	6,076	2,865	7,293
Transport and communication	2,096	785	370	941
Other advances	38,229	17,991	6,746	13,492
Total non-performing advances - 30 June 2010	149,269	59,558	26,340	63,371
Sector analysis - 2009				
Agriculture	147	69	26	52
Building and property development	74,499	34,412	13,483	26,604
Individuals	4,855	2,244	878	1,733
Manufacturing and commerce	42,679	19,714	7,724	15,241
Transport and communication	17,137	7,917	3,101	6,119
Other advances	12,363	5,683	2,248	4,432
Total non-performing advances - 30 June 2009	151,680	70,039	27,460	54,181
Category analysis - 2010				
Overdrafts and managed accounts	84,613	33,779	18,880	31,954
Personal loans	15,601	-	1,838	13,763
Suspensive and instalment sale debtors	14,678	547	2,025	12,106
Property loans	29,942	25,232	3,106	1,604
Other advances	4,435	-	491	3,944
Total non-performing advances - 30 June 2010	149,269	59,558	26,340	63,371
Category analysis - 2009				
Overdrafts and managed accounts	68,991	30,476	13,766	23,498
Personal loans	7,084	-	736	7,599
Suspensive and instalment sale debtors	23,368	2,769	3,514	17,087
Property loans	45,687	35,840	7,792	2,055
Other advances	6,550	954	1,652	3,942
Total non-performing advances - 30 June 2009	151,680	70,039	27,460	54,181

	Group 30 June 2010 P'000	Company 30 June 2009 P'000
Contractual interest suspended		
At the beginning of the year	27,460	26,741
Written off during the year	(10,298)	(15,880)
Suspended during the year	9,178	16,599
At the end of the year	26,340	27,460

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
14. INVESTMENT SECURITIES				
Available-for-sale:				
Bank of Botswana Certificates	4,747,264	5,909,523	4,747,264	5,909,523
Equity investments	28,205	23,071	28,205	23,071
	4,775,469	5,932,594	4,775,469	5,932,594
Held for trading:				
Government and parastatal bonds	170,590	153,178	170,590	153,178
	4,946,059	6,085,772	4,946,059	6,085,772

P945,391,000 (2009: P816,023,000) of the Bank of Botswana Certificates form part of the Group's liquid assets portfolio in terms of the Banking Act (Cap 46:04)

Fair value of investment securities is based on the ruling market prices as at the reporting date.
The Bank of Botswana Certificates have maturities ranging from one to three months.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

15. RELATED PARTIES

The Group identifies a related party if an entity or individual:

- directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the entity (this includes parent companies, subsidiaries and fellow subsidiaries) (Refer to Note 18 subsidiaries);

- has an interest in the entity that gives it significant influence over the entity (Refer Note 17 for associates);

- has control over the entity; or

- is an associate company, joint venture, or is jointly controlled;

- is a member of key management personnel of the Group. Key management personnel comprise non-executive Directors, the Chief Executive Officer, the Deputy Chief Executive Officer, the Chief Financial Officer, the Head of Compliance and Governance, Treasurer, Head of Credit and Chief Operations Officer. Key management personnel includes family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealing with the Group.

The Group's holding company is First National Bank Holdings Limited, a company registered in Botswana. The Group's ultimate holding company is FirstRand Bank Holdings Limited, a company registered in the Republic of South Africa.

Related party balances

Related company balances arise from ordinary banking business under normal commercial terms and conditions. Amounts due to/from related parties as at the year end were:

	Group		Company	
	30 June 2010 P'000	**30 June 2009 P'000**	**30 June 2010 P'000**	**30 June 2009 P'000**
Due from related parties				
Rand Merchant Bank Limited (South Africa)	292,901	562,436	292,901	562,436
First National Bank Holdings (Botswana) Limited	4,977	3,938	4,977	3,938
Financial Services Properties (Proprietary) Limited (Botswana)	-	18	-	-
	297,878	566,392	297,878	566,374
Less money at call and short notice - related companies (Note 10)	(292,803)	(562,436)	(292,803)	(562,436)
	5,075	3,956	5,075	3,938
Included in advances:				
Finance House (Proprietary) Limited - Associate	-	971	-	971
	-	971	-	971

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
15. RELATED PARTIES (continued)				
Due to related companies- current liabilities				
First National Bank Holdings (Botswana) Limited	-	78,376	-	78,376
Rand Merchant Bank Limited (Ireland)	34,297	45,061	34,297	45,061
Financial Services Company of Botswana (Proprietary) Limited	-	-	2,369	2,052
Financial Services Properties (Proprietary) Limited	-	-	(47)	1,057
First National Insurance Agency (Proprietary) Limited	-	-	25,083	16,425
First Funding (Proprietary) Limited	-	-	1,000	1,000
Plot Four Nine Seven Two (Proprietary) Limited	-	-	12	64
First National Bank Limited - South Africa	15,912	52,390	15,912	52,390
	50,209	175,827	78,626	196,425
Due to related companies - creditors and accruals				
Rand Merchant Bank (South Africa) (Note 24)	250,000	250,000	250,000	250,000
Refer to Note 21 for amounts included in deposits from customers				
Related party transactions				
Transactions were carried out in the ordinary course of banking business and were made on an arm`s length basis as detailed below:				
Interest income:				
Rand Merchant Bank Limited (Ireland)	2,246	17,985	2,246	17,985
First National Bank, a division of FirstRand Bank Limited - South Africa	-	9,086	-	9,086
	2,246	27,071	2,246	27,071
Interest expenditure				
First National Bank Holdings (Botswana) Limited	3,337	9,455	3,337	9,455
Rand Merchant Bank Limited (Ireland)	123	1,686	123	1,686
Rand Merchant Bank (South Africa)	26,249	26,250	26,249	26,250
	29,709	37,391	29,709	37,391
Non-interest income:				
Dividend income - Finance House (Proprietary) Ltd	-	-	1,184	1,298
Operating expenses:				
Rent paid - Subsidiary companies	-	-	667	667
Rent paid - Finance House (Proprietary) Limited	5,112	4,728	5,112	4,728
Service level agreement costs - FirstRand Bank Limited	48,755	30,823	48,755	30,823
	53,867	35,551	54,534	36,218

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
15. RELATED PARTIES (continued)				
Key Management personnel				
Compensation paid to key management personnel				
Share-based payments	233	-	233	-
Salaries and allowances	6,086	7,270	6,086	7,270
Other employee benefits	190	797	190	797
Total short term benefits	6,509	8,067	6,509	8,067
Pension contribution	404	225	404	225
Advances				
Personal loans	135	271	135	271
Overdrafts	20	115	20	115
Credit card	220	291	220	291
Instalment finance	2,411	1,579	2,411	1,579
Property loans	6,699	4,572	6,699	4,572
Total advances	9,485	6,828	9,485	6,828

No impairments have been recognised in respect of the above advances (2009: nil). 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 over 3 years. Property loans and instalment finance loans are repayable monthly over 15 years, and 5 years respectively. Property loans are collaterised by properties with a total fair value of P9,076,000 (2009: P4,600,000). Instalment finance loans are collaterised by motor vehicles with a total fair value of P2,500,000 (2009: P1, 600, 000).

Personal loans, overdrafts and credit card balances are unsecured.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group 30 June 2010 P'000	Group 30 June 2009 P'000	Company 30 June 2010 P'000	Company 30 June 2009 P'000
16. ACCOUNTS RECEIVABLE				
Items in transit	23,333	294,755	23,333	294,755
Other sundry debtors	34,100	68,351	28,819	65,286
School debentures	286	286	286	286
	57,719	363,392	52,438	360,327
The above carrying value of accounts receivable approxiamtes their fair value				
17. INVESTMENT IN ASSOCIATE COMPANY				
Unlisted investments				
Finance House (Proprietary) Limited				
Shares at cost less amounts written off	955	955	955	955
Share of post-acquisition net income	2,196	1,082	-	-
	3 ,151	2,037	955	955
Profit for the year	2,163	2,318		
	2,298	1,038		
Share of profit for the year	1,056	1,038		
Share of prior year profits	1,242	-		
Dividends received for the year	(1,184)	(1,298)		
Retained earnings (loss) for the year	1 ,114	(260)		
Share of retained earnings at the beginning of the year	1,082	1,342		
Total retained earnings	2,196	1,082		
Shares at cost	955	955		
Total carrying value	3,151	2,037		
Group's share of statement of financial position				
Total assets	7,407	5,628		
Total liabilities	(950)	(1,453)		
Net assets	6,457	4,175		
Investment property	2,880	2,232		
Long term loan	-	(68)		
Other assets/(liabilities)-Net	271	(127)		
	3,151	2,037		
Fair value of the investment in the associate company at directors` valuation	36,200	15,714		

The directors' valuation of the unlisted investment is considered to be fair.

Finance House (Proprietary) Limited is a property owning company. The Group`s proportionate shareholding in the associate at the reporting date amounted to 48.8% (2009: 48.8%).

The most recent audited annual financial statements of associates are used by the Group in applying the equity method of accounting for associates. The audited annual financial statements of Finance House (Proprietary) Limited are prepared as at 30 September each year. The most recent audited financial statements of the company are therefore more than six months before the financial statement date of the Group, hence management accounts as at 30 June are used instead.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

18. INVESTMENT IN SUBSIDIARY COMPANIES

Company	Nature of business	30 June 2010 P'000 Carrying amount	30 June 2009 P'000 Carrying amount
Financial Services Company of Botswana (Proprietary) Limited	Property owning company	12,500	12,500
Financial Services Properties (Proprietary) Limited	Property owning company	-	351
Plot Four Nine Seven Two (Proprietray) Limited	Property owning company	-	690
First Funding (Proprietary) Limited	Group loan scheme	34,704	34,704
Premium Credit Botswana (Proprietary) Limited	Insurance premium finance	10	10
First National Insurance Agency (Proprietary) Limited	Insurance agency	30	30
		47,244	48,285

All subsidiary companies are wholly owned, incorporated in Botswana and are not listed on the Botswana Stock Exchange. Premium Credit Botswana (Proprietary) ceased operations in 2002 and is awaiting de-registration. Insurance premium financing is now carried out through a division of the Bank.

