First National Bank of Botswana Limited

Annual Report 2011

FNB
First National Bank
how can we help you?

VISION

The Bank of choice delivering innovative solutions and a superior customer experience.

PURPOSE

We are a Bank of Excellence with an exceptional team, continually outperforming by offering innovative financial services and solutions. We create sustainable wealth exceeding ALL stakeholders' expectations.

The Journey

"First National Bank of Botswana has embarked on a Journey to Excellence. A Journey characterised by a desire to exceed all stakeholders' expectations. With our minds keenly focused on the year ahead, we commit to delivering more innovative products and solutions coupled with a superior customer experience. We trust that you will continue with us, on this **Our Journey to Excellence**"

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Financial Highlights

Financial Highlights

PROFIT AFTER TAXATION

increased by 32%

COST TO INCOME RATIO

at 40%

RETURN ON AVERAGE EQUITY

increased to 50%

from 42% in the previous financial year

TOTAL DIVIDEND PER SHARE OF

20.00 **thebe per share**

an improvement of 9.50 thebe per share from prior year.

- Return on average assets increased to 4.5% from 3.5% in the previous financial year
- Non-interest income increased by 24%
- Advances growth of 24%
- Proposed final dividend per share of 2.0 thebe

STATEMENT OF COMPREHENSIVE INCOME

The Bank's profit before tax increased by 20%, whilst profit after tax increased by 32% compared to the previous year.

Increase in advances by 24% which led to a growth in net interest income before the impairment charge of 22%.

Increase in non-interest income by 24% due to improved transactional volumes and trading income.

Lower effective tax rate due to full utilisation of Additional Company Tax (ACT) credit, as a result of a special dividend paid of 8.00 thebe per share in June 2011.

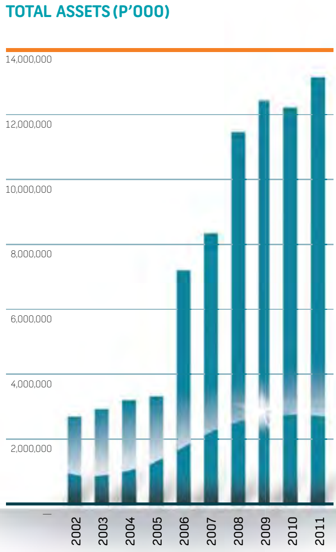
STATEMENT OF FINANCIAL POSITION

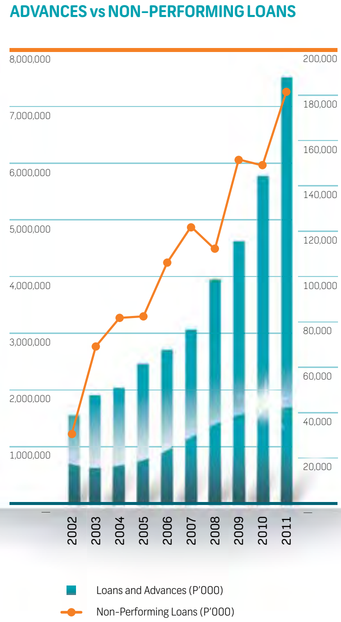
The Bank's statement of financial position remains strong with an increase of 8% from the previous year. The Bank grew its advances to customers by 24% mainly in Property Finance and the Retail space. Deposits from customers increased by only 3%, as some corporates have embarked on expansion initiatives using their cash resources. Although retail deposits increased by 20% in line with group strategy, the decline in corporate deposits negatively impacted the growth of overall Bank deposits and resultant Bank of Botswana Certificates.

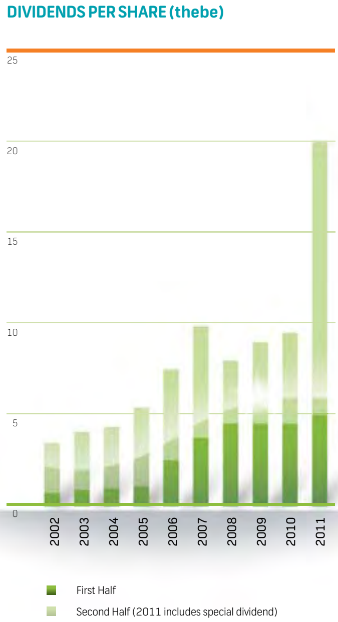
Reserves remained flat as a result of a special dividend that was declared in order to take advantage of changes in tax legislation effective 1 July 2011.

The Directors propose a final dividend of 2.0 thebe per share.

Financial Highlights – Graphs

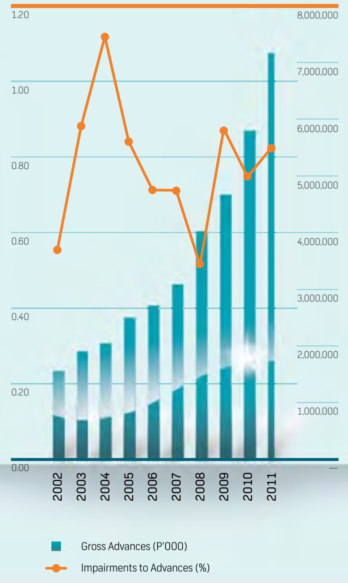




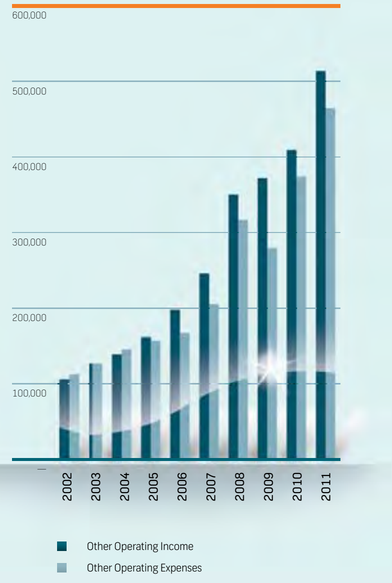


SHAREHOLDERS' FUNDS vs CAPITAL ADEQUACY

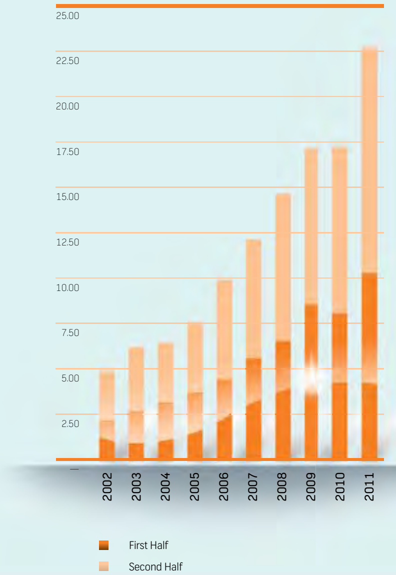
GROSS ADVANCES vs IMPAIRMENTS



OTHER OPERATING INCOME vs OTHER OPERATING EXPENSES



EARNINGS PER SHARE (thebe)



PROFIT AFTER TAX vs COST TO INCOME RATIO

STOP FRAUD
FNB
STOP FRAUD
FNB

Strategy and Performance

Chairman's Report

Whilst economic conditions continued to improve in Botswana on the back of international economic recovery, the Banking sector has experienced weak demand for credit and a high level of arrears on lending to the consumer sector.

Interest rates are currently at historic low levels and they are expected to remain at these levels for the foreseeable future.

During the reporting period the international economies have been struggling under more uncertain conditions related to mounting debts in both Europe and the United States of America. Whilst the impact was not felt in the Botswana economy in this reporting period, we are uncertain about the future, especially with regard to the mining sector which had previously led the economic recovery. The International Monetary Fund has cautioned that Botswana's economic growth may slow down for the rest of 2011 relative to 2010.

Inflationary pressures continued during the year under review and inflation stayed above the Bank of Botswana target range of 3-6% and is expected to fall within this range only in the second quarter of 2012.

Economic figures for the first quarter of 2011 show that annual GDP growth for the year fell to 4.9%, compared to 7.2% for the previous quarter. The growth rate is consistent with growth forecasts for the whole year which ranges from 5-7%. This slowdown is representative of the reduction in growth of the Mining Sector whereas the Non-Mining Sector has experienced an annualised growth of 7.2%. The fastest growing Non-Mining Sectors of the economy in the year under review were reported to be Construction, Agriculture and Manufacturing.

We will continue to reach out to the communities in which we operate through the FNB Foundation, and our commitment remains to contribute up to 1% of profit after tax.

On a positive note, the international diamond market has recovered from the recession and diamond exports are steadily increasing.

However, in spite of the challenges that we have faced during the year I am proud that First National Bank of Botswana has achieved exceptional growth.

I wish to pay tribute to the Executive, Management, and Staff members of First National Bank of Botswana Limited. Their commitment and efforts have led to the excellent results achieved, and the Board extends their gratitude for their contribution.

We acknowledge the role of Bank of Botswana, for their supervision of the Banking Sector, and managing and monitoring policies of the economy.

We at First National Bank of Botswana Limited are fully committed to observing good corporate governance principles in delivering value to all our stakeholders, namely; our staff, customers, suppliers, shareholders, and the community at large.

We will continue to reach out to the communities in which we operate through the FNB Foundation, and our commitment remains to contribute up to 1% of profit after tax.

Our Board of Directors are individuals of calibre and credibility with the necessary skills and experience. They not only consider the financial performance of the business but the impact of its operations on society. I wish to thank them for their support and guidance during the year.

Premchand Shah
Chairman

Chief Executive Officer's Report

Introduction

As we conclude the second year of our Journey to Excellence it is with great pride that I present to you this year's financial results. These results bear testament to the fact that with a committed and dedicated team who believe in great End Results, it is possible to exceed expectations. The 2011 results are a reflection of the efforts of a passionate and zealous team. I would like to thank every member of the First National Bank of Botswana team for making this year, yet another victorious milestone in our journey.

This financial year was characterised by uncertainty as global markets experienced growth led by emerging markets, however downward risks persisted. The risks of sovereign defaults in Europe further contributed to the ambiguity surrounding global growth and financial market stability. Locally signs of recovery were evident, but could not be deemed as conclusive. Diamond sales saw a marked improvement during the period.

Growth in the local economy was predominantly driven by the mining sector. Employment stabilised whilst food, energy and fuel prices increased, which impacted negatively on inflation. Presently, inflation remains outside the inflation targeted range; however the medium term outlook remains positive. It is anticipated that the impact of demand on economic activity will be subdued and, as a result thereof there will be slower growth in personal incomes. In December 2010, the Bank of Botswana cut the Bank rate by 50 basis points. The economy has experienced slower overall credit growth.

Despite the uncertainty in the global economy and mixed signals in the local market, we continued to pursue our strategy with renewed focus and energy. To borrow from the very astute words of Mr. Michael Porter, we at FNB Botswana firmly believe that strategy should not be continuously re-invented but that as a team we should be good at renewing it.

Review of 2011 Strategies

In 2009 we drafted our five-year strategic document - a roadmap adaptable yet with a clearly defined End Result. We identified our four key stakeholders namely: staff, customers, the Board and shareholders. Our objective was and is to achieve excellence in all four quadrants of the Vision Achievement Plan.

As the most important stakeholder in our business, enhanced focus was placed on staff. We invested significantly in developing and training our talent. We sought to position ourselves as the employer of choice, as such we revised our employee value proposition to guarantee that we not only attracted but also retained the best resources in the market. The Bank continues to actively ensure the transfer of skills and knowledge throughout its operations, and several staff talent pools have been developed and continue to receive skills development training. It is our opinion that our people are the cornerstone to the success of our strategy and are our number one asset.

We sought to innovate our way through the changing economic environment. In an effort to truly understand and meet the needs of our clients, we continued to refine our segmentation model to augment our existing relationship model, still leveraging off a strong owner-manager culture.

Our Public Sector Segment has made significant strides in the area of e-solutions particularly collections, partnering with service providers to achieve convenience for Batswana. We anticipate future successes of this nature given the efficiency of our online collections systems. The Wholesale Corporate segment has introduced more sophisticated investment banking products and services bolstering their already competitive relationship management and product offering.

A noteworthy achievement of this past financial year was the collaborative venture with our sister investment bank, Rand Merchant Bank, in a P1.2Billion syndicated funding deal for the Morupule Colliery expansion. Collaborations within the Group will remain a strategic focus in the coming years. The Consumer Segment is a landmine of potential growth and opportunities; as such greater emphasis has been placed on adding value to our clients and providing superior customer service. Service has also been deemed a key strategic differentiator in our market and as such, is a focal point in all aspects of our business.