With effect from 1 July 2004, First Funding (Proprietary) Limited ceased to operate as a separate company. Micro lending financing is carried out through a division of the Bank.

With effect from 1 July 2007, the properties of Financial Services Properties (Proprietary) Limited and Plot Four Nine Seven Two (Proprietary) Limited were transferred to the Bank and are in process of deregistration. In the current year the value of the investments was written down.

The directors' consider the valuation of these unlisted investments to be fair.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

19. PROPERTY AND EQUIPMENT

Group	Freehold and leasehold land and buildings P'000	Leasehold improvements P'000	Motor vehicles P'000	Furniture and equipment P'000	Total P'000
2010					
Cost or valuation					
Balance at 1 July 2009	61,626	33,081	3,355	55,047	153,109
Additions	16,916	12,526	672	20,391	50,505
Disposals	-	(63)	-	(1,635)	(1,698)
Revaluation increase	31,660	-	-	-	31,660
Balance at 30 June 2010	110,202	45,544	4,027	73,803	233,576
Accumulated depreciation					
Balance at 1 July 2009	1,582	11,352	2,165	22,409	37,508
Charge for the year	727	2,732	718	8,046	12,223
Disposals	-	(52)	-	(1,468)	(1,520)
Eliminated on revaluation	(1,941)	-	-	-	(1,941)
Balance at 30 June 2010	368	14,032	2,883	28,987	46,270
Carrying amount as at 30 June 2010	109,834	31,512	1,144	44,816	187,306
2009					
Cost or valuation					
Balance at 1 July 2008	35,934	28,071	2,475	41,867	108,347
Additions	25,692	5,010	983	13,180	44,865
Disposals	-	-	(103)	-	(103)
Balance at 30 June 2009	61,626	33,081	3,355	55,047	153,109
Accumulated depreciation					
Balance at 1 July 2008	856	9,150	1,625	15,979	27,610
Charge for the year	726	2,202	643	6,430	10,001
Disposals	-	-	(103)	-	(103)
Balance at 30 June 2009	1,582	11,352	2,165	22,409	37,508
Carrying amount as at 30 June 2009	60,044	21,729	1,190	32,638	115,601

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

19. PROPERTY AND EQUIPMENT (continued)

		30 June 2010 P'000	30 June 2009 P'000
Cost or valuation consists of:			
Freehold land and buildings	- cost	74,612	45,748
	- valuation adjustment	31,684	11,948
Leasehold land and buildings	- cost	1,105	1,105
	- valuation adjustment	2,825	2,825
Leasehold land improvements	- cost	45,543	33,081
Motor vehicles	- cost	4,028	3,355
Furniture and equipment	- cost	73,849	55,047
Total cost or valuation		233,646	153,109
Had the Group's land and buildings been measured on a historical cost basis, their carrying amount would have been:			
Freehold and leasehold land and buildings		67,315	28,070

Freehold land and buildings consist of a commercial property and four residential properties. The properties were valued by CB Richard Ellis, a professional property valuer in June 2010 on the basis of open market value for existing use. Properties are revalued every three years.

Leasehold land and buildings consist of four residential properties and include the costs of improvements to bank premises. The residential properties were valued by CB Richard Ellis, a professional property valuer in June 2010 on the basis of open market value for existing use. The unexpired portion of all the leases is in excess of 50 years.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

19. PROPERTY AND EQUIPMENT (continued)

Company	Freehold and leasehold land and buildings P'000	Leasehold improvements P'000	Motor vehicles P'000	Furniture and equipment P'000	Total P'000
2010					
Cost or valuation					
Balance at 1 July 2009	43,512	31,839	3,355	55,047	133,753
Additions	16,916	12,526	672	20,391	50,505
Disposals	-	(64)	-	(1,634)	(1,698)
Revaluation increase	17,725	-	-	-	17,725
Balance at 30 June 2010	78,153	44,301	4,027	73,804	200,285
Accumulated depreciation					
Balance at 1 July 2009	550	10,890	2,165	22,409	36,014
Charge for the year	275	2,732	718	8,046	11,771
Disposals	-	(52)	-	(1,468)	(1,520)
Eliminated on revaluation	(825)				(825)
Balance at 30 June 2010	-	13,570	2,883	29,034	45,440
Carrying amount as at 30 June 2010	78,153	30,731	1,144	44,817	154,845
Company					
2009					
Cost or valuation					
Balance at 1 July 2008	17,820	26,829	2,475	41,867	88,991
Additions	25,692	5,010	983	13,180	44,865
Disposals	-	-	(103)	-	(103)
Balance at 30 June 2009	43,512	31,839	3,355	55,047	133,753
Accumulated depreciation					
Balance at 1 July 2008	276	8,688	1,625	15,979	26,568
Charge for the year	274	2,202	643	6,430	9,549
Disposals	-	-	(103)	-	(103)
Balance at 30 June 2009	550	10,890	2,165	22,409	36,014
Carrying amount as at 30 June 2009	42,962	20,949	1,190	32,638	97,739

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

19. PROPERTY AND EQUIPMENT (continued)

		30 June 2010 P'000	30 June 2009 P'000
Cost or valuation consists of:			
Freehold land and buildings	- cost	60,428	33,893
	- valuation adjustment	17,725	9,619
Leasehold improvements	- cost	44,301	31,839
Motor vehicles	- cost	4,027	3,355
Furniture and Equipment	- cost	73,851	55,047
Total cost or valuation		200,332	133,753
Had theCompany's land and buildings been measured on a historical cost basis, their carrying amount would have been:			
Freehold and Leasehold land and buildings		55,583	15,974

Freehold land and buildings consist of a commercial property and four residential properties. The properties were valued by CB Ricahrd Ellis, a professional property valuer in June 2010 on the basis of open market value for existing use. Properties are revalued every three years.

Leasehold land and buildings consist of four residential properties and include the costs of improvements to bank premises. The residential properties were valued by CB Richard Ellis, a professional property valuer in June 2010 on the basis of open market value for existing use. The unexpired portion of all the leases is in excess of 50 years.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

20. GOODWILL

	30 June 2010 P'000	30 June 2009 P'000
Group		
Goodwill		
Goodwill at carrying value	26,963	26,963
The above goodwill arose on acquisition of:		
First Funding (Proprietary) Limited	26,589	26,589
Premium Credit (Proprietary) Limited	374	374
	26,963	26,963

There were no movements in the carrying value of goodwill during the current year.

During the financial year, the Group assessed the recoverable amount of goodwill, and determined that it was not impaired. The recoverable amount of the cash generating units was determined with reference to the value in use. The assumptions used are that the free cashflows will grow at 5.0% (2009: 1.0%)for the first three years and thereafter a constant growth rate of 3.0% (2009: 3.0%) for the remaining two years. The discount rate used is 20% (2009: 11.5%) and the period is perpetual.

21. DEPOSITS FROM CUSTOMERS

	30 June 2010 P'000	30 June 2009 P'000
Group and Company		
Current and managed accounts		
- financial institutions and other customers	2,032,049	1,711,748
Savings accounts	696,036	801,162
Call and term deposits	7,576,547	8,039,789
	10,304,632	10,552,699

Included in the call and term deposits are related party balances of P42,432,377 relating to First Life Assurance (Proprietary) Limited and P81,885,273 with First National Bank Holdings (Botswana) (Proprietary) Limited

	30 June 2010 P'000	30 June 2009 P'000
Maturity analysis		
Withdrawal on demand	6,364,584	5,733,178
Maturing within one year	3,940,048	4,809,019
Maturing two to five years	-	10,502
	10,304,632	10,552,699

The maturity analysis is based on the remaining months to maturity from the reporting date.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
22. DEPOSITS FROM BANKS				
Unsecured and payable on demand	4,000	13,851	4,000	13,851
23. LONG TERM LIABILITIES				
Public Debt Service Fund	66,563	74,636	66,563	74,636
Less : payable within 12 months included in creditors and accruals (Note 24)	(8,736)	(8,024)	(8,736)	(8,024)
	57,827	66,612	57,827	66,612
Subordinated Unsecured Registered Bonds				
2 000 (2009: 2 000) bonds of P50 000 each	100,000	100,000	100,000	100,000
Rand Merchant Bank (South Africa) (Note 15)	250,000	250,000	250,000	250,000
less:payable within 12 months included in creditors and accruals	(250,000)	-	(250,000)	-
	-	250,000	-	250,000
Negotiable Certificate of Deposit	50,000	-	50,000	-
Total long term liabilities	207,827	416,612	207,827	416,612

Public Debt Service Fund Loans, which are unsecured, have fixed repayment terms and bear interest at fixed rates ranging from 7.5% to 9.5% per annum and are repayable in half yearly instalments of P7,089,540 (2009: P7,089,540), inclusive of interest. The loans have maturities ranging from 2011 to 2018.

The loan from Rand Merchant Bank (South Africa) is unsecured, bears interest at a fixed rate of 10.5% per annum, and matures on 6 December 2010 and has therefore been disclosed as creditors and accruals in the current year. Interest is paid annually on 1 December.

The Subordinated Unsecured Registered Bonds bear interest at fixed rate of 10.5% per annum and mature in 2016. Interest is paid semi-annually on 1 June and 1 December.

The negotiable certificates of deposit bear interest at fixed rate of 8.90% per annum and have maturities of 2012 and 2015. Interest is paid semi annually.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
24. CREDITORS AND ACCRUALS				
Accounts payable	14,013	79,902	14,014	79,902
Short term portion of long term loans (Note 23)	8,736	8,024	8,736	8,024
Other creditors and accruals	59,069	76,042	54,433	73,365
Deferred lease rental liability	2,416	1,116	2,416	1,116
Audit fees	2,413	1,454	2,413	1,454
Loan repayable within twelve months (Note 23)	250,000	-	250,000	-
	336,647	166,538	332,012	163,861
The carrying value of creditors and accruals approximates fair value				
25. PROVISIONS				
Leave pay				
At the beginning of the year	10,213	8,025	10,213	8,025
Additional provisions recognised	6,450	4,317	6,450	4,317
Utilised	(2,459)	(2,129)	(2,459)	(2,129)
At the end of the year	14,204	10,213	14,204	10,213
Bonus provisions				
At the beginning of the year	14,528	11,673	14,528	11,673
Additional provisions recognised	19,851	24,215	19,851	24,215
Utilised	(24,753)	(21,360)	(24,753)	(21,360)
At the end of the year	9,626	14,528	9,626	14,528
Total provisions	23,830	24,741	23,830	24,741

The bonus and leave pay provisions are expected to be settled within the next twelve months.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

26. CAPITAL ADEQUACY

	Group	
	30 June 2010 P'000	30 June 2009 P'000
Core capital		
Stated capital	51,088	51,088
Retained earnings - Group and associate company	923,463	730,851
	974,551	781,939
Less: Goodwill	(26,963)	(26,963)
	947,588	754,976
Supplementary capital		
Revaluation reserves subject to 50% risk adjustment	19,002	5,992
Portfolio and IBNR provisions		
(including present value of security adjustment)	31,893	24,168
Subordinated Unsecured Registered Bonds (Note 23)	100,000	100,000
	150,895	130,160
Total qualifying capital	1,098,482	885,136
Risk adjusted assets		
- balance sheet items	5,487,827	4,528,025
- off-balance sheet items	820,989	701,510
	6,308,816	5,229,535
Capital adequacy ratios (%)	17.41	16.93
Core capital (%) (Basel Committee guide: minimum 4%)	15.02	14.44
Supplementary capital (%)	2.39	2.49
Total (%)	17.41	16.93
Bank of Botswana required minimum risk asset ratio (%)	15.00	15.00

The Group largely consists of the Bank, which is a licenced 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 No. (Cap 46:04) in terms of which the Group must maintain a minimum level of capital based on its risk weighted assets and not reflected on the statement of financial position exposures.

27. POST RETIREMENT FUND LIABILITIES

The Group had no post retirement liability as at the reporting date (2009: nil).

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 Pension Funds Act (CAP 27:03) governs its administration. The liability of the Group is limited to the contributions made during the employment of the employee.

The Group does not provide post retirement health care benefits to its employees.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
28. STATED CAPITAL				
2,563,700,000 ordinary shares (2009: 2,563,700,000 ordinary shares)	58,088	58,088	58,088	58,088
Less: 20,000,000 (2009: 20,000,000) shares owned by the company`s Employee Share Participation Scheme	(7,000)	(7,000)	-	-
	51,088	51,088	58,088	58,088
Employee Share Participation Scheme				
Details of the First National Bank of Botswana Limited share option scheme are set out in Note 41.				
29. RESERVES				
Non-distributable reserves				
Surplus on revaluation of properties				
Balance at the beginning of the year	11,983	12,201	6,488	6,609
Transfer to retained earnings	(114)	(258)	-	(144)
Transfer (to)/from deferred taxation	28	40	(18)	23
Arising on revaluation of properties	33,601	-	18,550	-
Deffered tax liability on arising on revaluation	(7,495)		(3,733)	
Balance at the end of the year	38,003	11,983	21,287	6,488
Retained earnings in associate company				
Balance at the beginning and end of the year	1,082	1,342	-	-
Transfer (to)/ from retained earnings	1,114	(260)	-	-
	2,196	1,082	-	-
Available-for-sale reserve				
Balance at the beginning of the year	6,397	13,769	6,397	13,769
Fair valuation of available-for-sale investment	4,183	(6,199)	4,183	(6,199)
Deferred tax on valuation adjustments	(1,828)	(1,173)	(1,828)	(1,173)
Balance at the end of the year	8,752	6,397	8,752	6,397
Total other non-distributable reserves	48,951	19,462	30,039	12,885
Equity-settled employee benefits reserve				
Balance at the beginning of the year	5,438	3,223	5,438	3,223
Share-based payment expense during the year	3,630	2,215	3,630	2,215
Balance at the end of the year	9,068	5,438	9,068	5,438

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
29. RESERVES (continued)				
Retained earnings				
Balance at the beginning of the year	729,769	553,265	720,476	548,396
Transfer (to)/from associate company`s reserves	(1,114)	260	-	-
Transfer from revaluation reserve	114	258	-	144
Profit for the year	436,050	406,720	426,369	402,670
Interim dividend paid	(115,367)	(115,367)	(115,367)	(115,367)
Transfer to dividend reserve	(128,185)	(115,367)	(128,185)	(115,367)
Balance at the end of the year	921,267	729,769	903,293	720,476
Total reserves	979,286	754,669	942,400	738,799

In respect of the current year, the Directors proposed that a dividend of 5.0 thebe per share will be paid to shareholders. This dividend is subject to approval by the shareholders at the annual general meeting and has not been included as a liability in these annual financial statements. The total estimated dividend to be paid is P128,185,000

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

30. CASH GENERATED BY OPERATIONS BEFORE TAXATION AND WORKING CAPITAL CHANGES

	Group		Company	
	30 June 2010 P'000	**30 June 2009 P'000**	**30 June 2010 P'000**	**30 June 2009 P'000**
Profit before direct tax	531,972	528,480	518,434	522,813
Adjusted for:				
- depreciation of property and equipment	12,223	10,001	11,771	9,549
- share of profit of associate company	(2,298)	(1,038)	-	-
- dividends from associate company	-	-	(1,184)	(1,298)
- straight-line adjustment of lease rentals	1,300	40	1,300	40
- impairment losses on loans and advances	43,420	40,752	43,420	40,752
- (gain)/loss on sale of property and equipment	161	(36)	161	(36)
- unrealised loss on derivative financial instruments	(1,355)	(1,223)	(1,355)	(1,223)
- share-based payment expense-equity settled	3,630	2,215	3,630	2,215
- share-based payment expense-cash settled	1,255	-	1,255	-
- write down of investments	-	-	1,193	-
	590,308	579,191	578,625	572,812
31. TAXATION PAID				
Amounts outstanding at the beginning of the year	7,494	5,173	5,910	4,456
Charged to the income statement	83,467	87,089	80,234	85,454
Amounts overpaid (outstanding) at the end of the year	1,041	(7,494)	2,235	(5,910)
Cash amounts paid	92,002	84,768	88,379	84,000
32. CURRENT INCOME TAXATION (ASSET)/LIABILITY				
Opening liability	7,494	5,173	5,910	4,456
Charged to the income statement	83,467	87,089	80,234	85,454
Cash amounts paid	(92,002)	(84,768)	(88,379)	(84,000)
Closing (asset)/liability	(1,041)	7,494	(2,235)	5,910
33. (DECREASE)/INCREASE IN DEPOSIT FROM CUSTOMERS				
Increase/(decrease) in current and managed account deposits	320,301	(255,900)	320,301	(255,900)
(Decrease)/increase in savings deposits	(105,126)	263,850	(105,126)	263,850
Increase in call and term deposits	(463,242)	781,125	(463,242)	781,125
	(248,067)	789,075	(248,067)	789,075

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

	Group		Company	
	30 June 2010 P'000	30 June 2009 P'000	30 June 2010 P'000	30 June 2009 P'000
34. (DECREASE)/INCREASE IN ADVANCES TO CUSTOMERS				
Net amount outstanding at the beginning of the year	4,643,241	3,969,496	4,650,242	3,976,496
Impairment of advances	(43,420)	(40,752)	(43,420)	(40,752)
Net amount outstanding at the end of the year	(5,803,009)	(4,643,241)	(5,810,009)	(4,650,242)
	(1,203,188)	(714,497)	(1,203,187)	(714,498)
35. DIVIDENDS PAID				
Previous year's final dividend paid during the year	115,367	89,730	115,367	89,730
Interim dividend paid	115,367	115,367	115,367	115,367
Total dividends paid to shareholders	230,734	205,097	230,734	205,097
36. CASH AND CASH EQUIVALENTS				
Cash and short-term funds (Note 10)	1,201,491	1,185,914	1,201,491	1,185,914
Bank of Botswana Certificates (Note 14)	4,747,264	5,909,523	4,747,264	5,909,523
	5,948,755	7,095,437	5,948,755	7,095,437

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

37. CONTINGENCIES AND COMMITMENTS

	Group 30 June 2010 P'000	Group 30 June 2009 P'000	Company 30 June 2010 P'000	Company 30 June 2009 P'000
Contingencies	1,065,636	919,289	1,065,636	919,289
The above contingencies represent guarantees and letters of credit.				
Commitments				
Undrawn commitments to customers	927,086	1,091,913	927,086	1,091,913
Capital commitments				
Capital expenditure approved by the Directors - not yet contracted for	27,210	27,014	27,210	27,014
The above commitments are wholly in respect of property and equipment, and funds to meet these commitments will be provided from the Group's internal resources.				
Operating lease commitments				
Payable within one year	9,573	3,024	9,573	3,024
Payable within two to five years	18,660	12,097	18,660	12,097
	28,233	15,121	28,233	15,121

The above lease commitments are in respect of property rentals of the various branch network channels and Head Office, which are negotiated at market rates for a period of up to five years with an option to renew for a further similar period.