Chief Executive Officer's Report (continued)

The introduction of our "Bricks to Clicks" strategy beckons an era where banking convenience will be the norm. As part of the rollout plan, we increased our ATM footprint to 122; we improved our uptimes and enhanced the functionality of our online banking platforms. This strategy also speaks to banking the unbanked market through alternative delivery channels that are easily accessible, affordable and reliable. Services and products that facilitate this include cellphone banking, cellphone banking lite and eWallet. As an organisation we seek to be a market leader in supplying innovative, relevant and value adding financial solutions. In line with this school of thought this year has seen us launch several products and services that live up to this aspiration, these include Instant Accounting, e-Commerce and e-Solutions. In ensuring that we retain the title of first to market in world class products and services, we continue to cultivate a robust culture of innovation.

To create an environment that embodies exceptional customer experiences we embarked on an initiative to revamp and refurbish several branches. Along with this process we introduced the new "look and feel" branch model, designed to improve the overall customer experience in our branches. As part of the Bank's strategy of increasing its footprint into areas where there is a need for infrastructural spend, FNB Botswana opened its 19th branch in the Ghanzi District.

During the year under review, Enterprise Risk Management (ERM) remained a focus area as we established more efficient ERM structures. We acknowledge that this is an ongoing process; ours is to ensure that our ERM structures remain vigorous and robust in terms of managing all risks to the Bank. The Bank's Internal Audit function which provides quality assurance for risk management has also been a key focus area, as governance and compliance have become critical success factors in our business. Our commitment to the adherence of policies and procedures has been re-affirmed by our zero tolerance objective to unacceptable internal audit results.

CORPORATE SOCIAL RESPONSIBILITY

THE FNBB FOUNDATION

The FNBB Foundation is one of the biggest corporate donors and a leader in Corporate Social Responsibility in the financial services sector. Established in 2001, the Foundation has thus far invested more than P19 million in various social responsibility projects, enriching and uplifting the lives of many people in need across the country. Annually, the Bank contributes up to 1% of profits after tax to the Foundation. During the past twelve months (2010-2011), the Foundation has funded an array of projects countrywide amounting to P1.3 million. These projects included buildings, vehicles, machinery, and operating expenses. An extension of the Foundation's commitment towards the community is the Staff Volunteer Programme, which is an initiative that affords the Bank's employees an opportunity to identify and donate funds to a project of their choice in their respective localities. Their involvement goes beyond simply giving financial support, to extend a helping hand. During the past twelve months, FNB employees have volunteered in several projects amounting to P444,300.

Acknowledgement

As we reach the second pit stop in our five-year journey, I look back with pride as I acknowledge the obstacles overcome, the milestones achieved and new heights reached. Our journey to Excellence has been characterised by many highs; I look forward to the future knowing that in the FNB Botswana staff we have the best possible team! With the utmost sincerity, I thank you our most valuable stakeholder for your commitment, passion and dedication, as without each and every one of you these results would not be possible.

We extend our gratitude to our esteemed customers for choosing to Bank with us and for granting us yet another opportunity to deliver service excellence. To all our stakeholders we humbly thank you and ask that you continue with us, on this our Journey to Excellence.

Lorato E. Boakgomo-Ntakhwana
Chief Executive Officer

Executive Committee

1. Grace Setlhare-Mankanku
   Director – Wholesale
   Corporate Banking Segment

2. Connie Storom
   Director - First Card

3. Boitumelo Mogopa
   Director - Consumer
   Banking Segment

4. Kwanele Ngwenya
   Director - Branch Banking

5. Bomolemo Selaledi
   Director - Marketing and
   Communications

6. Richard Wright
   Deputy Chief Executive Officer

7. Boiki Tema
   Director - Property Finance

8. Steven Bogatsu
   Chief Financial Officer

9. Lehuka Maseng
   Chief Information Officer

10. Lorato Boakgomo - Ntakhwana
    Chief Executive Officer

11. Pauline Motswagae
    Treasurer

12. Wendy Button
    Director - Distribution Channel

13. Martin Knollys
    Director – Client Services

14. Ogone Madisa-Kgwarae
    Director - Credit

16. Gaone Macholo
    Director - Human Resources

15. Christo De Wet
    Director - WesBank

17. Denis Ivins
    Chief Operating Officer

18. Yolisa Phillips-Lejowa
    Director - Public Sector Segment

Divisional Report

Distribution Channel

The Distribution Channel includes branch banking, electronic banking and the ATM network.

The Branch Network expanded to 19 branches with the addition of Ghanzi branch in the period under review. The Bank also upgraded it's Kgale View and Kasane branches to the new "look and feel". This model demarcates the branch into zones for ease of service and greater efficiency. This model consists of the following zones; self service, transaction, relationship, sales-service and back office. The model is a practical application of FNB's call to assist: How can we help you?

Electronic Banking Division introduced new products to improve our customers banking experience and convenience. In October 2010 we introduced cellphone banking lite. The product allows all inContact customers self registration to cellphone banking. With this product inContact customers do not have to come to the Bank to register for cellphone banking.

In December 2010 we introduced eWallet. This is a revolutionary product that allows FNB customers to send money to anyone in Botswana using online banking, cellphone banking or ATMs.

In February 2011 the division introduced Instant Accounting which is a free online accounting package that automates the integration of the customer's Bank statement into the financial statements.

The ATM channel embarked on an expansion strategy during the financial year by increasing its footprint from 92 to 122 ATMs countrywide as well as replacing several old ATMs with updated models with the objective to provide greater convenience to our customers.

Consumer Segment

The Consumer Segment provides solutions to individual customers throughout the distribution channel as well as First Funding, Student Banking and the Wealth Segment– Private Clients.

During the period under review, the segment grew its assets significantly. This growth is mainly attributed to personal loans in the First Funding business.

Growth in deposits was mainly driven by current and call accounts. This is in line with consumer strategy of attracting lazy deposits in order to drive transactional revenue.

The Wealth Segment - Private Clients also contributed significantly to deposits. The business continued to solidify its superior brand in the market by offering proactive solutions and superior service.

The segment launched a new savings product this financial year, Bank Your Change. This dynamic product is aimed at assisting Batswana save simply and conveniently. The segment continues to focus on customer education and migration to e-channels, in line with the Bank's ***'Bricks to Clicks'*** strategy. We see this as a critical strategy for our customers as it affords them access, convenience and efficiencies in banking.

Wholesale: Corporate and Commercial Segment

Our commercial clients should look forward to more tailor packaged solutions as the Bank continues to segment this market. Opportunities lie in the Agriculture business and Trade Finance. The direction is in line with the Botswana Government's Economic Diversification Drive (EDD) strategy ensuring that Small Medium and Micro Enterprises (SMMEs) play a significant part in the economy.

The Bank is also focusing on the corporate segment by offering tailor-made products that meet the specific needs of the corporate segment. In the financial year under review, the segment managed to grow advances and non-interest revenue significantly. However, there was a decline in liabilities due to a decline in notice, call accounts and fixed deposits as customers utilised their cash reserves for their operations.

Public Sector Segment

The Public Sector business is one of the primary focus areas of the Bank. The segment has seen a significant increase in the uptake of its product offerings. During the period under review there was special focus in the provision of eSolutions, such as revenue collection through the different delivery channels; ATMs, Cellphone banking and Online banking for various large institutions in the country.

WesBank Product House

The global economic climate continued to affect the motor industry in Botswana. In 2008 new vehicles sales reported a 30% decline compared to 2007. The trend persisted in the 2009/2010 financial year by declining by a further 24%. In 2011 a further decline of 16% was recorded. WesBank continued to dominate the market with market share increasing to 55%. New business volumes increased by 11,4% and total advances grew by 11%.

Firstcard Product House

It was a satisfactory year for the Firstcard Division. Subsequent to the acquisition of the e-Commerce licence, Firstcard focused on embedding the value of the e-commerce platform primarily in the Tourism sector. This sector responded well to the much needed platform and it is our vision to ensure that the sector is fully supported from an online payments perspective.

Real-Time Card Collection solution was yet another great solution that brought about 70% growth on card acceptance volumes primarily because of its uniqueness and reliability as a real-time collection system.

Property Finance Product House

The division had a good year, posting a strong set of results. Advances grew by 20% year on year surpassing expectations in an environment characterised by low availability of stock in the residential market. The growth in advances was attributable to increased commercial development activity in the Gaborone Central Business District (CBD) and the general increase in residential developments. The prospects look favourable, with a gradual increase in both commercial and residential demand expected in the medium to long term. Our objective of continually improving our value proposition to our customers is on track. Managing the quality of our book has remained the division's biggest focus area, hence a reduction in impairments.

Divisional Report (continued)

Treasury Product House

The Product House, which comprises, traditional treasury activities, Trade and Custody, had a good year. Non-interest income grew 38% on the back of a recovery in both the global and local economies which contributed positively to increased export revenue as well as improved activity in other sectors of the economy.

We observed an improvement in the secondary market activity on the fixed income market, which positively impacted our performance.

Efficient balance sheet management resulted in reduced investment of the Bank's excess funds from Investment Securities to higher yielding assets. This reduction in Investment Securities, together with the 50 basis points cut in December 2010, resulted in interest income reducing. On the funding side, we continue to focus on increasing retail deposits.

Custody area continues to grow, contributing positively to the overall results of the Product House.

Islamic Finance Product House

This Product House 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 all our clients wishing to opt for fixed financing. The product house continues to perform well ahead of expectations. Growth in advances was largely attributed to an increased appetite in Commercial and Residential property finance and movable assets.

Corporate Governance

Board of Directors

LEFT TO RIGHT:

Peter David Stevenson
(Independent Non-Executive)

Sifelani Thapelo
(Independent Non-Executive)

Premchand Shah
Chairman (Independent Non-Executive)

Lorato Edith Boakgomo-Ntakhwana
CEO (Executive Director)

Balisi Mohumi Bonyongo
(Independent Non-Executive)

Michael William Ward
(Independent Non-Executive)

Myra Tshephonyane Sekgororoane
(Independent Non-Executive)

Jabulani Richard Khethe
(Non-Executive)

John Kienzley Macaskill
(Non-Executive)

Profiles of Board Members

1. Peter David Stevenson
(Independent Non-Executive)

Peter is a Chartered Accountant and a Fellow member of the Botswana Institute of Chartered 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.

2. 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 Organisation as well as being a member of several other Boards.

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

3. Premchand Shah
Chairman
(Independent Non-Executive)

Prem is a Fellow of the Botswana Institute of Chartered 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 2001.

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

4. 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 currently a Trustee of University of Botswana Foundation.

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.

5. 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.

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

6. 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. He 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, Remuneration and Directors Affairs and Governance Committees.

7. 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 the Remuneration Committee.

8. 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 was recently promoted to the position of Chief Executive Officer of FirstRand Africa, a division of FirstRand Bank Limited, South Africa.

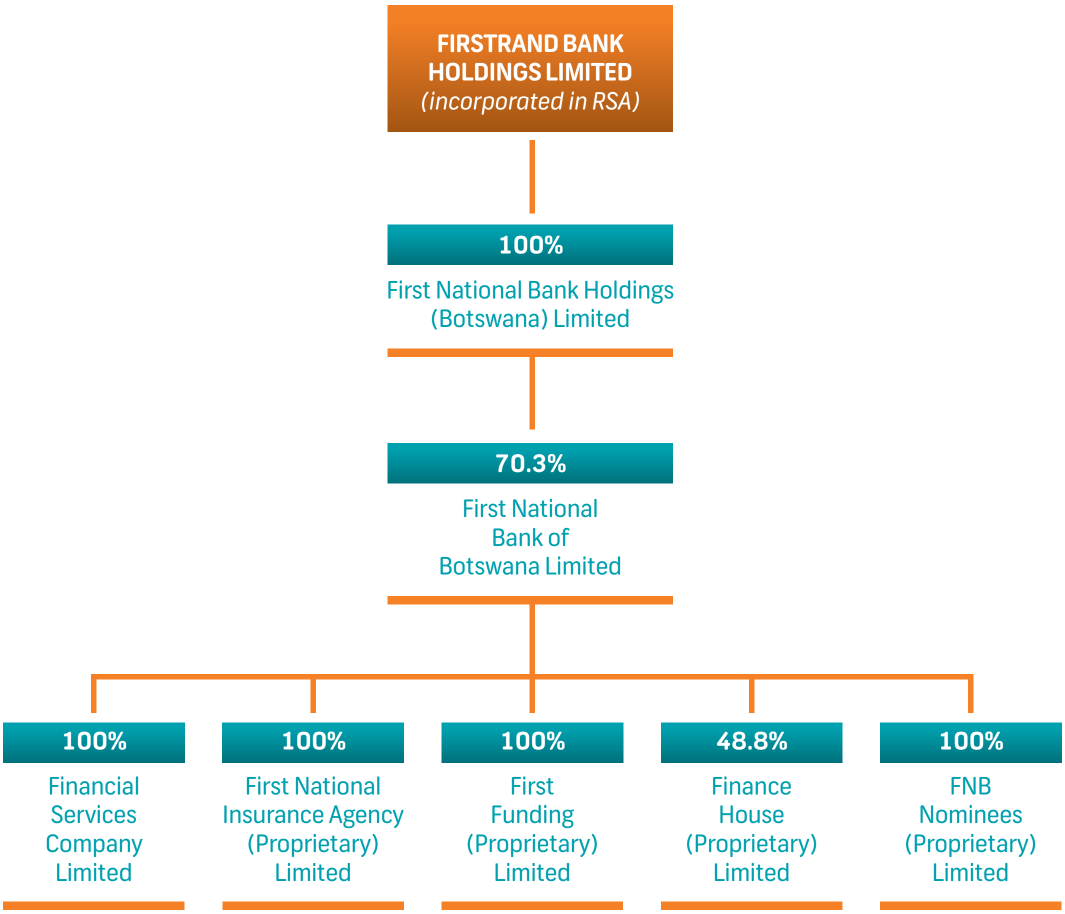
9. Michael William Ward
(Independent Non-Executive)

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.

10. Boupendra Uttam Madhav (Not in picture)
(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.

Corporate Structure



Corporate Governance

STATEMENT BY THE CHAIRMAN OF THE BOARD

During the financial year ending 30th June 2011, the FNBB Board determined that the corporate governance objective for the Bank was to be King III compliant. This presented the Bank with an opportunity to improve our governance structures and framework particularly on aspects of leadership, sustainability and corporate citizenship.

Principle Highlights for 2011

- Approval of Board Charters aligned to best practice and King III
- Approval of Code of Ethics
- Appointment of Chief Information Officer
- Focus on Stakeholder Relations

CORPORATE GOVERNANCE IN THE BANK

The FNBB Board is the focal point of corporate governance and it directs the company strategy and ensures that the business plans in place have taken cognisance of the possible risks associated with the strategy.

The Board also ensures that the Bank is seen as a good corporate citizen; that not only financial performance is considered but the impact of the Bank's operations on the society and the environment it operates in.

All the FNBB Directors, management and employees are required to comply with Corporate Governance principles, as well as Botswana Stock Exchange Code of Conduct.

The Board of Directors, through the Directors Affairs and Governance Committee ensures that good corporate governance is implemented within the structures of the Bank and assures all stakeholders that the Bank has complied with the principles of King III requirements.

Adoption of King III Code of Corporate Governance

Following the decision to adopt the King III Code of Corporate Governance, the following essential areas of compliance were identified in order to assess the Bank's compliance with King III, and in addition the Bank was expected to adopt the best practises to align its principles with sound corporate governance

1. Leadership and Ethics;
2. Boards and Directors;
3. Risk Management and Internal Controls;
4. Internal Audit and Internal Controls;
5. Audit Committee, Accounting and Auditing;
6. Capital Adequacy and Capital Management;
7. Compliance;
8. Integrated Reporting and Disclosure;
9. Information Technology;
10. Stakeholder Relationships; and
11. Dispute Resolution.

The report will therefore address these essential areas of compliance.

Corporate Governance (continued)

LEADERSHIP AND ETHICS

The FNBB Board ensures that the Bank is seen to be a responsible corporate citizen. It not only considers the financial performance of the business but the impact of its operations on society. FNBB is committed to a policy of fair dealing and integrity in the conduct of its business, and as such, expects employees to share its commitment to high moral, ethical and legal standards and be committed to contribute to the commercial success of FNBB achieved against this ethical background.

The Board has approved the strategy of the Bank in order to ensure the business' sustainability taking due consideration of the interests of all the stakeholders and as such is satisfied with the leadership and the way the business in being directed.

Code of Ethics

The Board provides leadership based on the Code of Ethics which are aligned to best practice and King III and this has been demonstrated by ensuring that ethics will be an agenda item of the Directors Affairs and Governance Committee and ultimately the Board. Whilst the Bank has not appointed an individual dedicated solely to ethics, the Bank takes counsel from the Group Ethics Officer. The responsibility for ethics has been delegated to the Compliance Officer.

A Code of Ethics which has been aligned to best practise has recently been adopted and will be cascaded to all members of staff.

BOARD AND DIRECTORS

FNBB Board

The Board of Directors of the Bank is the focal point of the corporate governance structures of the Bank and is the link between the stakeholders and the company.

The Board's paramount responsibility is the positive performance of the Bank in creating value for its shareholders. The Board therefore, retains full and effective control over the company and gives strategic direction to the management of the Bank. In so doing it takes account of the legitimate interests and expectations of other stakeholders. The Bank's stakeholders include the present and potential beneficiaries of the Bank's products and services, clients, suppliers, employees, communities, and the natural environment.

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 deem fit including the power to sub-delegate. Such committees may include, but shall not be limited to, an audit committee, remuneration committee, 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."

A Board charter is in place which clearly articulates the main responsibility and function of the Board. The Board's defined level of materiality is also articulated and equates to 1% of the FNBB capital base.

It is the Board's opinion that there have been no material irregularities during the 2010 – 2011 financial period which warrants reporting.

Board Composition

The FNBB Board is composed of both executive and non-executive directors, with a majority of non-executive directors who are independent. The Chairman is an independent non-executive director, whose role is separate from that of the Chief Executive Officer (CEO).

Because of the composition of the Board, no individual director dominates the decision making process of the Board. Whilst our Chief Financial Officer (CFO) is not a director, he is a standing attendee of the Board and attends all Board meetings.

The Board of the Bank is comprised of a total of ten directors who are individuals of calibre and credibility with the necessary skills and experience. The following directors are considered to be independent in judgment and character:

- Mr P D Shah (Chairman)
- Mr B M Bonyongo
- Ms M T Sekgororoane
- Mr P D Stevenson
- Mr S Thapelo
- Mr M W Ward

Messrs J R Khethe, B U Madhav, J K Macaskill and Ms L E Boakgomo-Ntakhwana are deemed not to be independent due to the roles they hold within the FirstRand Group of Companies.

Directors

There is a formal process for director appointments that is followed; it is transparent and includes reference checks. The full details of their profiles can be seen on page 24 of the Corporate Governance Section.

Board Meetings

The Board meetings are held every other month, with additional meetings convened as and when necessary.

The FNBB Board met seven times during the year and the table below depicts the attendance of the directors at the Board meetings.

Board Meetings Attendance Register

	15/7	11/8	17/9	11/11	26/1	10/3	4/5
P D Shah [1]	✓	✓	✓	✓	✓	✓	✓
L E Boakgomo-Ntakhwana*	✓	✓	✓	✓	✓	✓	✓
B M Bonyongo	✓	✓	✓	✓	A	A	✓
J R Khethe**	✓	✓	✓	A	✓	✓	A
J K Macaskill**	✓	✓	✓	✓	A	✓	✓
B U Madhav**	✓	A	A	✓	A	✓	A
M T Sekgororoane	✓	✓	✓	✓	✓	A	✓
P D Stevenson	✓	✓	✓	✓	✓	✓	✓
S Thapelo	✓	✓	✓	✓	✓	✓	✓
M W Ward	✓	✓	✓	✓	✓	✓	✓

1	=	Appointed Chairman 2009
✓	=	Attendance
A	=	Apologies tendered
*	=	Executive Director included in salaries
**	=	Included in Management fees payable to holding company

Corporate Governance (continued)

Board Committees

Board Committees assist the directors in the discharge of their duties and responsibilities. The following Board Committees exist in the Bank:

- Board Audit Committee;
- Board Risk and Compliance Committee;
- Board Credit Committee;
- Board Remuneration Committee; and
- Directors' Affairs and Governance Committee.

All the FNBB Board Committees have charters in place which clearly articulate their roles and functions in terms of their mandate. The chairpersons of these committees are independent non-executive directors. Disclosure on the frequency of the meetings and attendance of each Committee Member has also been provided in the report.

Report of the Board Audit Committee

The mandate of the Board Audit Committee is:

- 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 Bank; and
- To oversee financial reporting.

During the year the following were reviewed:

- The financial reports for accuracy and timeliness;
- Capital adequacy and proposed dividends;
- Internal audit plans and monitored audit reports for effectiveness of internal controls;
- External audit plans and reports to the Audit Committee;
- Recommended the appointment and fees of external auditors;
- Corporate Governance Reports; and
- The status of arrears.

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

The Committee consists of two independent Non-Executive Directors. The Chief Executive Officer, the Shareholder Representative, the Chief Financial Officer and the Internal Audit Manager attend all the Board Audit Committee meetings ex-officio. The External Auditors also attend all Board Audit Committee meetings.

Board Audit Committee Membership and Attendance

	14/7	10/8	17/9	25/1	19/4
P D Stevenson *(Chairman Board)*[1]	✓	✓	✓	✓	✓
P D Shah	✓	✓	✓	✓	✓
J K Macaskill	✓	✓	✓	A	A

1 = Appointed Chairman (January 2009)
✓ = Attendance
A = Apologies tendered

Report of the Board Risk and Compliance Committee

The duties and responsibilities of the Board Risk and Compliance Committee are to assist the Board to monitor the efficiencies of the risk and compliance management structures and processes of the Bank. The Committee manages these processes in terms of the Business Performance and Risk Management Framework of the Bank and within the ambit of the applicable laws, regulations, rules and codes.

During the year we reviewed:

- The Risk Management Framework and related policies;
- The Business Continuity Management Framework; and
- The Risk Profile Report; including monitoring all the significant risk categories.

The Board Risk and Compliance Committee maintains a risk register for all the identified key risks, the inherent impact that those risks would have on the balance sheet, and the controls that have been put into place to mitigate them.

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

Report of the Board Remuneration Committee

The Board Remuneration Committee 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 to reward and remuneration.

Below is a summary of the activities concluded by the Board Remuneration Committee during the financial year:

- Developed a Remuneration Policy and ensured the alignment of the Remuneration Policy to business strategy and the desired culture of the Bank;
- Adopted a strategy needed to attract, retain and reward high performance individuals;
- Ensured adequacy of healthcare and retirement benefits; and
- Reviewed and proposed remuneration of Executive Directors and ensure the appropriateness of the fees paid to Non-Executive Directors.

The subcommittee consists of two independent non-executive directors, together with the Shareholder Representative and the Chief Executive Officer in an ex-officio capacity. They met five times during the year and assure stakeholders that they effectively discharged their duties.

Board Risk and Compliance Committee Membership and Attendance

	14/7	17/9	25/1	19/4
P D Stevenson *(Board Committee Chairman)*[1]	✓	✓	✓	✓
P D Shah	✓	✓	✓	✓
J K Macaskill	✓	✓	A	A

1 = Appointed Chairman (January 2009)
✓ = Attendance
A = Apologies tendered

Board Remuneration Committee Membership and Attendance

	11/8	11/11	1/12	10/3	4/5
M T Sekgororoane *(Board Committee Chairman)*[1]	✓	✓	✓	✓	✓
P D Shah	✓	✓	✓	A	✓
J K Macaskill	✓	✓	✓	✓	✓

1 = Appointed Chairman (January 2009)
✓ = Attendance
A = Apologies tendered

Corporate Governance (continued)

Remuneration of Directors

The annual review of the directors' remuneration is the responsibility of the FNBB Board Remuneration Committee, the majority of whom are non-executive directors. The review of directors' fees for non-executive directors is based on the market comparisons conducted annually and the fees are paid based on a retainer and attendance basis. Remuneration for executive directors is largely based on performance related elements which take up a substantial portion of the total remuneration package. However, they are remunerated fairly and responsibly in accordance with Remuneration Policy.

The results of the annual review are communicated to the Board as recommendations and disclosure on the fees paid to the non-executive directors and the top executive directors during the course of the financial year is made in the Annual Financial Statements (see page 103).