Legal proceedings and claims

The Group is involved in legal proceedings and claims (for and against) in the normal course of business, the outcome of which cannot be ascertained as at the reporting date.

There were no significant contingent liabilities in respect of the above as at the reporting date (2009:nil).

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 2010 the Group acted as a trustee in respect of Botswana Government bonds amounting to P65,776, 000 (2009: P60,004,000), treasury bills amounting to P1, 800,000 (2009: Pnil), retail bonds amounting to P26 228,100 (2009:Pnil) and equities amounting to P24,366,435 (2009: Pnil) . These assets held in a trust or in a fiduciary capacity and were not treated as assets of the Bank. Accordingly, they have not been included in the statement of financial position.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT

The Group's business involves taking on risks in a targeted manner and managing the risk 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 policies 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.

Due to the global financial crisis, the Group has experienced a marginal increase in credit risk. Management is monitoring this risk closely. There have been no significant changes in exposures to risks and Group's objectives, policies and process for managing risks in the current or prior year.

The Group is principally exposed to credit risk, market risk, and liquidity risk. The exposures to these risks as at 30 June 2010 are set out below:

39.1 Credit risk management

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. 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 is monitored on an ongoing basis. Further information on credit risk management is detailed in the Risk Report.

Significant credit exposures at the year end were:

	Assets	
	30 June 2010 P'000	**30 June 2009 P'000**
Geographical distribution		
Botswana	11,608,367	11,803,596
Southern, Africa	115,582	139,564
Rest of the world	508,623	506,327
	12,232,572	12,449,487
Distribution by sector		
Banks including Bank of Botswana	5,534,485	6,533,001
Government and parastatal organisations	170,590	153,178
Individuals	2,597,869	1,894,265
Business/trading	2,517,106	2,261,621
Others	1,412,522	1,607,422
	12,232,572	12,449,487

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Credit risk management (continued)

Collateral pledged

At the end of the current year the Group had borrowings with Bank of Botswana amounting to Pnil (2009: P234, 574,166), for which collateral of Pnil (2009: P235,000,000) had been pledged. The collateral pledged was Bank of Botswana Certificates (BOBCs) which are reported as part of investment securities on Note 14. The borrowing is included as part of the Group's deposits.

The Group pledges assets under the following terms and conditions:

Mandatory reserve deposits are held with the Bank of Botswana in accordance with statutory requirements. These deposits are not available to finance the Group's day-to-day operations. 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.

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 are held by the Group. Title only passes to the customer once repayments are fully paid.

- Property finance: Collateral consists of first and second mortgages over property, individual's 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, claims against individual's pension plans 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 physical valuation is performed between these two dates for Small and Medium Entities (SME) and large corporate counter parties.

The valuation at inception is based on physical inspection. Updated valuations are performed by revaluing security during the counterparty review process .

Collateral taken possession of and recognised in the statement of financial position

There was no collateral taken possession of and recognised on the statement of financial position.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Credit risk management (continued)

Maximum exposure to credit risk

The table below presents the maximum exposure to credit risk of financial instruments recognised on the statement of financial position and exposures not recognised In the statement of financial position, before taking account of any collateral held.

	Group 2010				
	Year to date average exposure (after interest in in suspense) P'000	Total exposure (after interest in in suspense) P'000	Retail P'000	Corporate and commercial P'000	Other P'000
Exposures recognised in the statement of financial position exposures					
Cash and short term funds	1,345,684	1,201,491	415,935	-	785,556
- Money at call and short notice	978 177	415 935	415 935	-	-
- Balances with other banks	367 507	785 556	-	-	785 556
Advances to customers					
- loans and receivables	5,105,285	5,803,009	4,027,472	1,775,537	-
Investment securities - debt	5,395,764	4,917,854			4,917,854
Accounts receivable	72,387	57,719	-	-	57,719
Derivatives	1,640	758	-	-	758
Related parties	5,322	5,075	-	-	5,075
Exposures not recognised on the statement of financial position					
Financial and other guarantees	1,356,092	1,065,636	476,527	589,109	-
Loan commitments not drawn	934,731	927,086	-	927,086	-
Total	14,216,905	13,978,628	4,919,934	3,291,732	5,766,962

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Credit risk management (continued)

	Group 2009				
	Year to date average exposure (after interest in in suspense) P'000	Total exposure (after interest in in suspense) P'000	Retail P'000	Corporate and commercial P'000	Other P'000
Exposures recognised in the statement of financial position exposures					
Cash and short term funds	1,672,232	1,185,914	769,487	-	416,427
- Money at call and short notice	1 246 182	769 487	769 487	-	-
- Balances with other banks	426 050	416 427	-	-	416 427
Advances to customers					
- loans and receivables	4,409,457	4,643,241	2,321,433	2,321,808	-
Investment securities - debt	4,663,762	6,062,701	-	-	6,062,701
Accounts receivable	121,574	363,392	-	-	363,392
Derivatives	34,798	22,611	-	-	22,611
Related parties	2,063	3,956	-	-	3,956
Exposures not recognised on the statement of financial position					
Financial and other guarantees	791,690	919,289	446,250	473,039	-
Loan commitments not drawn	1,091,913	1,091,913	118,998	972,915	-
Total	12,787,489	14,293,017	3,656,168	3,767,762	6,869,087

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Credit risk management (continued)

Credit quality

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:

	Group		
	2010		
	Investment grade P'000	Non-Investment grade P'000	Total neither past due nor impaired P'000
Home loans	1,417,035	607,301	2,024,336
Credit Cards	110,697	47,441	158,138
Personal loans	721,454	309,195	1,030,649
Overdrafts	743,334	318,572	1,061,906
Wesbank	603,097	258,470	861,567
Total	3,595,617	1,540,979	5,136,596
	2009		
Home loans	989,435	426,471	1,415,906
Credit Cards	44,797	19,309	64,106
Personal loans	355,962	153,428	509,390
Overdrafts	823,891	365,117	1,179,008
Wesbank	499,197	215,166	714,363
Total	2 713 282	1 179 491	3 882 773

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Credit risk management (continued)

Credit quality (continued)

The table below presents an analysis of the credit quality of financial assets other than advances that are neither past due nor impaired:

Group

2010

Credit quality of financial assets other than advances neither past due nor impaired	Derivatives P'000	Related parties P'000	Other Government and Government guaranteed stock P'000	Cash and short term funds P'000	Accounts receivable P'000
Investment Grade	758	5,075	4,917,854	1,201,491	57,719

2009

Credit quality of financial assets other than advances neither past due nor impaired	Derivatives P'000	Related parties P'000	Government and Government guaranteed stock P'000	Cash and short term funds P'000	Accounts receivable P'000
Investment Grade	22,611	3,956	6,062,701	1,185,914	363,392

Investment grade are those financial assets rated in one of the four highest rating categories in line with International rating agencies.

Non investment grade assets are those rated in the rest of the rating categories in line with International rating agencies.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Credit risk management (continued)

The tables below presents an age analysis of arrears of advances per class.

Group 2010

Age analysis of arrears of advances	Neither past due but nor impaired P'000	1 - 30 days P'000	31 - 60 days P'000	> 60 days P'000	Impaired P'000	Total P'000
Home loans	2,024,336	128,819	22,598	67,798	26,836	2 270 387
Other loans including credit card	158,138	4,459	1,318	7,571	3,944	175,430
Personal loans	1,030,649	8,682	3,878	10,172	13,763	1,067,144
Overdraft	1,061,906	-	-	-	65,733	1,127,639
WesBank asset finance	861,567	193,715	131,378	58,360	12,653	1,257,673
Total	5,136,596	335,675	159,172	143,901	122,929	5,898,273

Group 2009

Age analysis of arrears of advances	Neither past due but nor impaired P'000	1 - 30 days P'000	31 - 60 days P'000	> 60 days P'000	Impaired P'000	Total P'000
Home loans	1,415,906	82,176	6,926	50,517	37,895	1,593,420
Other loans including credit card	64,106	3,890	1,487	11,544	3,721	84,748
Personal loans	509,390	54,386	19,774	27,213	6,348	617,111
Overdraft	1,179,008	-	-	-	56,400	1,235,408
WesBank asset finance	714,363	223,344	174,658	58,682	19,856	1,190,903
Total	3,882,773	363,796	202,845	147,956	124,220	4,721,590

The above assets are managed with reference to the days in arrears and include assets where monthly payments are due as residential mortgages, instalment sale products, credit card products and personal loans.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.2 Market risk

The Group's activities expose it to market risk. Market risks arise from open positions in interest rate, currency and equity 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 test and limits. Further details on the market risk management are set out in the Risk Report.

39.2.1 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 Bank 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 Bank's authorised intra-day limit was set at USD28 million (2009:USD28 million) while the overnight limit was USD7 million. The limits were adhered to during the year and at year-end.

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.