Report of the Directors Affairs and Governance Committee

The Directors Affairs and Governance Committee's prime objective is to assist the Board in discharging its responsibilities in respect of 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; reviewing the structures and composition of the Board;
- The maintenance of Board directorship continuity programme with a view to ensuring that there is a balance of skills, experience and other qualities required to enhance the effectiveness of the Board;
- The selection and appointment of new directors;
- Non-Executive Directors Remuneration;
- 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; and
- Ensuring that the Board is at all times in compliance with applicable laws, regulations, and codes of conduct and practices.

Directors' Fees

	Board	Audit	Risk	Remco	DAGC	Credit	Special	Total
P D Shah	273,700	97,750	36,320	37,375	39,100	287,392	0	771,637
L E Boakgomo-Ntakhwana	0	0	0	0	0	0	0	0
B M Bonyongo	97,750	0	0	0	29,325	0	0	127,075
J R Khethe	0	0	0	0	0	0	0	0
J K Macaskill	0	0	0	0	0	0	0	0
B U Madhav	0	0	0	0	0	0	0	0
M T Sekgororoane	107,525	0	0	50,832	0	0	0	158,357
P D Stevenson	136,850	171,065	63,560	0	0	169,050	0	540,525
S Thapelo	136,850	0	0	0	66,472	0	0	203,322
M W Ward	136,850	0	0	0	0	0	0	136,850
								1,937,766

The Committee met four times during the year. The Board Chairman attends the meeting as an ex-officio member.

The Committee provided regular updates to the Board regarding matters of Governance and reports that it has effectively managed the processes as required.

Board and Director Evaluation

The Directors Affairs and Governance Committee conducts a Board evaluation on an annual basis. The Board Evaluation Checklist is used to evaluate the effectiveness of the Board, individual Directors, and the various Board Committees. The Board Evaluation Checklist covers the following:

- Compliance with the charter;
- Adequacy of meetings in terms of issues addressed and duration;
- Duties and responsibilities ;
- Corporate Governance; including ethics, independence, freedom to express views and access to company information; and
- Reporting of Board Committees to the Board.

The Checklist for the individual Board Committees also has additional items that are covered as part of the review process, emphasizing the specialized areas that the specific Board Committee attends to. The results of the evaluation are reported to the Board and action plans are put in place where gaps have been identified and they form part of the training plan.

Succession Planning and Director Training and Development

A Board Succession Plan which takes into account the composition and the skills needs of the Board, its Chairperson, and the specialist committees is in place, and a succession plan for the Chief Executive Officer and Senior Management is presently being reviewed and will be presented to the Board for approval.

The Board has a comprehensive induction programme, which includes documentation, interviews, and information sessions. A formalised annual development plan for training and professional development of directors is currently being developed which takes into consideration, risk and governance, applicable laws, rules, codes and standards, and the needs identified during the Board Evaluation Process.

Directors Affairs and Governance Committee Membership and Attendance

	15/7	16/9	10/3	4/5
S Thapelo *(Board Committee Chairman)*[1]	✓	✓	✓	✓
B Bonyongo	✓	✓	A	✓
J K Macaskill	✓	✓	✓	✓

1	=	Appointed Chairman (January 2009)
✓	=	Attendance
A	=	Apologies tendered

Corporate Governance (continued)

Report of the Board Credit Committee

The mandate of the Board Credit Committee is to approve large exposures and monitor them on an on-going basis. It also assists the Board to ensure that:

- Credit activities relating to large exposures as defined are conducted within the risk strategy, policies and tolerances approved by the Board;
- The Bank operates within sound and well-defined credit-granting criteria as far as large exposures are concerned;
- All extensions of credit which are large exposures are made on an arm's length basis;
- Senior management is fully capable of managing the credit activities for large exposures conducted by the Bank;
- Credit activities for large exposures are subject to adequate internal controls and appropriate internal-audit coverage; and
- The Bank has adequate capital for the risks that it assumes relating to large exposures.

The sub-committee met fourteen times during the year and both the Directors attended the meetings. They effectively discharged their duties.

Board Credit Committee Membership

P D Shah *(Board Committee Chairman)*[1]
P D Stevenson

1	=	Appointed Chairman (January 2009)
✓	=	Attendance
A	=	Apologies tendered

Board Secretary

PricewaterhouseCoopers is the Company Secretary of the Bank. The Company Secretary has been appointed by the Board and they are empowered to fulfill this role. The Company Secretary provides support and guidance to the Board in matters relating to governance. All our directors have unrestricted access to the Company Secretary.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Bank continued to focus on Risk Management and Corporate Governance in the business during the year under review. There are four internal specialist committees which report into the Main Risk Committee (an ERM committee), which then reports to the Board Risk Committee, that ultimately reports to the Board.

At Board level, there are four sub-committees; the Board Audit Committee, the Board Risk and Compliance Committee, the Board Credit Committee and the Directors Affairs and Governance Committee.

Our Board Risk and Compliance Committee consists of at least three Board members. The Committee is responsible for ensuring that the Business Performance and Risk Management Framework (BPRMF) is in place in order to ensure an integrated Risk Management approach. The Committee monitors the implementation of the BPRMF continually during the year and ensures that risk-reward appetite in the BPRMF has been articulated. Annual reviews are conducted to ensure that the risk tolerance levels have not been breached and appropriate risk assessments on key risk are undertaken. For further details on Risk Management please refer to page 38 on Enterprise Risk Management.

The Board believes that Risk Management within the Bank is effective; however, we continue to work towards ensuring a culture of risk management is instilled throughout the business.

INTERNAL AUDIT AND INTERNAL CONTROLS

The Bank has an Internal Audit function that has been established to assist executive management and the Board Audit Committee to accomplish their objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. It is an independent, assurance and consulting activity designed to add value and improve the operations of the Bank.

The Head of Internal Audit has direct and unrestricted access to the Board Chairperson, Chairperson of the Board Audit Committee and the CEO. He is a permanent invitee of the Board Audit Committee. The Head of Internal Audit reports administratively to the Deputy Chief Executive Officer and functionally to the Chairman of the Audit Committee.

The Internal Audit team conducts audit work, in accordance with the internal auditing standards set by the Institute of Internal Auditing ("IIA"). This requires compliance with codes of conduct and ethics that are promulgated from time to time by relevant professional bodies, and any other corporate governance initiatives.

AUDIT COMMITTEE, ACCOUNTING AND AUDITING

King III suggests that in order to carry out its mandate in full, Audit Committees should be suitably skilled and qualified to deal with their responsibility of overseeing integrated reporting and co-ordinating the activities of the various assurance providers.

All members of our Audit Committee are suitably skilled and qualified and the Internal Audit function is adequately resourced. However, where gaps are identified or where a shortage of resources is apparent, the necessary support can be sourced from Group or external audit in need.

Our External Auditors are nominated and appointed by the Board Audit Committee. Their performance is also monitored by the Committee to ensure that they observe the highest levels of ethics and that their independence is not impaired.

Overall the Board Audit Committee ensures that all pertinent risks are covered by audit activities (both internal and external audit), and they also monitor the effectiveness of the Internal Audit function. The Board Audit Committee together with the Board, approve accounting policies in terms of the International Financial Reporting Standards.

CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

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.

Appropriate reporting on capital adequacy is done by management via the risk governance structures to the Board and management regularly reviews the level of capital to ensure that the Bank remains properly capitalised in line with targets set and with the risks assumed by the Bank. In addition, the Central Balance Sheet Management Department of the FirstRand Group provides guidance on Capital Adequacy and Capital Management to FNBB.

Annually the Bank makes an appropriate disclosure on capital management, such as strategy, capital targets and actual capitalisation levels and in addition, a statement on the level of capital, within stress scenarios based on different business cycles is also made (see supporting notes to the Annual Financial Statements).

COMPLIANCE

One of the most important responsibilities of the Board is to monitor the Bank's compliance with all applicable laws, rules, standards and codes.

A compliance function has been established to ensure that compliance frameworks and processes are established to enable the Board to fulfill its responsibilities towards compliance with all applicable laws, regulations, rules, standards and codes. Compliance reports relating to non-compliance and monitoring are submitted to the Board Risk Committee and ultimately to the Board.
During the year under review, there have been no reports of non-compliance submitted to the Board.

Corporate Governance (continued)

INTEGRATED REPORTING AND DISCLOSURE

The Board ensures that appropriate systems and processes are in place in order to report to stakeholders a complete picture of the Bank's financial and non-financial information.

Every year an integrated report (Annual Report) is prepared for the stakeholders that provide adequate financial and non-financial information. The oversight of reporting of the sustainability of the business has been delegated to the Board Audit Committee who recommends the report to the Board for adoption.

Sustainability of the business is also independently assessed and assured on an annual basis. This process involves an assessment of the company to ascertain whether it is a going concern looking at key ratios and other assessment criteria on financial and non-financial factors. It is the Board's view that the Bank is a going concern for the year ahead.

INFORMATION TECHNOLOGY

The Board acknowledges and recognises that IT has become an integral part of doing business and is fundamental to the support of sustainability of the business. Therefore due care must be taken to ensure that all reasonable steps to manage the risks associated with IT have been taken.

To that end the Bank has appointed and Chief Information Officer (CIO) who is responsible for the implementation of IT Governance. All IT related issues are reported to the Board Risk and Compliance Committee and ultimately to the Board.

An internal control framework relating to IT has been adopted and an Information Security Management System has also been developed and is in place. The Bank also takes counsel from the FirstRand Group on the IT Security Strategy and relevant policies and procedures are in place to manage this effectively.

Whilst return on investment on significant IT projects has not yet been reported to the Board, the monitoring and evaluation of significant IT projects has been reported to the Board Risk and Compliance Committee and ultimately to the Board.

Independent reviews of the effectiveness of IT internal controls are also conducted and reported to the Board.

STAKEHOLDER RELATIONSHIPS

Stakeholder relationships create a platform for the process of taking on board the concerns and objectives of the stakeholders in the decision making process of the Bank, and to that end our management is empowered to deal with stakeholder relationships in line with an approved strategy and policy, and also to set up mechanisms and processes that support our stakeholders in a constructive engagement with the Bank.

An assessment and identification of the Bank's stakeholders has been done to ensure that all communication can be undertaken and plans are in place to ensure effective stakeholder engagement with emphasis on transparency, respect, and equitable treatment of all our stakeholders.

DISPUTE RESOLUTION

A formal dispute resolution policy and process has been adopted by the business for internal and external disputes in order to ensure that disputes are resolved effectively and expeditiously.

The Board has approved a panel of entities or people that represent the company in the event of alternate dispute resolution.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Enterprise Risk Management

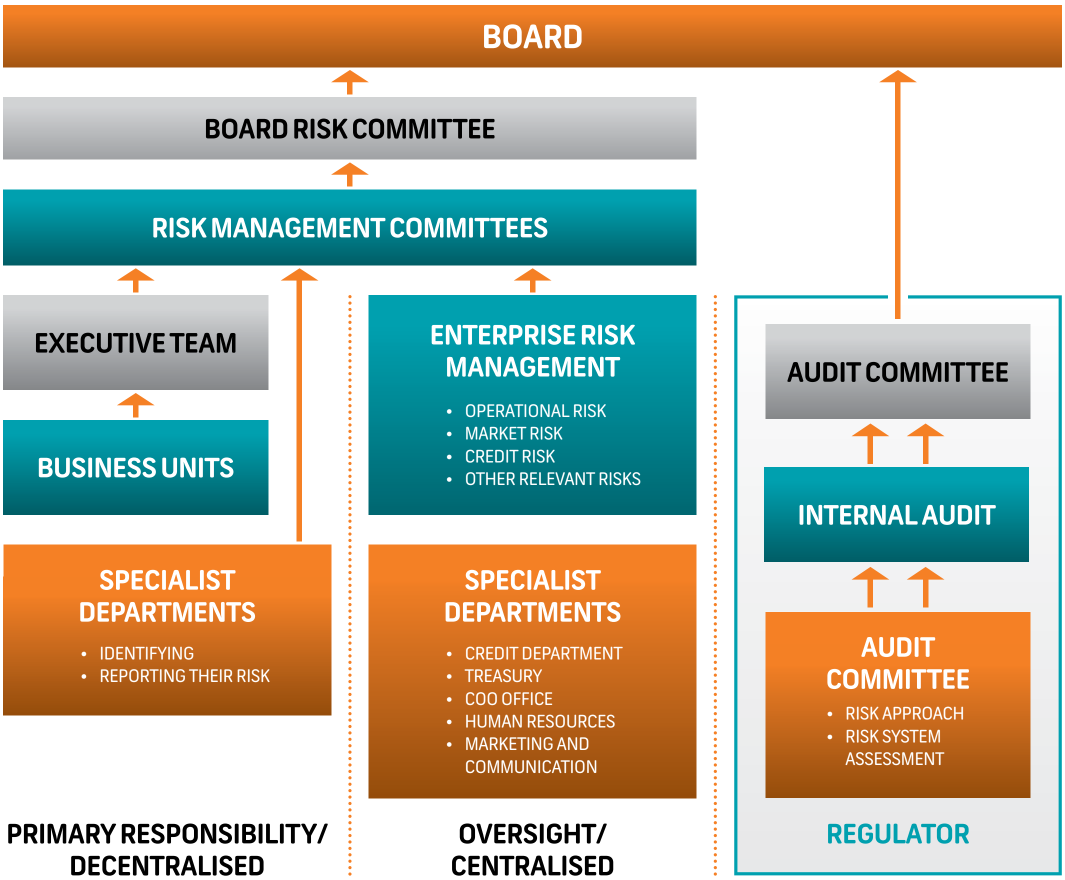
Risk management has become a key strategic focus in the Banking industry as a whole. The purpose of risk management is to identify the risk factors, which could adversely affect the desired outcomes of the Bank's activities. Risk management also seeks to manage these risks so as to reduce and control these risk factors and thereby minimise the incidence and impact of adverse outcomes.

Group Enterprise Risk Management Framework

The Bank has aligned its risk management structure in line with the Group's Business Performance and Risk Management Framework with the objective of ensuring a single view of risk across the Bank.

The organisational structure of risk management including roles and responsibilities is 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 analysing risk reports and putting forward strategies for recommendations at the Board
- Risk Management Committees have 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 Group practice the responsibility for risk management resides with management at all levels, from members of the Board to individuals throughout the Bank.



1st LINE OF DEFENSE

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

1. To 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; and
3. To 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; and
4. Reinforcing of risk culture across the Bank.

3rd LINE OF DEFENSE

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

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

Enterprise Risk Management (continued)

Specialist Committees Reporting to the Main Risk Committee

Asset and Liability 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 currencies.

Operational Risk Committee (ORC)

ORC 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

Credit Risk Committee

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

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 monthly basis or on a more frequent basis should interest rates require them to do so. The sensitivity to moves 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 a 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

Below 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	Description	Impact Rating	Mitigating Action
Market Risk			
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 and Board Risk Committee • Contingency plans • Analysis of liquidity risk models and simulation
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 • Analysis of market risk models
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 • Analysis of market risk models
Credit Risk			
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 • Board Credit Committee

Enterprise Risk Management (continued)

Risk Register (continued)

Risk	Description	Impact Rating	Mitigating Action
Operational Risk			
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 Board 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	The risk of loss from piracy, inappropriate use of information or theft of data and information	High	• Information Risk Policies and Frameworks • Systems Audit
Legal Risk	The risk of adverse legal/contractual disputes	High	• 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 and 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	Description	Impact Rating	Mitigating Action
Operational Risk (continued)			
Process Risk	The risk of loss to the company due to 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 and Security • Fraud Management • Internal Audit • Key Risk Indicators and Risk Control Self Assessments • Staff Training • Business Continuity Management Planning
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

Enterprise Risk Management (continued)

Risk Register (continued)

Risk	Description	Impact Rating	Mitigating Action
Operational Risk (continued)			
Physical Security Risk	The risk of loss or damage to 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 • Business Continuity Planning
Insolvency Risk			
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

Risk	Description	Impact Rating	Mitigating Action
Reputational Risk			
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			
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 the Board • Staff Training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Sustainability Reporting

Sustainability Reporting

FNBB operates in line with the FirstRand Group philosophy which governs how we operate and interface with our stakeholders. We believe that the existence of our business and its continued success is dependent on the relationships that we have with our stakeholders. Our stakeholders are represented by our people (staff), customers, suppliers, communities we support and invest in, the natural environment, our regulators and related authorities.

Our stakeholder approach enables us to address material issues within the environment, economic, social and governance domain whilst taking into account our operating context and the impact on our stakeholders.

People

Our employees remain the number one stakeholder as they are an important link to our customers, the community in which we operate and consequently affect our profitability. It is in light of this that we have developed strategies to ensure that they are fully engaged through several initiatives which include but are not limited to skills and career development, improved relations with the bargaining partner (BOBEU) and the endeavour to pay at market levels.

We registered a significant improvement on our People Pillar Survey (engagement survey), indicating that the initiatives that we invested in bore fruit.

Developing Our Human Capital

Our focus for developing human capital was based on training and development from our training center and a few more initiatives as follows; technical and life skills training; Senior leadership development and Branch based leadership development programs.

New technical training initiatives were as follows:

- Insurance Training
- Account Opening Optimisation (AOO)
- Specific Customer service training for frontline staff
- Corporate Relationship training

Leadership Development

Three specific leadership programs were put in place namely Junior Board, Future Leadership and the third one being the graduate development programme was enhanced to create more balanced general leaders.

A total of 14 employees at the supervisory and junior management were selected through a rigorous process to become part of a three-year leadership programme named Junior Board. This programme aims at developing a pool of individuals with strong business management skills that will provide us with a healthy number of successors for important areas of the business.

The development approach for these employees is through acquisition of technical skills offered in-house as well as getting experts from the Group to offer the skills training. In addition, there is project initiation and implementation in the Bank in areas of need.

Another programme that employees were selected to participate in named Future Leaders mainly focuses on developing strong branch management leadership for the following positions: Branch Manager, Credit Manager and Administration Manager in branch banking. A total of 30 employees from different areas of the Bank were selected based on business acumen and potential. The programme rollout will start in the new financial year and it will be for a period of 18 months.

Lastly, the Graduate Development Programme has been given more visibility by enhancing the programme where at the end the graduates will be placed in a part of the business which has not had graduate employees before to ensure that all areas of the Bank can benefit from higher level thinking and approaches.

Employee Engagement

We recorded a significant improvement in our employee engagement survey that is conducted across the Bank. The top most improved dimensions of the survey were; customer focus, general employee engagement, supervision, survey follow-up. Although we did not score high on remuneration, employees expressed faith in the fact that they believed that the Bank will do something about being a competitive payer in the market.

We believe that as we improve employee engagement we will see a resultant improvement in customer focus and bottom line achievements. This has to a large extent been attested to by our end of year results.

Remuneration

Having participated in a financial services remuneration survey, the results indicated that we paid our employees less than the rest of the financial services market. A strategic initiative was implemented to move the pay of the good performers to the 50th percentile.

Employee Wellness

Our drive to improve productivity and a sense of care for our employees saw us placing a greater focus on wellness with specific attention to lifestyle diseases.

Customers

FNBB – how can we help you?

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 2011 organic growth resulted in the expansion of the branch network to 19 located in all major centers in Botswana. Currently FNBB operates 122 ATMs, 39 mini-ATMs and 3,300 point-of-sale devices throughout the country.

The Bank continues to be the market leader in delivering innovative Banking products and services and has retained the title of first-to-market in yielding world-class products and services. Over the past year we have provided a number of new value adding solutions and services to our customers, such as the introduction of e-Wallet, Bank your Change and the Business Debit Card.

The range of products and solutions include:

- Retail, Wholesale and Public Sector Banking products;
- Vehicle and Asset finance products - WesBank
- Treasury solutions;
- Commercial and Industrial Property Finance solutions;

Sustainability Reporting (continued)

- International Trade Services products;
- Savings and Investment products;
- Electronic Banking and Online Banking products;
- Credit Card, Debit Card and Corporate Card solutions;
- Cellphone Banking products and solutions;
- Public Sector Financing; and
- Islamic Finance.

The Bank continues to expand and upgrade the branch footprint. During the current financial year the Bank opened a new branch in Ghanzi and relocated and upgraded Kgale View and Kasane Branches to a new state of the art and customer friendly branch model. These branches bring a completely new look and feel and are 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. The introduction of e-Wallet is one of the innovative solutions that is helping achieve this objective.

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 to current and potential customers so that they may enjoy a consistently great banking experience.

One of the Bank's strategic focus areas is to continuously build and strengthen a strong customer focused culture that ensures all products and services are correctly packaged and accessible. To support this approach, the Bank has segmented its business into Consumer, Wholesale and Public Sector in order to give further focus and attention to our clients' unique needs in the different segments. Each segment is accountable for the client relationships and for delivering a unique value proposition to its clients.

FNBB – This is how we are helping you.

Supply Chain

Supply chain sustainability is a holistic perspective of supply chain processes and technologies that go beyond the focus of delivery, inventory and traditional views of cost management. This new trend is based on the principle that socially responsible products and practices are not only good for the environment, but are important for long-term profitability and sustainability of the organisation.

It is the intention of FNBB, when purchasing or selling goods and obtaining services, to follow a course of optimum value and efficiency by adopting best purchasing practices in supply chain management, ensuring that open and fair competition has prevailed.

The FNBB Procurement Policy provides general procurement related information, without being prescriptive. Its objective is to formalise the procurement process, make the best use of group synergies to obtain cost savings, standardisation and where possible, provide opportunities for local businesses. In all cases, selection is on the basis that there is no reputational risk and the quality of the goods or services is not compromised.

In our environment, supply chain sustainability includes projects to reduce energy cost and any form of waste. Whilst support for local suppliers is important, equally important is increased focus on ecological supply chain considerations. Such considerations must work in concert with profit-making, and managing toxic outputs and waste streams to designing processes, and supply networks for efficient and effective operations, recycling, and re-use. The disposal of our e-waste material is in line with Botswana's legislation and is ecologically sustainable.

Cost Saving Strategy

In today's competitive world corporates and businesses are struggling to maintain profits and healthy bottom lines. Cost of fuel, raw material and human resources is rising each year. These developments have prompted organisations to look for cost reduction ideas and methods. To that end the Bank has developed cost saving strategies in order to manage costs. The success of these strategies is evidenced by the cost to income ratio of the Bank, which the Bank has maintained at between 38% - 40% over the last few years.

Below is a graph which depicts where the major procurement spend is.

MAJOR PROCUREMENT SPEND 2011

Maintenance	19%
Marketing	23%
Telecommunications	17%
IT	13%
Property Management	28%

The major spend is on property management which is mainly attributed to rental payments. Maintenance spend is the second largest, of which the bulk goes to the equipment rentals like photocopy multifunctions. Marketing expenses are due to active advertising expenses on radio, television, billboards, pamphlets and other promotional activities.

The Bank continues to focus on cost saving strategies in order to ensure the long-term profitability and sustainability of the business.

Regulatory Authorities

We maintain sound working relationships with all our regulatory bodies and ensure compliance with legislation in order to ensure good corporate governance. This enables us to operate in a stable environment, which is conducive for the successful operation of our business.

Community

First National Bank of Botswana also places a lot of importance in contributing to the upliftment of our communities. The Bank executes its Corporate Social Responsibility through the FNBB Foundation. The FNBB Foundation is one of the biggest corporate donors and a leader in Corporate Social Investment in the financial services sector. Annually, the Bank contributes up to 1% of profits after tax to the Foundation.

The FNBB Foundation also has a Staff Volunteer Programme that affords staff members an opportunity to identify a project of their choice and commit time, share skills or donate funds to support the project to achieve its objectives.

Since its establishment in 2001, the Foundation has invested more than P23 million in various projects, enriching and uplifting the lives of many people in need across the country.

Corporate Social Responsibility

FNBB FOUNDATION
In partnership with the community

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.

In 2001, the Board of FNBB Botswana requested the majority shareholders to establish an independent Trust to administer the Bank's social responsibility programme. This resulted in the formation of the FNBB Foundation Trust Fund. The Fund was established in 2001 on the understanding that the Bank would contribute up to one percent (1%) of its after tax profit to the Foundation annually. The FNBB Foundation is one of the biggest corporate donors and a leader in Corporate Social Responsibility in the financial services sector.

The Bank through the Marketing and Communications Department carries out all the Foundation's administrative work.

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

Trustees meetings are convened quarterly. However, upon receipt of requests, the applications go through a rigorous selection process by the Fund Administrators and recommendations submitted to the Board of Trustees to review requests for assistance. Projects are encouraged to seek funding from a range of donors and to show that they are working to be as self-sustaining as possible. The Foundation normally considers funding of a capital nature, such as buildings (dormitories, classrooms, multi-purpose halls etc), vehicles and machinery but may also consider requests for operating expenses.