Group

	30 June 2010 P'000	30 June 2009 P'000	**30 June 2010 P'000**	30 June 2009 P'000
Distribution by currency				
Botswana Pula	11,349,542	11,454,932	11,461,416	11,559,280
South African Rand	143,985	154,444	134,491	162,788
United States Dollar	540,406	575,878	452,701	443,608
British Pound	37,257	165,612	36,487	169,394
Euro	120,303	78,339	111,037	88,593
Others	41,079	20,282	36,440	25,824
	12,232,572	12,449,487	12,232,572	12,449,487

The Group is mainly exposed to foreign currency risk on its USD denominated assets and liabilities. The following table details the gains or losses 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 2010 P'000	30 June 2009 P'000
Loss arising from a 10% decrease	(11,187)	(10,435)
Gain arising from a 10% increase	11,187	10,435

The above gain/loss would affect the income statement.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 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 effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

The table below summarises 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

2010	Carrying amount P'000	Demand P'000	1 - 3 months P'000	3-12 months P'000	1-5 years P'000	Over 5 years P'000	Non-interest bearing P'000
Total assets	12,232,572	1,947,460	9,298,440	91,840	64,200	50,020	780,612
Total liabilities and equity	12,232,572	5,370,040	3,451,000	386,560	56,490	100,350	2,868,132
Net interest sensitivity gap	-	(3,422,580)	5,847,440	(294,720)	7,710	(50,330)	(2,087,520)
2009							
Total assets	12,449,487	1,653,660	8,468,150	1,200,890	90,930	355,630	680,227
Total liabilities and equity	12,449,487	3,787,370	5,686,940	434,480	7,330	104,400	2,428,967
Net interest sensitivity gap	-	(2,133,710)	2,781,210	766,410	83,600	251,230	(1,748,740)

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 Interest rate risk management (continued)

Stress tests are performed on the Group's statement of financial position and reviewed by Asset Liability Committee (ALCO). The table below presents the potential gains or losses that could arise if interest rates rise or fall by 50 basis points and 100 basis points:

	Group	
	30 June 2010 P'000	30 June 2009 P'000
50 basis points parallel increase - gains	8,000	8,581
50 basis points parallel decrease - losses	(8,000)	(8,581)
100 basis points parallel increase - gains	16,000	17,163
100 basis points parallel decrease - losses	(16,000)	(17,163)

39.2.3 Equity price risk

The Group is exposed to equity price risks arising from equity investments (Note 14). Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments. The table below details the potential increase or decrease in reserves if equity prices had been 10% higher or lower:

	30 June 2010 P'000	30 June 2009 P'000
Impact of 10% price increase on other comprehensive income - increase	2,821	2,307
Impact of 10% price decrease on other comprehensive income - decrease	(2,821)	(2,307)

Profit for the year ended 30 June 2010 would have been unaffected as the equity investments are classified as available-for-sale through other comprehensive income.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 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 positions 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.

Liquidity risk management process

The Group's liquidity management process, as carried out within the Group and monitored by a separate Group Treasury, includes:

i. 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 money markets to enable this to happen;

ii. Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;

iii. Monitoring the liquidity ratios of the consolidated statement of financial position against internal and regulatory requirements; and

iv. Managing the concentration and profile of debt maturities.

The table below sets out the maturity analysis of the Group's statement 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.

		Term to maturity					
	Carrying amount	Demand	1-3 months	3-12 months	1-5 years	Over 5 years	Non sensitive
2010	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**
Total assets	12,232,572	1,947,450	5,168,550	627,590	2,072,450	1,635,920	780,612
Total liabilities and equity	12,232,572	6,868,680	3,451,000	386,560	56,490	100,350	1,369,492
Net liquidity gap	-	(4,921,230)	1,717,550	241,030	2,015,960	1,535,570	(588,880)
2009							
Total assets	12,449,487	947,510	6,162,810	1,573,700	1,603,700	1,163,350	998,417
Total liabilities and equity	12,449,487	4,990,800	5,686,940	431,400	10,390	104,420	1,225,537
Net liquidity gap	-	(4,043,290)	475,870	1,142,300	1,593,310	1,058,930	(227,120)

Although negatively gapped in the demand bucket, the assets in the 1-3months bucket are primarily Bank of Botswana certificates which are highly liquid and can be liquidated in times of stress.

Details on the liquidity risk management process is set out in the Risk Report.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk management (continued)

Group 2010 Term to maturity

	Call P'000	1-3 months P'000	4-12 months P'000	1-5 years P'000	Over 5 years P'000	Total P'000
Amounts due to other banks	4,000	-	-	-	-	4,000
Deposit and current accounts	6,723,398	3,483,168	136,656	11,175	-	10,354,397
Derivative financial instruments	559					559
Long term loans	-	7,483	21,634	179,705	114,184	323,006
Due to related companies	-	50,209	-	-	-	50,209
Creditors and accruals	-	-	336,647	-	-	336,647
Provisions	-	-	23,830	-	-	23,830
	6,727,957	3,540,860	518,767	190,880	114,184	11,092,648

Group 2009 Term to maturity

	Call P'000	1-3 months P'000	4-12 months P'000	1-5 years P'000	Over 5 years P'000	Total P'000
Amounts due to other banks	-	13,851	-	-	-	13,851
Deposit and current accounts	6,122,545	4,403,427	107,974	7,180	-	10,641,126
Derivative financial instruments	21,388	-	-	-	-	21,388
Long term loans	-	5,252	43,840	372,556	148,076	569,724
Due to related companies	-	175,827	-	-	-	175,827
Creditors and accruals	-	164,096	2,442	-	-	166,538
Provisions	-	14,528	10,213	-	-	24,741
	6,143,933	4,776,981	164,469	379,736	148,076	11,613,195

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Fair value of financial instruments

(i) Financial instruments not measured at fair value

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position.

	Group			
	2010		2009	
	Carrying value P'000	Fair Value P'000	Carrying value P'000	Fair Value P'000
Assets				
Advances				
Home loans	2,268,783	2,075,990	1,587,580	1,457,338
Credit card	171,486	171,486	79,153	79,153
Personal loans	1,053,381	1,039,370	615,155	632,435
Overdraft	1,063,792	1,063,792	1,170,450	1,170,450
WesBank asset finance	1,245,567	1,257,817	1,190,903	1,266,750
Total advances at amortised cost	5,803,009	5,608,455	4,643,241	4,606,126
Other				
Accounts receivable	57,719	57,719	363,392	363,392
Total financial assets at amortised cost	5,860,728	5,666,174	5,006,633	4,969,518
Liabilities				
Deposits and current accounts				
Balances from banks and financial institutions (current and managed)	797,131	797,131	1,711,748	1,711,748
Balances from customers (term)	3,524,616	3,513,397	4,473,361	4,424,011
Other deposits (call and savings)	5,982,885	5,982,885	4,367,590	4,367,590
Total deposits and current accounts	10,304,632	10,293,413	10,552,699	10,503,349
Long term liabilities	207,827	216,468	416,612	507,348
Other				
Creditors and accruals	336,647	336,647	166,538	166,538
Total financial liabilities at amortised cost	10,849,106	10,846,528	11,135,849	11,177,235

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39 FINANCIAL RISK MANAGEMENT (continued)

39.4 Fair value of financial instruments (continued)

(ii) Fair value hierarchy

The table below shows the financial assets and liabilities that are recognised and measured at fair value analysed by valuation technique.

The hierarchy of valuation techniques are based on whether the inputs to those valuation techniques are observable or unobservable.

Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Group's market assumptions.

These two types of inputs have created the following fair value hierarchy:

• Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on stock exchanges which are active.

• Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the Over The Counter(OTC) derivative contracts, traded loans and issued structured debt.

• Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy analysis requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Assets and liabilities measured at fair value		Group 2010		
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	**P'000**	**P'000**	**P'000**	**P'000**
-Investment securities		170,590	-	170,590
-Derivative financial instruments		758	-	758
Available for sale financial assets				
-Investment securities	28,205	4,747,264	-	4,775,469
Total assets	28,205	4,918,612	-	4,946,817
Financial liabilities held for trading				
-Derivative financial instruments	-	559	-	559
Total liabilities	-	559	-	559

The Group does not have financial instruments for which the fair value is determined using Level 3 techniques. Consequently, a reconciliation of the movement in the Level 3 fair values has not been presented.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Fair value of financial instruments (continued)

Valuation techniques and assumptions applied for the purposes of measuring fair values.

Fair value is described as the value for which an asset can be exchanged or a liability settled between knowledgeable, williling parties in an arms length transaction. The best evidence of fair value is a price quoted in an active market. It is the Group's policy to make use of such information when it is available for example the valuation of futures, listed bonds and listed equities. Where there is no active market for a particular instrument the Group determines the value based on valuation techniques. Where available these valuation techniques give preference to inputs which are observable in an active market.

The following describes the principle methods and assumptions used to determine the fair value of financial instruments:

Treasury Bills
Treasury bills are valued by means of prices quoted by Bank of Botswana.

Government and public stocks
Where market prices are not available the fair value is estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

Other dated securities
Fair value of other dated securities is determined by using a discounted cash flow model. The discount curve is derived from similar market quoted instruments.

Derivatives
Contracts are valued by using the differential between the market price and the traded price multiplied by the notional amount. Market prices are obtained from applicable trading exchanges.

Option contracts are valued using the Black-Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.

Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.

Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market traded instruments. The reset rate is determined in terms of the legal agreement.

Deposits and current accounts
Fair value of deposits and current accounts is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account as these are considered to have an immaterial impact on the economic value of the instruments. Call deposits are valued at the undiscounted amount of the cash balance, this is considered appropriate because of the short-term nature of these instruments. Fair valuation will only be applied to deposits having a maturity profile of longer than 30 days. For all non-term products it is assumed that fair value will equal carrying amount which is measured at armotised cost.

Loans and advances to customers
The fair value of advances is the present value of the expected future cash flows determined using an appropriate discount rate adjusted for the credit spreads where necessary. Projected cash flows, taking into account behaviour, loss given default and probability of default are grouped according to their maturity dates. The discount rate for fixed interest rate instruments is adjusted by an appropriate risk premium while floating rate cash flows are discounted by means of a yield curve which represents the projected cash flows.