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

Profile of Activities

- Any formally constituted non-governmental organisation (NGO) and any non-commercial organisation in Botswana registered as a non-profit making organisation may apply for funding.
- The NGO should be involved in improving the general welfare of Batswana in some form or other.
- Emphasis is placed on needy communities whose projects are intended to improve 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; and
- 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 organisations; and
- Religious interests.

All projects supported have to 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 on completion of the work being supported or during the funding period. Failure to comply with grant conditions would negatively impact future requests for support.

Principles upon which decisions are made:

- Properly researched and motivated;
- Helping people to help themselves and each other;
- Developmental impact is the primary driver;
- Measurable sustainable impact on the future; and
- Flagships must have a strong FNBB identity.

To date the FNBB Foundation has donated funds to 79 projects country wide. Contributions range from P10 thousand to P1.5 million per project.

Corporate Social Responsibility (continued)

FNBB FOUNDATION
In partnership with the community

Staff Volunteer Programme

Staff Volunteer Programme is an extension of the Foundation's commitment to the community. This is an initiative that affords the Bank's employees an opportunity to identify and donate funds to a project of their choice in their respective localities. Their involvement goes beyond simply giving financial support, but putting in a helping hand. The programme is one of the most demonstrable methods of evidencing the Bank's community relations policy and is therefore encouraged. It not only helps the community but can also provide members of staff with opportunities for personal and professional development.

The conditions of sponsorship and criteria for determining worthiness are:

- The Branch staff must have some involvement that goes beyond simply giving financial support;
- The limit for each donation will be P50 thousand annually per division or branch 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;
- Qualifications against the FNBB's brand Values which will enhance FNBB as a public – spirited organisation; and
- The public reputation of the recipients of support (the organisation should have a positive public image).

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; and
- Cover a range of initiatives including children, the handicapped, environmental maintenance, the aged and other community welfare initiatives.

To date FNB staff has assisted an array of projects country wide ranging from P30 thousand to P336 thousand per project. Total number of projects assisted to date is 48.

Applications should be forwarded to:

FNBB Foundation
P O Box 1552
Gaborone

Or delivered to:

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

Telephone: 364 2674 / 364 2601
Fax: 390 6679
Email: omoremong@fnbbotswana.co.bw or bselaledi@fnbbotswana.co.bw

Corporate Social Responsibility (continued)

FNBB FOUNDATION

In partnership with the community

Financial Highlights

TOTAL CONTRIBUTION TO DATE BY THE BANK

equates to **P23.7m**

TOTAL NUMBER OF PROJECTS

assisted to date **127**

BY FNBB FOUNDATION AND THE STAFF VOLUNTEER PROGRAMME

	Year under review 2010/11 (Pula)	Previous Year 2009/10 (Pula)
Value of Grants Approved	1,236,669	1,240,334
Number of Projects Funded	14	10

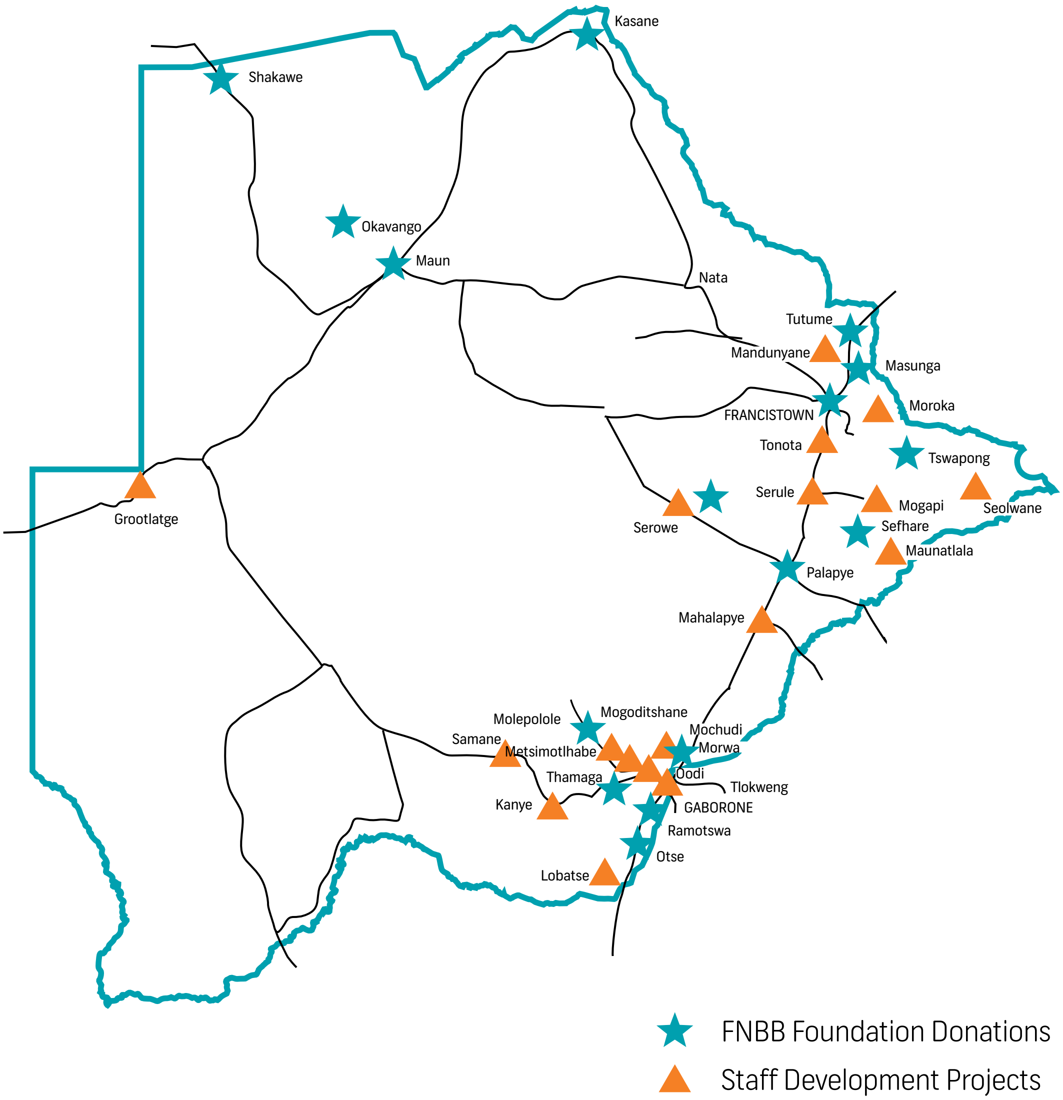
PROJECTS FUNDED BY THE FNBB FOUNDATION FOR 2011

	ORGANISATION	LOCATION	AMOUNT
1	Lions Club of Selibe-Phikwe	Selibe-Phikwe	30,000
2	Children in the Wilderness	Maun	100,000
3	Botswana Society for the Deaf	Ramotswa	84,041
4	Segopotso Primary School	Kanye	100,000
5	Tumelong Day Care Centre	Kumakwane	316,657
6	Holy Cross Hospice	Gaborone	33,000
7	The Botswana Society	Gaborone	110,023
8	Tati Nickel Mining Company	Tati	10,000
9	Motswedi Rehabilitation Centre Playground Refurbishment	Otse	50,000
10	Various NGOs (Wheelchairs, food, blankets and clothes)	Ramotswa, Ranaka, Moshupa	79,987
11	Hajee Goolum Childrens Home	Gaborone	30,000
12	Broadhurst Park Refurbishment	Gaborone	150,000
13	Legodimo Trust Tea Garden Refurbishment	Lobatse	42,961
14.	Somarelang Tikologo	Gaborone	100,000
	TOTAL DONATIONS FOR THE YEAR		1,236,669


WesBank
FNB
FNB

Corporate Social Responsibility (continued)

Footprints of the FNBB FOUNDATION



Financial Performance

Chief Financial Officer's Report

Bank overall Performance

First National Bank of Botswana (FNBB) results to 30 June 2011 reflect signs of economic recovery as well as the success of the strategy adopted. Overall balance sheet increased by 8% to over P13 billion, with advances increasing by 24% to P7.1 billion. Profit before taxation increased to P638 million from P532 million in 2010, an increase of 20%. Profit after tax reflects an increase of 32% compared to previous year, as a result of a reduction in the effective tax rate.

Consolidated Statement of Comprehensive Income

Net interest Income and impairments

Despite a 24% increase in advances, net interest income increased by 22%, reflecting the impact of a 50 basis point interest rate cut in December 2010 as well as the continued pressure on margins. In order to mitigate this, the Bank intensified efforts to maximise balance sheet efficiencies which resulted in a higher loans-to-deposit ratio and improved margins.

Impairment charges grew by 36% off a low base, and in line with management expectations. The growth reflects the increase in advances particularly in retail. Despite this seemingly large increase, the impairment charge to gross advances at 0.8% is well within the internally set highway of between 0.75% and 1.25%, and compares favourably with the market. See Fig 1.

Non-interest revenue

As a result of the increase in the number of ATMs and improved uptime, higher volumes due to expansion initiatives, increased usage of the Bank's technological offerings and improved diamond sales positively impacting trading income, non-interest income increased by an impressive 24%. The improvement in non-interest income is part of the Bank's strategy to diversify income streams away from interest income in order to mitigate risks associated with interest rates and advances to customers.

Fig 2 shows the success of the revenue diversification strategy achieved through the introduction of new products, services and technological offerings for both FNBB and non-FNBB customers. The Bank is able to cover all its non-interest expenditure with non-interest revenue.

Operating expenses

Total expenses increased by 24%. These were impacted by the alignment of non-managerial staff salaries to the market, increased staff compliment, various projects intended to improve efficiencies, customer service and information systems for reporting. The costs were also impacted by the ongoing footprint increase with the opening of a new branch in Ghanzi and the number of ATMs increased by 30, as well the revamping of branches that included Kgale View, Broadhurst and Kasane.

As illustrated by Fig 3, despite this increase in costs, the Bank's cost-to-income ratio remains low at 40%, and a focus on cost efficiencies continues through the Cost Containment Committee.

Taxation

In order to fully utilise Additional Company Tax (ACT) credit, which fell away in July 2011 as a result of tax legislation changes, the Bank declared and paid a special dividend of 8.00 thebe per share in June 2011. The impact of this was a reduction in the effective tax rate in the current year compared to the prior year.

Statement of Financial Position

The Bank's statement of financial position remains strong with an increase of 8% from the previous year. The Bank grew its advances to customers by 24% mainly in Property Finance and the Retail space. The Bank continues to hold healthy assets as seen by the reduction in non-performing loans and low levels of impairments. Fig 4 shows that despite an increase in advances, non-performing loans have declined.

As per Fig 5, FNBB remains the market leader in property and asset finance. The Bank's asset portfolio is well diversified which cushions the Bank's performance during turbulent times.

Chief Financial Officer's Report (continued)

The Bank remains the market leader in terms of market capitalisation on the Botswana Stock Exchange, and balance sheet size in the industry. FNBB continues to deliver exceptional returns to its shareholders in terms of ROE and dividend ratios.

Deposits from customers increased by only 3%, triggered by a 34% decline in corporate deposits. Although retail deposits increased by 20% in line with the Bank's strategy, the decline in corporate deposits negatively impacted the growth of overall Bank deposits and resultant Investment Securities reducing by 29%, from P4.9 billion in 2010 to P3.5 billion in 2011.

Total ordinary equity holders' funds remained unchanged compared to prior year as a result of a special dividend that was declared in order to take advantage of changes in tax legislation effective 1 July 2011.

Capital Management

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

- To comply with the capital requirements set by the regulators of the banking markets (the Central Bank);
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Bank continues to manage its capital in line with the Board's approved capital management framework and Basel II which is expected to be adopted in Botswana in 2012.

The purpose of the framework is to create objectives, policies and principles to ensure that book capital (shareholders funds or accounting capital – Net Asset Value); regulatory capital and economic capital are optimised.

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 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 Group is appropriately capitalised from an economic risk point of view. The regulatory capital requirements are strictly observed when managing economic capital.

As illustrated by Fig 6, despite the special dividend paid, the Group's capital adequacy ratio, which excludes the dividend reserve, has been maintained at 15.72% at 30 June 2011, and is in line with the Group's capital management framework and the required ratio by Bank of Botswana of 15%.

In line with the substantial growth in assets as well as the need to cater for developments with respect to BASEL II, and the effect that these factors will have on the capital adequacy ratio, the Directors believe it appropriate to continue with the prudent approach to capital management.

The capital adequacy ratio reflects the dividend that was declared and paid during the year. Although the ratio declined in June 2011, it has not breached the statutory requirement of 15%.

FIG 1: IMPAIRMENT CHARGE ANALYSIS (%)

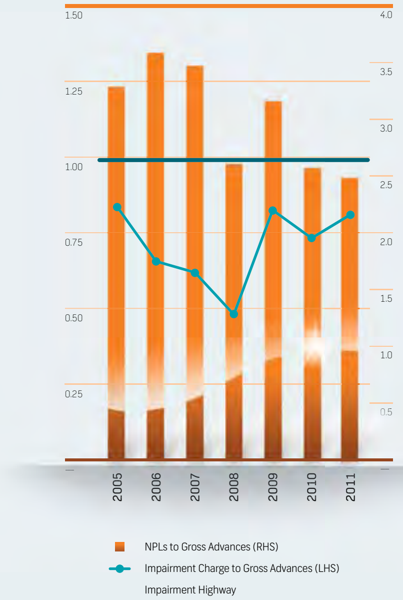


FIG 2: NON-INTEREST REVENUE vs NON-INTEREST EXPENDITURE (P'000)

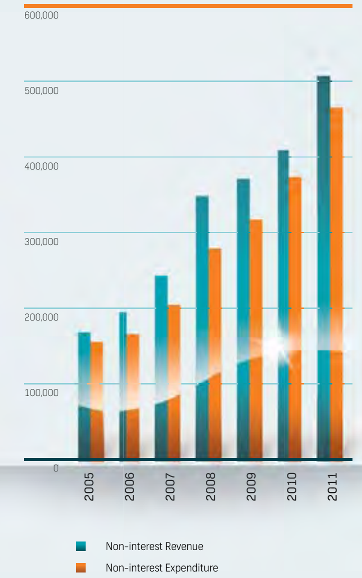


FIG 3: COST TO INCOME RATIO (P'000)

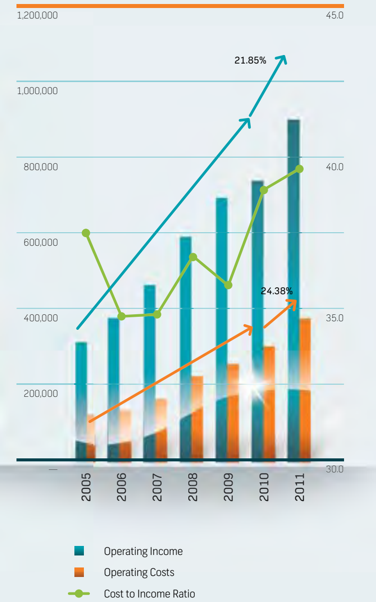
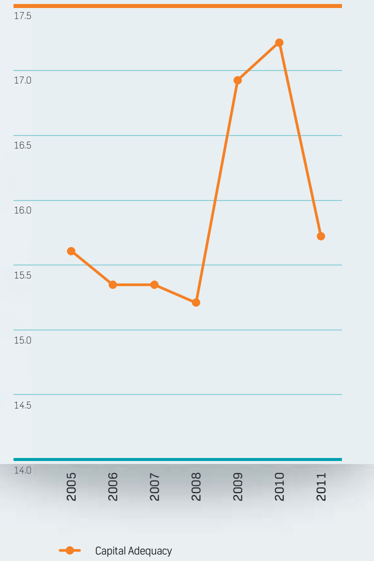


FIG 4: GROSS ADVANCES vs NON-PERFORMING LOANS (P'000)

FIG 5: GROSS ADVANCES

FIG 6: CAPITAL ADEQUACY (%)



Chief Financial Officer's Report (continued)

Market Performance

FIG 7

	2011	2010	% Change
Share Price (thebe)	272	266	2.26
Market Capitalisation (Pm)	6,973	6,794	2.63
Dividend per share (thebe)	20.0	9.5	110.53
Dividend Yield-ordinary shares (percent)	7.4	3.6	105.56
Dividend cover (times)	1.1	1.8	38.89
Return on Average Assets	4.5	3.5	28.57
Return on Shareholders' interest (ROE)	50.0	42.0	19.05

The Bank remains the market leader in terms of market capitalisation on the Botswana Stock Exchange, and balance sheet size in the industry. FNBB continues to deliver exceptional returns to its shareholders in terms of ROE and dividend ratios as illustrated by Fig 7.

Conclusion

With the economic recovery expected to lose momentum as a result of developments in the more developed European and USA markets, and the impact this may have on the local economy, the road ahead will have many challenges. Management is confident that the strategies in place will help the business navigate through the challenges and meet its objectives in the new financial year.

Steven Lefentse Bogatsu
Chief Financial Officer

30/06/2011

Value Added Statements

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 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	1,598,598	1,470,930	1,595,596	1,458,110
Cost of services	(966,820)	(664,747)	(963,467)	(677,024)
Value added banking services	631,778	806,183	632,129	781,086
Non-operating and other income and expenditure	258,079	(72,901)	253,265	(62,901)
Value added	889,857	733,282	885,394	718,185
Value allocated				
To employees				
Salaries, wages and other benefits	228,541	183,073	227,134	181,974
To providers of capital				
Dividends to shareholders	589,651	230,734	589,651	230,734
To Government				
Taxation	70,741	101,936	69,624	98,071
To expansion and growth				
Retained income	(15,811)	205,316	(16,733)	195,635
Depreciation	16,735	12,223	15,718	11,771
	924	217,539	(1,014)	207,406
	889,857	733,282	885,394	718,185
Summary	%	%	%	%
Employees	25.7	25.0	25.7	25.3
Providers of capital	66.3	31.5	66.6	32.1
Government	7.9	13.9	7.9	13.7
Expansion and growth	0.1	29.7	(0.1)	28.9
	100.0	100.0	100.0	100.0

Ten Year Consolidated Statements of Financial Position

	30 June 2011 P'000	30 June 2010 P'000	30 June 2009 P'000
STATEMENT OF FINANCIAL POSITION			
ASSETS			
Cash and short term funds	1,706,573	1,201,491	1,185,914
Derivative financial instruments	2,996	758	22,611
Advances to banks	361,178	—	—
Advances to customers	7,170,842	5,803,009	4,643,241
Investment securities	3,496,862	4,946,059	6,085,772
Current taxation	4,622	1,041	—
Due from related companies	13,133	5,075	3,956
Accounts receivable	170,502	57,719	363,392
Investment in associated company	3,058	3,151	2,037
Property and equipment	202,200	187,306	115,601
Goodwill	26,963	26,963	26,963
Total assets	13,158,929	12,232,572	12,449,487
LIABILITIES			
Deposits from banks	215,186	4,000	13,851
Deposits from customers	10,597,398	10,304,632	10,552,699
Accrued interest payable	36,696	45,661	70,142
Derivative financial instruments	18,794	559	21,388
Current taxation	—	—	7,494
Due to related companies	140,031	50,209	175,827
Creditors and accruals	616,691	336,647	166,538
Provisions	42,646	23,830	24,741
Long term liabilities	244,971	207,827	416,612
Deferred taxation	98,350	100,648	79,071
Total liabilities	12,010,763	11,074,013	11,528,363
EQUITY			
Stated capital	51,088	51,088	51,088
Reserves	1,045,804	979,286	754,669
Dividend reserve	51,274	128,185	115,367
Total ordinary equity holder's funds	1,148,166	1,158,559	921,124
Total equity and liabilities	13,158,929	12,232,572	12,449,487

30 June 2008 P'000	30 June 2007 P'000	30 June 2006 P'000	30 June 2005 P'000	30 June 2004 P'000	30 June 2003 P'000	30 June 2002 P'000
1,796,013	904,941	570,245	334,887	420,681	429,959	194,671
59,514	18,476	—	—	—	—	—
—	—	—	—	—	—	—
3,969,496	3,073,209	2,716,404	2,513,929	2,053,400	1,916,745	1,574,490
5,363,202	4,060,061	3,760,394	391,845	545,168	436,979	457,230
—	—	—	320	6,014	2,111	—
2,029	1,151	—	—	—	—	322,141
181,911	197,447	96,171	59,353	106,215	75,090	86,422
2,297	2,421	2,499	2,302	1,694	1,721	12,604
80,737	63,184	39,354	37,601	38,559	40,915	39,510
26,963	26,963	26,963	26,963	26,963	22,193	23,393
11,482,162	8,353,070	7,212,030	3,367,200	3,198,694	2,925,713	2,710,461
142,310	125,463	142,299	53,950	58,263	75,000	6,000
9,763,624	6,744,640	5,881,827	2,430,240	2,261,314	2,145,438	2,038,579
86,594	85,100	60,902	17,302	18,520	18,818	15,461
59,514	18,476	—	—	—	—	—
5,173	308	138	1,131	—	—	—
97,587	213,482	48,834	102,789	146,819	16,400	8,694
91,514	57,517	60,268	63,682	88,158	97,035	132,463
43,267	34,776	34,532	—	—	—	—
424,694	430,907	438,851	195,137	200,933	106,276	111,203
43,267	34,776	33,507	42,432	45,491	45,412	38,984
10,757,544	7,745,445	6,701,158	2,906,663	2,819,498	2,504,379	2,351,384
51,088	51,088	51,088	51,088	51,088	51,088	25,637
583,800	400,151	331,599	299,210	240,942	288,208	263,657
89,730	156,386	128,185	110,239	87,166	82,038	69,783
724,618	607,625	510,872	460,537	379,196	421,334	359,077
11,482,162	8,353,070	7,212,030	3,367,200	3,198,694	2,925,713	2,710,461

Ten Year Consolidated Income Statements

	30 June 2011 P'000	30 June 2010 P'000	30 June 2009 P'000
INCOME STATEMENT			
Interest and similar income	1,094,078	1,062,618	1,296,474
Interest expense and similar charges	(432,327)	(518,978)	(773,578)
Net interest income before impairment of advances	661,751	543,640	522,896
Impairments losses on loans and advances	(59,211)	(43,420)	(40,752)
Net interest income after impairment of advances	602,540	500,220	482,144
Non interest income	505,793	410,610	371,196
Income from operations	1,108,333	910,830	853,340
Operating expenses	(470,596)	(378,858)	(324,860)
Income before taxation	637,737	531,972	528,480
Taxation	(63,897)	(95,922)	(121,760)
Income after taxation	573,840	436,050	406,720
Dividends paid and proposed	(589,651)	(230,734)	(230,734)
Retained income for the year	(15,811)	205,316	175,986

30 June 2008 P'000	30 June 2007 P'000	30 June 2006 P'000	30 June 2005 P'000	30 June 2004 P'000	30 June 2003 P'000	30 June 2002 P'000
1,168,337	1,005,074	583,923	467,009	439,510	397,884	332,765
(768,085)	(657,297)	(295,654)	(223,956)	(212,722)	(185,246)	(161,931)
400,252	347,777	288,269	243,053	226,788	212,638	170,834
(20,804)	(22,012)	(19,393)	(19,483)	(22,962)	(16,919)	(8,747)
379,448	325,765	268,876	223,570	203,826	195,719	162,087
348,980	244,931	197,471	170,900	137,139	124,923	104,519
728,428	570,696	466,347	394,470	340,965	320,642	266,606
(279,148)	(205,052)	(167,184)	(160,061)	(150,403)	(130,076)	(111,725)
449,280	365,644	299,163	234,409	190,562	190,566	154,881
(75,253)	(55,797)	(45,920)	(37,715)	(24,986)	(31,778)	(29,671)
374,027	309,847	253,243	196,694	165,576	158,788	125,210
(205,097)	(252,525)	(192,278)	(138,440)	(211,505)	(104,086)	(87,679)
168,930	57,322	60,965	58,254	(45,929)	54,702	37,531

Directors' Statement of Responsibility

for the year ended 30 June 2011

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 auditors are responsible to express an independent opinion on the fair presentation of these annual financial statements based on their audit of the affairs of 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 the 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 75 to 172, which were approved on 10 August 2011 and are signed on their behalf by:

P. D. SHAH
Chairman

L.E. BOAKGOMO-NTAKHWANA
Chief Executive Officer

P. D. STEVENSON
Director

30/06/2011

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 2011, 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 75 to 172.

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), and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 2011, 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 (Cap 46:04).

Deloitte & Touche

Deloitte & Touche
Certified Public Accountants
Practicing Member: M Marinelli (19900028.36)

Gaborone
12 August 2011

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
10 August 2011
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 2011.