Long term liabilities
Fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates. The fair value of subordinated notes and fixed and floating rate bonds are determined by discounting the future cash flows at market related interest rates. Fair values of financial instruments recognised in the financial statements may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data. In these instances, the net fair value recorded in the financial statements is the sum of three components:

(i) the value given by application of a valuation model, based upon the Group's best estimate of the most appropriate model inputs;
(ii) any fair value adjustments to account for market features not included within valuation model (for example, bid mid spreads, counterparty credit spreads and or market data uncertainty); and
(iii) day one profit or loss, or an unamortised element thereof, not recognised immediately in the income statement in accordance with the Group's accounting policy, and separately detailed within the derivative note above.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

39.5. FINANCIAL RISK MANAGEMENT (continued)

39.5. Capital risk management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statement of financial position, are:

i) To comply with the capital requirements set by the central bank where the entities within the Group operate;
ii) 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
iii) To maintain a strong capital base to support the development of its business.
iv) 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 Central Bank supervisory purposes. The required information is filed with the central bank on a monthly basis.

The Group maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel ratio') 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 Financial Control Department and comprises two tiers:

i) Tier 1 capital: stated capital (net of any book values of the treasury shares), general bank reserve, statutory reserve, non-controlling interests arising on consolidation from interests inpermanent 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.

ii) Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

40. SEGMENTAL REPORTING

SEGMENTAL ANALYSIS

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Chief Executive Officer (the Chief Operating Decision-Maker), which 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 six main business segments:

i) Retail banking - comprising the branch network which provides commercial banking products incorporating customer deposit (including small and medium enterprises), debit cards, automated teller machine (ATMs),and consumer advances;

ii) Property division - comprising all residential and commercial mortgage financing;

iii) WesBank - comprising vehicle and asset financing;

iv) Corporate - comprising large corporate financing;

v) Treasury - manages the Groups liquidity and funding;

vi) Support - provides technical and specialised support functions to the segments identified above.

There were no changes in the reportable segments during the year.

Transactions between the business segments are carried out at arms length. The revenue from external parties reported to the Chief Executive Officer is measured in a manner consistent with that in the income statement.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in interest expense. Interest charged on these funds is based on the Group's cost of capital.

The Group's management reporting is based on a measure of operating profit comprising interest income, inter-segment interest expense, non interest income, impairment of advances and operating expenditure.

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.

Segment assets and liabilities comprise mainly deposits from customers and advances to customers.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

40. SEGMENTAL REPORTING (continued)

Primary segments (business)

2010	**Retail banking P'000**	**Property division P'000**	**WesBank P'000**	**Corporate P'000**	**Treasury P'000**	**Support P'000**	**Total P'000**
Segment revenue							
Interest income	236,636	188,575	152,347	39,266	439,033	6,761	1,062,618
Non-interest income	297,487	481	3,912	9,822	85,678	10,932	408,312
Total segment revenue	534,123	189,056	156,259	49,088	524,711	17,693	1,470,930
Interest expenditure	(85,416)	(92,629)	(61,188)	(20,363)	(239,695)	(19,687)	(518,978)
Net interest income before impairment of advances	448,707	96,427	95,071	28,725	285,016	(1,994)	951,952
Impairment of advances	(32,724)	901	(6,135)	26	(47)	(5,441)	(43,420)
Net interest income after impairment of advances	415,983	97,328	88,936	28,751	284,969	(7,435)	908,532
Segment expenditure							
-Employee benefits	(87,854)	(4,740)	(11,945)	(6,029)	(9,342)	(60,554)	(180,464)
-Communication	(7,442)	(264)	(1,207)	(225)	(479)	(4,865)	(14,482)
-Stationery,storage and postage	(12,139)	(152)	(638)	(283)	(551)	(2,010)	(15,773)
-Property rentals and maintenance	(12,093)	(103)	(1,508)	(68)	(1,459)	(10,382)	(25,613)
-Recharges	(80,446)	(14,747)	(12,173)	(11,842)	(20,614)	139,822	-
-Other operating expenses	(42,634)	(1,581)	(3,632)	(2,677)	(14,211)	(71,777)	(136,512)
	(242,608)	(21,587)	(31,103)	(21,124)	(46,656)	(9,766)	(372,844)
Segment results before indirect taxation	173,375	75,741	57,833	7,627	238,313	(17,201)	535,688
Indirect taxation	(5,069)	(189)	(947)	(112)	(381)	684	(6,014)
Segment results	168,306	75,552	56,886	7,515	237,932	(16,517)	529,674
Share of associate company income							2,298
Direct taxation							(95,922)
Income after taxation							436,050
Statement of financial position:							
Total assets	2,236,169	2,106,940	1,256,970	518,567	6,113,926	-	12,232,572
Total liabilities	3,759,460	127,965	25,015	2,353,921	4,807,652	-	11,074,013
Advances (included in assets above)	1,678,101	2,109,857	1,253,373	517,565	244,113	-	5,803,009
Non-performing advances	65,292	29,942	14,679	39,356	-	-	149,269
Deposits (included in liabilities above)	4,011,948	115,460	18,489	2,351,557	3,807,178	-	10,304,632
Key ratios							
Cost to income ratio	55.2	22.6	33.7	73.9	16.5	>100	39.8
Bad debt charge as a % of advances	2.0	0.0	0.5	0.0	0.0	0.0	0.7
Non-performing loans as a % of advances	3.9	1.4	1.2	7.6	0.0	0.0	2.6

Note

No segmental reporting for the secondary segment (geographical) as no significant income is generated outside Botswana. The geographical distribution of assets and liabilities is provided in note 39.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

40. SEGMENTAL REPORTING (continued)

Primary segments (business)

2009	**Retail banking P'000**	**Property division P'000**	**WesBank P'000**	**Corporate P'000**	**Treasury P'000**	**Support P'000**	**Total P'000**
Segment revenue							
Interest income	248,785	200,292	183,919	49,058	609,950	4,470	1,296,474
Non-interest income	257,226	352	3,727	8,956	83,525	16,372	370,158
Total segment revenue	506,011	200,644	187,646	58,014	693,475	20,842	1,666,632
Interest expenditure	(123,373)	(93,429)	(99,585)	(30,924)	(392,348)	(33,919)	(773,578)
Net interest income before impairment of advances	382,638	107,215	88,061	27,090	301,127	(13,077)	893,054
Impairment of advances	(28,857)	7	(6,538)	43	(745)	(4,662)	(40,752)
Net interest income after impairment of advances	353,781	107,222	81,523	27,133	300,382	(17,739)	852,302
Segment expenditure							
-Employee benefits	(66,356)	(3,844)	(10,657)	(4,592)	(8,806)	(60,179)	(154,434)
-Communication	(5,808)	(252)	(1,139)	(211)	(611)	(5,670)	(13,691)
-Stationery,storage and postage	(11,946)	(168)	(614)	(295)	(595)	(1,397)	(15,015)
-Property rentals and maintenance	(9,227)	(333)	(1,347)	(145)	(1,563)	(11,986)	(24,601)
-Recharges	(59,856)	(10,800)	(9,516)	(9,600)	(17,613)	107,385	-
-Other operating expenses	(68,211)	(884)	(4,790)	(2,254)	10,160	(42,814)	(108,793)
	(221,404)	(16,281)	(28,063)	(17,097)	(19,028)	(14,661)	(316,534)
Segment results before indirect taxation	132,377	90,941	53,460	10,036	281,354	(32,400)	535,768
Indirect taxation	(3,468)	(83)	(803)	(100)	(1,546)	(2,326)	(8,326)
Segment results	128,909	90,858	52,657	9,936	279,808	(34,726)	527,442
Share of associate company income							1,038
Direct taxation							(121,760)
Income after taxation							406,720

Statement of financial position:

Total assets	2,433,685	1,444,705	1,093,050	355,318	7,122,729	-	12,449,487
Total liabilities	3,908,300	70,421	17,978	1,901,070	5,630,594	-	11,528,363
Advances (included in assets above)	1,138,390	1,439,433	1,087,472	354,925	623,021	-	4,643,241
Non-performing advances	49,066	45,686	23,370	33,558	-	-	151,680
Deposits (included in liabilities above)	3,324,026	70,176	12,085	1,900,047	5,246,365	-	10,552,699

Key ratios

Cost to income ratio	179.3	15.3	34.2	94.8	9.5	62.9	36.4
Bad debt charge as a % of advances	2.5	0.0	0.6	0.0	0.1	0.0	0.9
Non-performing loans as a % of advances	4.3	3.2	2.1	9.5	0.0	0.0	3.3

Note

No segmental reporting for the secondary segment (geographical) as no significant income is generated outside Botswana. The geographical distribution of assets and liabilities is provided in note 39.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

41. EMPLOYEE SHARE PARTICIPATION SCHEME

First National Bank of Botswana Limited operates an equity based share participation scheme. The scheme, started in April 2001 and was amended in November 2003, allowing employees to acquire shares in the Group in order to increase the proprietary interests of the employees in the Group's success and encourage employees to render their best service to the Group. The number of shares granted is calculated in accordance with the performance based formula approved by the Remuneration Committee. The details of the scheme are as follows:

Group and company	**30 June 2010**	**30 June 2009**
Number of options in force at beginning of the year	19,468,347	13,231,670
Granted at prices ranging between P3.32 to P1.51		
Number of options granted during the year	-	9,200,000
Granted at a price of P3.32 (2009:P3.32) per share		
Number of options exercised during the year	(4,899,998)	(2,133,322)
Market value ranged between P1.32 to P2.92 (2009: P1.95 to P3.40)		
Number of options cancelled/ lapsed during the year	-	(830,001)
Granted at prices ranging between P0.88 to P1.51		
Number of options in force at end of the year	14,568,349	19,468,347
Granted at prices ranging between P2.80 to P1.51 (2008:P2.80 to P1.51)		
Number of options available for future allocation	5,431,651	531,653
Total number of options of the scheme	20,000,000	20,000,000
Number of participants	46	57
Options are exercisable over the following periods		
(first date able to release)		
Financial year 2006/2007	-	300,000
Financial year 2007/2008	-	199,998
Financial year 2008/2009	-	566,662
Financial year 2009/2010	-	4,199,999
Financial year 2010/2011	3,144,979	2,711,650
Financial year 2011/2012	5,078,338	5,145,006
Financial year 2012/2013	3,278,336	3,278,336
Financial year 2013/2014	3,066,696	3,066,696
Total	14,568,349	19,468,347
Options outstanding		
(by expiry date)		
Financial year 2009/2010		5,266,659
Financial year 2010/2011		2,711,650
Financial year 2011/2012	4,715,349	5,145,006
Financial year 2012/2013	653,000	3,278,336
Financial year 2013/2014	9,200,000	3,066,696
Total	14,568,349	19,468,347
Weighted average share price (thebe)	280	280
Expected volatility (percentage)	33.45	33.45
Expected option life (years)	5	5
Expected risk free rate (percentage)	14	14
Expected dividend growth (percentage)	20	20

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

41. EMPLOYEE SHARE PARTICIPATION SCHEME (continued)

In addition to its own share option scheme, the Group has employees who participate in the share options of FirstRand Bank Limited (The Group's ultimate holding company, a company registered in the Republic of South Africa). The schemes are described below:

FirstRand share incentive scheme

The rules of the FirstRand share scheme ('the Scheme") are constituted in the FirstRand Limited share trust. The purpose of the scheme is to increase the proprietary interests of identified employees in the Bank's success and to encourage them to render and continue to render their best services to the Bank. Options over FirstRand ordinary shares are granted by the trust to these employees. The sale of shares arising from the exercise of options may only be exercised up to one third of the total number of options issued after the third year, two thirds after the fourth year and all of the shares on the fifth anniversary of the date of issue.

FirstRand black employee trust

This trust was set up specifically for the benefit of the black employees. The participation in this trust is in addition to participation in any existing FirstRand share incentive scheme. The first issue of participation rights in the trust was made on 20 July 2005, the second issue was done on 1 November 2006, and a further issue of participation rights were granted on 3 December 2007. The remainder will be granted at the discretion of the directors. Distribution to beneficiaries takes place on 31 December 2014.

FirstRand share appreciation rights scheme

The purpose of this scheme is to provide identified Bank employees, including executive directors with the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary shares in FirstRand Limited. These payments may, on election by the participant be paid in cash or settled by the delivery of FirstRand ordinary shares. Entitlement to incentive remuneration payments is predicated on the achievement of certain key performance objectives which are set by the remuneration committee prior to each grant of appreciation rights to participating employees. Appreciation rights may only be exercised as to one third of the total number of rights issued after the third, two thirds after the fourth and all of the shares by the fifth anniversary of the date of grant, provided that the performance objectives set for the grant have been achieved.

Conditional share plan

The conditional award comprises a number of full free shares that will vest conditionally over a period of three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards will be made annually and vesting will be subject to specified financial and non-financial performance, which will be set annually by the Group's Remuneration Committee.

Forfeitable share plan

The forfeitable share plan is a remuneration scheme that grants selected employees full free shares which will vest over a period of two years. Selected employees are awarded shares which are forfeited if the employee leaves the employment of the FirstRand Group before the end of the vesting period of two years. During the two year vesting period the shares are held in trust for the employees and all dividends accrue to the employees for the duration of the vesting period.

The FirstRand share option schemes are equity settled schemes, except for the FirstRand Limited share appreciation rights scheme and Conditional share plan which are cash settled.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

41. EMPLOYEE SHARE PARTICIPATION SCHEME (continued)

	FirstRand (FSR shares)	FirstRand Share Appreciation Right Scheme (FSR shares)	2010 FirstRand Black Employee Trust	Conditional share plan	Forfeitable share plan
Share option detail					
Number of options in force at the beginning of the year	231,493	574,000	314,500	-	-
Granted at prices ranging between (P)	9.69 - 14.15	12.94 - 18.95	11.34	-	-
Weighted average (P)	12.67	15.83	11.34	-	-
Number of options granted/ transferred in during the year	-	270,000	1,112,000	137,700	56,962
Granted at prices ranging between (P)	-	12.94 - 18.95	11.34	-	-
Weighted average (P)	-	15.66	11.34	-	-
Number of options exercised / released during the year	(183,827)	-	-	-	-
Market value range at date of exercise / release (P)	14.12 - 18.07	-	-	-	-
Weighted average share price for the year (P)	16.42	-	-	-	-
Number of options cancelled / lapsed during the year	-	-	-	-	-
Granted at prices ranging between (P)	-	-	-	-	-
Weighted average (P)	-	-	-	-	-
Number of options in force at the end of the year	47,666	844,000	1,426,500	137,700	56,962
Granted at prices ranging between (P)	14.15	12.29 - 18.95	11.34	-	-
Weighted average (P)	14.15	15.52	11.34	-	-

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

41. EMPLOYEE SHARE PARTICIPATION SCHEME (continued)

	FirstRand (FSR shares)	FirstRand Share Appreciation Right Scheme (FSR shares)**	FirstRand Black Employee Trust	Conditional share plan	Forfeitable share plan
Options are exercisable over the following periods (first date able to release)					
Financial year 2008/2009	6,668	-	-	-	-
Financial year 2009/2010	6,666	99,332	-	-	-
Financial year 2010/2011	34,332	184,662	-	-	-
Financial year 2011/2012	-	281,330	-	-	56,962
Financial year 2012/2013	-	182,004	-	137,700	-
Financial year 2013/2014	-	96,672	-	-	-
Financial year 2014/2015	-	-	1,426,500	-	-
Total	47,666	844,000	1,426,500	137,700	56,962
Options outstanding (by expiry date)					
Financial year 2010/2011	47,666	-	-	-	-
Financial year 2011/2012	-	298,000	-	-	56,962
Financial year 2012/2013	-	256,000	-	137,700	-
Financial year 2013/2014	-	290,000	-	-	-
Financial year 2014/2015	-	-	1,426,500	-	-
Total	47,666	844,000	1,426,500	137,700	56,962
Total options outstanding - in the money	47,666	290,000	1,426,500	137,700	56,962
Total options outstanding - out of the money	-	554,000	-	-	-
Total	47,666	844,000	1,426,500	137,700	56,962
Number of participants	4	8	4	7	1

** = Some Share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

41. EMPLOYEE SHARE PARTICIPATION SCHEME (continued)

The income statement charge for all share based payments is as follows:

	Group and Company	
	30 June 2010 P'000	30 June 2009 P'000
FirstRand Share Incentive Scheme	14	233
FirstRand Black Employee Trust	539	-
First National Bank of Botswana share option scheme	3,077	1,982
Equity settled	3,630	2,215
FirstRand Share Appreciation Right Scheme	680	-
Conditional share plan	575	-
Cash settled	1,255	-
(Release)/charge to income statement	4,885	2,215

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

42. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES

The Group makes estimates and assumptions that will affect the reported amounts of assets and liabilities within the next financial year. Estimates 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.

(a) Credit impairment losses on loans and advances

The Group assesses its credit portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in the income statement, 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 loans.

For purposes of these judgements' the performing portfolio is split into two parts:

(i) The first part consists of the portion of the performing portfolio where there is objective evidence of the occurrence of an impairment event. In the Retail and WesBank portfolios the account status, namely arrears versus non-arrears status, is taken as a primary indicator of an impairment event. In the Commercial portfolios other indicators such as the existence of "high risk" accounts, based on internally assigned risk ratings and management judgement, are used, while the Wholesale portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

A portfolio specific impairment (PSI) calculation to reflect the decrease in estimated future cash flows is performed for this sub-segment of the performing portfolio. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable sub -segments of the portfolio.

(ii) The second part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. An incurred-but-not-reported (IBNR) provision is calculated on this sub-segment of the portfolio, based on historical analysis of loss ratios, roll-rates from performing status into nonperforming status and similar risk indicators over an estimated loss emergence period.

Estimates of roll-rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 - 12 months.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

42. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES (continued)

(b) Non-performing loans

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank`s loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likelihood to repay. Commercial and Wholesale loans are analysed on a case-by-case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 13 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

(c) Share-based payments

Share-based payments expenses arise from the issue of share options to employees. These share options are classified as equity-settled share-based payments and as such, the fair value cost is determined on date of grant on an actuarial basis using a number of assumptions. The assumptions used in determining the fair value cost include expected volatility, expected dividend yield, the discount rate and the expected forfeit rate. In accordance with the principles of valuing equity-settled share-based payments, only a change in the actual experience of forfeits compared to the estimated forfeit rate assumption, will impact on the charge in the income statement. All other assumptions are determined at grant date and are not amended.

The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on government bonds and have terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

(d) Impairment of goodwill

As required by IAS 36, the goodwill in respect of First Funding (Proprietary) Limited was evaluated for impairment. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and the suitable discount rate in order to calculate the present value.

(e) Residual values of property and equipment

Residual values are based on expected future circumstances measured at current prices. Land and buildings are shown at fair value based on periodic (at least tri-annual) valuations by external independent valuators, less subsequent depreciation for buildings.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

43. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

	The Group will comply with the following new standards and interpretations applicable to its business from the stated effective date.	**Effective date**
IFRS 1 (amended)	**Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1")** The amendment provides relief to first-time adopters of International Financial Reporting Standards from providing the additional disclosures introduced in March 2009 by the amendment to IFRS 7 Improving Disclosures about Financial Instruments. This amendment will not have an impact on the Group, as the Group has already adopted IFRSs.	**Annual periods commencing on or after 1 July 2010**
IFRIC 14 (amended)	**IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** The amendment applies in limited circumstances when an entity is subject to minimum funding requirements and makes a voluntary early payment of contributions to cover those requirements. This amendment is not expected to have an impact to the Group.	**Annual periods commencing on or after 1 January 2011**
IFRIC 19	**Extinguishing Financial Liabilities with Equity Instruments** The interpretation provides guidance on the accounting treatment of transactions where a financial liability is extinguished by the issue of equity instruments. These transactions are often referred to as debt for equity swaps. This amendment is not expected to impact the Group's results significantly.	**Annual periods beginning on or after 1 July 2010**
IFRS 9	**Financial Instruments** The IFRS is the first phase in the IASB's three-part project to replace the current IAS 39 Financial Instruments: Recognition and Measurement. This phase deals with the classification and measurement of financial assets. This standard is not expected to result in material reclassifications however the Group will reconsider the classification of its financial assets into financial assets at amortised cost or fair value.	**Annual periods beginning on or after 1 January 2013**

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2010

43. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

		Effective date
IAS 24 (amended)	**Related Party Disclosures**	
	The amendment removes certain of the disclosure requirements for government related entities and clarifies the definition of a related party.	**Annual periods commencing on or after 1 January 2011**
	This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact on the revised disclosure is not expected to be significant.	
IAS 32 (amended)	**Classification of rights issues**	**Annual periods beginning on or after 1 February 2010**
	The amendment clarifies the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. The amendment requires the rights issues offered pro rata to all of an entity's existing shareholders to be class	
	This amendment is not expected to have an impact to the Group.	
Annual Improvements	**Improvements to IFRS**	**Annual periods commencing on or after 1 January 2010**
	As part of its annual improvements projects, the IASB has issued its editions of annual improvements. The annual improvement projects aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial	
	Annual improvements projects undertaken in the 2009 calender year.	
	Annual improvements projects undertaken in the 2010 calender year.	**Annual periods commencing on or after 1 January 2011 exept for the improvements to IFRS 3 and IAS 27 that are effective for annual periods commencing on or after 1 July 2010**
	There are no significant changes in the either of the improvement projects that are expected to affect the Group.	

Notes

Shareholder Information

THIS DOCUMENT IS

IMPORTANT

AND REQUIRES

YOUR IMMEDIATE

ATTENTION.

Shareholder's Diary

Declaration of final dividend and announcement of results	September 2010
Payment of final dividend	September 2010
Publication of Annual Financial Statements	October 2010
Annual General Meeting	11 November 2010
Publication of half-year interim report and dividend announcement	February 2011
Payment of interim dividend	March 2011
Next financial year end	30 June 2011

List of Major Shareholders

	30 June 2010	30 June 2009
FIRST NATIONAL BANK HOLDINGS (BOTSWANA) Limited	1,800,590,000	1,800,590,000
STANBIC NOMINEES RE: BIFM BPOPF	101,603,361	101,278,543
BBN(PTY) LTD RE: IAM 030/14	89,329,767	89,329,767
STANBIC NOMINEES RE: BIFM	76,241,478	75,441,795
BBN [PTY] LTD RE: FAM 3582376	70,788,842	70,427,285
BBN(PTY) LTD RE:SSB 001/77	57,060,000	57,060,000
MOTOR VEHICLE ACCIDENT FUND	50,552,910	50,552,910
BBN [PTY] LTD RE:SIMS 212/005	35,192,658	33,782,321
STANBIC NOMINEES RE: AG BPOPF	16,989,784	20,215,894
BBN (PTY) LTD RE:BIFM DPF	16,857,673	16,857,673
BOTSWANA MEDICAL AID SOCIETY	16,598,000	16,598,000
STANBIC NOMINEES RE: BIFM BPOPLF	15,837,379	16,420,517
BBN{PTY} LTD RE: IAM 203/001	13,886,972	13,886,972
BBN [PTY] LTD RE:FAM 201/010	12,500,896	12,358,315
BBN (PTY) LTD RE: AG 211/002	9,545,835	11,389,830
BBN (PTY) LTD RE:IAM 030/30	7,535,525	7,535,525
BBN(PTY) LTD RE: SSB 001/81	7,511,600	5,711,600
BBN(PTY) LTD RE: MAU 067/001	6,218,380	6,218,380
BOB STAFF PENSION FUND	6,110,000	4,730,454
STANBIC NOMINEE RE:CF BPOPF	6,029,256	7,029,585
BBN(PTY) RE: SSB 001/114	4,730,800	4,267,612
STANBIC NOMINEES BOTSWANA RE: BIFM BR	3,680,464	3,680,464
STANBIC NOMINEES RE: BIFM BLAF	3,574,249	3,574,249
BBN [PYT] LTD RE: FAM 3582252	3,350,052	3,323,000
BBN(PTY) LTD RE: MAU 068/024	3,140,000	2,340,000
B H RASEROKA	3,000,000	3,000,000
	2,438,455,881	2,437,600,691
	95.11%	95.08%

Notice of the Annual General Meeting

This document is important and requires your immediate attention.
If you are in doubt as to the action you should take in relation to this document, please consult your stockbroker, banker, legal advisor or other professional advisor immediately.

Action required:

1. If you have disposed of all of your shares in First National Bank of Botswana Limited, this circular should be sent to the agent through whom you have disposed of such shares, for onward delivery to the purchaser of those shares.

2. A notice convening an Annual General Meeting of Shareholders of First National Bank of Botswana ("AGM"), to be held at 15h00 on Thursday 11 November 2010 at Gaborone Sun Hotel Conference Centre, is attached hereto, which notice forms an integral part of this Circular. The relevant form of proxy is also attached. Shareholders who are unable to attend the AGM should complete the attached form of proxy and return it to the Registered Office of the Company so as to be received by no later than 15h00 on Monday 8 November 2010. Submission of a form of proxy will not preclude shareholders from attending and voting in person at the AGM, should they so desire.

Salient Dates And Times (Year 2010)

Forms of proxy to be received by 15h00	Monday 8 November
Annual General Meeting at 15h00	Thursday 11 November

The above dates and times are subject to change. Any amendment will be published in the press.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Shareholders of the Company will be held at Gaborone Sun Hotel Conference Centre, at 15h00 on Thursday 11 November 2010, for the purpose of transacting the following business and considering and if deemed fit, passing, with or without modification, the following resolutions:

Agenda:
Ordinary Business

1. To read the notice convening the meeting.

2. Ordinary Resolution 1:
To receive, consider, and adopt the audited financial statements for the year ended 30 June 2009.

3. Ordinary Resolution 2:
To approve the distribution of a dividend as recommended by the Directors.

4. Ordinary Resolutions 3,4,5 and 6:
To re-elect the following directors of the Company:
P D Shah
P D Stevenson
S Thapelo
J R Khethe
who retire by rotation in terms of the Constitution, being eligible, offer themselves for re-election.

5. Ordinary Resolution 7:

To approve the remuneration of the directors for the year ended 30 June 2010.

6. Ordinary Resolution 8:

To appoint auditors for the ensuing year and to fix their remuneration.

Voting and proxies

All holders of Ordinary Shares entitled to vote will be entitled to attend and vote at the Annual General Meeting.

A holder of shares who is present in person, or by authorized 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.

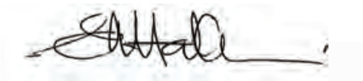
Each Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies (none of whom need be a Shareholder of the Company) to attend, speak and subject to the Constitution of the Company vote in his/her/its stead.

The form of proxy for the Annual General Meeting, which sets out the relevant instructions for its completion, is annexed hereto.

In order to be effective, a duly completed form of proxy must be received at the Transfer Secretaries, PricewaterhouseCoopers (Pty) Ltd, Plot 50371, Fairgrounds Office Park, and P O Box 294, Gaborone by not later than 15h00 on Monday, 8 November 2010.

By Order of the Board

P. D. Shah
Chairman of the Board of Directors



L.E. Boakgomo-Ntakhwana
Chief Executive Officer

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Form of Proxy

For completion by holders of Ordinary Shares

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 CIRCULAR TO SHAREHOLDERS OF FNBB ISSUED ON 8 October 2010.

For use at the Annual General Meeting of Shareholders of the Company to be held at Gaborone International Conference Centre at 15h00 on Thursday 11 November 2010.

I/We .
(Name/s in block letters)
Of .
(Address)
Appoint (see note 2):
1. of failing him/her,

2. of failing him/her,

3. ☐ the Chairman of the Meeting,

as my/our proxy to act for me/us at the General Meeting 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		
8. Ordinary Resolution 8		

Signed at___________________________on ______________________________2010

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 General Meeting.
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 "Chairman of the Annual General Meeting". 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 authorize the proxy to vote at the General Meeting as he/she deems fit in respect of the Shareholder's votes exercisable thereat, but where the proxy is the Chairman, failure to comply will be deemed to authorize the proxy to vote in favor 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, PricewaterhouseCoopers (Pty) Ltd, Plot 50371, Fairgrounds Office Park, P O Box 294, Gaborone to be received not later than 24 hours before the General Meeting before 15h00 on 8 November 2010.

4. The completion and lodging of this form will not preclude the relevant Shareholder from attending the General Meeting 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 Chairman of the General Meeting 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 General Meeting 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 General Meeting or adjourned General Meeting 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.


FNB

Registered Bank Registration Number: 1119 • **Website Address** www.fnbbotswana.co.bw • **S.W.I.F.T** Firnbwgx

Share Transfer Secretaries PriceWaterhouseCoopers Plot 50371 Fairgrounds Office Park Gaborone

Address Finance House Plot 8843 Khama Crescent PO Box 1552 Gaborone Botswana Telephone: (267) 3642600 Facsimile: (267) 3906130

FNB
First National Bank
Botswana
How can we help you?