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 P573.8million (2010: P436.0million) increased by 32% percent compared to the results for the year to 30 June 2010. Interest income was derived mainly from advances, instalment credit, and investment securities. 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' Report (continued)

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 (2010: 95,649), which represents approximately 0.0037% (2010: 0.0037%) of the stated capital of the Company.

Dividends

An interim dividend of 5.00 thebe per share (2010 - 4.50 thebe), a dividend of 5.00 thebe per share, as well as a special dividend of 8.00 thebe per share for the year ended 30 June 2011 have been paid to holders of ordinary shares. The Directors propose a final dividend of 2.00 thebe per share (2010: - 5.00 thebe).

Directorate

The composition of the Board as at 30 June 2011 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	Independent Non-Executive Director (British)
R. Wright	Deputy CEO (South African) (Alternate to L.E. Boakgomo-Ntakhwana)
L. J. Haynes	Non-Executive Director (South African) (Alternate to J.K. Macaskill)

Transfer Secretaries

PriceWaterhouseCoopers
Plot 50371
Fairgrounds Office Park
P O Box 294, Gaborone

Auditors

Deloitte & Touche
Deloitte & Touche House
Plot 64518
Fairgrounds Office Park
P O Box 778, Gaborone

Significant Accounting Policies

for the year ended 30 June 2011

1 INTRODUCTION

Reference to "Company or Bank" 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:

- As part of its annual improvements project the International Accounting Standards Board ("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 2009 is effective for annual periods commencing on or after 1 January 2010 and the improvements made to IFRS 3 and IAS 27 as part of the 2010 annual improvements project is effective for annual periods commencing on or after 1 July 2010. The Group has adopted these amendments during the current financial year. These amendments have not had a significant impact on the Group's results not has it resulted in the restatement of prior year numbers.

These changes are to be prospectively applied and do not require the restatement of amounts recognised prior to 1 July 2010. Further details are provided in accounting policy Note 3.

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

- IFRS 1 First-time Adoption of International Financial Reporting Standards was amended during January 2010. 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 Financial Instruments Disclosures. The additional disclosure requirements included in the amendment to IFRS 7 required enhanced disclosures about fair value measurement and liquidity risk. The amendment does not have an impact on the Group as the Group has already adopted IFRS.
- IAS 32 Financial Instruments: Presentation was amended during October 2009. 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 rights issues offered pro rata to all of an entity's existing shareholders to be classified as equity instruments regardless of the currency in which the exercise price is denominated. The amendment has had no impact on the Group's results as no such arrangements have been entered into.
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments is effective for annual periods commencing on or after 1 July 2010. This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. These transactions are often referred to as debt for equity swaps. This Interpretation does not address the accounting by the creditor. 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 properties and financial instruments.

Significant Accounting Policies (continued)

for the year ended 30 June 2011

2 BASIS OF PRESENTATION (continued)

2.2 Standards and interpretations adopted with no effect on the financial statements (continued)

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 42 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 Pula, 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. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the acquisition date fair value of any existing equity interest held in the subsidiary. The contingent asset or liability is initially measured at fair value at acquisition date. A contingent obligation to pay contingent consideration is classified as equity or liability. The contingent asset or liability is subsequently measured at fair value with fair value changes recognised against the acquisition cost where they qualify as the measurement period adjustment as per IFRS 3 as recognised in accordance with the IFRS applicable to that asset or liability. Contingent considerations that are classified as equity are not re-measured after acquisition date. Transaction costs are expensed as incurred.

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.

When control is achieved in stages, each transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities are measured at fair value at acquisition date

3.3 Associates and joint ventures

Associates are typically entities in which the Group holds an equity interest of between 20% and 50% but has no control. The Bank is presumed to have significant influence where it holds an equity interest of between 20% and 50%. 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.

Significant Accounting Policies (continued)

for the year ended 30 June 2011

4 INTEREST INCOME AND EXPENSE (continued)

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 OR LOSSES

The Group includes gains or losses and fair value adjustments on trading financial instruments (including derivative instruments that do not qualify for hedge accounting in terms of IAS 39) as well as financial instruments designated at fair value through profit or loss in fair value gains or losses in non-interest income.

6 FEE AND COMMISSION INCOME

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

Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalized and recognized as part of the effective interest rate of the financial instrument over the expected life of the financial instruments. These fees and transaction costs are recognised as part of the net interest income and not as non-interest revenue.

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 except to the extent that the scrip dividend is viewed as a bonus issue, with no cash alternative and the transaction lacks economic significance.

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 are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges

Translation differences on non-monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss.

Foreign currency translation differences on monetary items, such as foreign currency bonds, are not reported as part of the fair value gain or loss in other comprehensive income, but are recognised as fair value income in profit or loss when incurred.

Translation differences on non monetary items, classified as available-for-sale, such as equities are included in the available-for-sale reserve in other comprehensive income when incurred.

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.

Significant Accounting Policies (continued)

for the year ended 30 June 2011

12 LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES (continued)

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 statement of cash flows, cash and cash equivalents comprise:

i. Coins and bank notes;
ii. Money at call and short notice;
iii. Balances with banks;
iv. Bank of Botswana Certificates (BoBCs); and
v. 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 gain 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 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.

Significant Accounting Policies (continued)

for the year ended 30 June 2011

14 FINANCIAL INSTRUMENTS (continued)

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 counter party has failed to make a payment when contractually due. Advances are considered to be past due in the following circumstances:

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;

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;

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;

An amount with a specific expiry date includes the principal, or interest payable on the principal, still outstanding as at the reporting date; Bankers acceptances includes the principal, or the interest payable on the principal, still outstanding as at the reporting date;

A bill payable at a determinable date includes the full amount outstanding after the maturity date; and
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.

Significant Accounting Policies (continued)

for the year ended 30 June 2011

14 FINANCIAL INSTRUMENTS (continued)

14.8 Impairments of financial assets (continued)

14.8.1 Assets carried at amortised cost

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 reorganization, 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 we elect to foreclose or not.

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.

Significant Accounting Policies (continued)

for the year ended 30 June 2011

14 FINANCIAL INSTRUMENTS (continued)

14.9 Derecognition of financial assets and liabilities (continued)

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. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one.

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 AND BASE METALS

Commodities and base metals 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 and base metals 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. The fair value of agricultural commodities is measured in accordance with general fair value principles.

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

Significant Accounting Policies (continued)

for the year ended 30 June 2011

17 PROPERTY AND EQUIPMENT (continued)

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 Installment credit agreements

The Group regards installment 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.

Significant Accounting Policies (continued)

for the year ended 30 June 2011

20 INCOME TAXATION (continued)

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. Dividends declared after the reporting date are not recognised but disclosed as a post reporting date event.

23.3 Distribution of non-cash assets to owners

A dividend payable is recognised when the distributions are appropriately authorised by the shareholders and is no longer at the discretion of the entity. The Group measures the liability to distribute the non-cash assets as a dividend to owners at the fair value of the asset to be distributed. The carrying amount of the dividend payable is remeasured at the end of each reporting period and the settlement date, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of settlement is recognised in profit or loss for the period.

Distributions of non-cash assets under common control are specifically excluded from the scope of IFRIC 17 and are measured at the carrying amount of the assets to be distributed.

23.4 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.

Significant Accounting Policies (continued)

for the year ended 30 June 2011

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, WesBank, 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 2011

	Notes	Group 30 June 2011 P'000	Group 30 June 2010 P'000	Company 30 June 2011 P'000	Company 30 June 2010 P'000
Interest and similar income	2	1,094,078	1,062,618	1,094,078	1,062,618
Interest expense and similar charges	3	(432,327)	(518,978)	(432,327)	(518,978)
Net interest income before impairment of advances		661,751	543,640	661,751	543,640
Impairment of advances	13	(59,211)	(43,420)	(59,211)	(43,420)
Net interest income after impairment of advances		602,540	500,220	602,540	500,220
Non-interest income	4	504,520	408,312	501,518	395,492
Income from operations		1,107,060	908,532	1,104,058	895,712
Operating expenses	5	(237,638)	(192,380)	(236,809)	(191,907)
Employee benefits	6	(226,114)	(180,464)	(224,707)	(179,365)
Net income from operations		643,308	535,688	642,542	524,440
Share of profit of associate company	17	1,273	2,298	—	—
Income before taxation		644,581	537,986	642,542	524,440
Indirect taxation	7	(6,844)	(6,014)	(6,600)	(6,006)
Profit before direct taxation		637,737	531,972	635,942	518,434
Direct taxation	7	(63,897)	(95,922)	(63,024)	(92,065)
Profit for the year		573,840	436,050	572,918	426,369
Basic earnings per share (thebe)	8	22.56	17.14		
Diluted earnings per share (thebe)	8	22.55	17.11		

30/06/2011

Statements of Other Comprehensive Income

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
Profit for the year	573,840	436,050	572,918	426,369
Other comprehensive income				
Net gains arising on available-for-sale financial assets during the year	2,825	4,183	2,825	4,183
Gains on revaluation of property	—	33,601	—	18,550
Other comprehensive income for the year before taxation	2,825	37,784	2,825	22,733
Taxation relating to components of other comprehensive income	1,278	(9,295)	609	(5,579)
Other comprehensive income for the year	4,103	28,489	3,434	17,154
Total comprehensive income for the year attributable to equity holders of the parent	577,943	464,539	576,352	443,523

Statements of Financial Position

for the year ended 30 June 2011

	Notes	Group 30 June 2011 P'000	Group 30 June 2010 P'000	Company 30 June 2011 P'000	Company 30 June 2010 P'000
ASSETS					
Cash and short term funds	10	1,706,573	1,201,491	1,706,573	1,201,491
Derivative financial instruments	11	2,996	758	2,996	758
Advances to banks		361,178	—	361,178	—
Advances to customers	12	7,170,842	5,803,009	7,177,842	5,810,009
Investment securities	14	3,496,862	4,946,059	3,496,862	4,946,059
Current taxation	32	4,622	1,041	4,305	2,235
Due from related companies	15	13,133	5,075	13,133	5,075
Accounts receivable	16	170,502	57,719	163,676	52,438
Investment in associate company	17	3,058	3,151	955	955
Investment in subsidiary companies	18	—	—	47,244	47,244
Property and equipment	19	202,200	187,306	170,733	154,845
Goodwill	20	26,963	26,963	—	—
Total assets		13,158,929	12,232,572	13,145,497	12,221,109
EQUITY AND LIABILITIES					
Liabilities					
Deposits from banks	22	215,186	4,000	215,186	4,000
Deposits from customers	21	10,597,398	10,304,632	10,597,398	10,304,632
Accrued interest payable		36,696	45,661	37,467	45,661
Derivative financial instruments	11	18,794	559	18,794	559
Due to related companies	15	140,031	50,209	170,803	78,626
Creditors and accruals	24	616,691	336,647	608,554	332,012
Provisions	25	42,646	23,830	42,646	23,830
Long term liabilities	23	244,971	207,827	244,971	207,827
Deferred taxation	7	98,350	100,648	92,989	95,289
Total liabilities		12,010,763	11,074,013	12,028,808	11,092,436
Capital and reserves attributable to ordinary equity holders					
Stated capital	28	51,088	51,088	58,088	58,088
Reserves	29	1,045,804	979,286	1,007,327	942,400
Dividend reserve		51,274	128,185	51,274	128,185
Total ordinary equity holders' funds		1,148,166	1,158,559	1,116,689	1,128,673
Total equity and liabilities		13,158,929	12,232,572	13,145,497	12,221,109

Statements of Changes in Equity

for the year ended 30 June 2011

	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 2009	51,088	19,462	5,438	729,769	115,367	921,124
Total comprehensive income for the year		28,489		436,050		464,539
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
Total comprehensive income for the year		4,103		573,840		577,943
Profit for the year				573,840		573,840
Other comprehensive income for the year		4,103				4,103
2010 final dividend paid					(128,185)	(128,185)
2011 interim dividend paid				(128,185)		(128,185)
2011 special dividend paid				(333,281)		(333,281)
2011 final dividend proposed				(51,274)	51,274	—
Recognition of share based payments			1,315			1,315
Decrease in associate company reserves		(92)		92		—
Transfer from revaluation reserve (note 29)		(2,819)		2,819		—
Balance as at 30 June 2011	51,088	50,143	10,383	985,278	51,274	1,148,166

Statements of Changes in Equity (continued)

for the year ended 30 June 2011

	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
Company						
Balance as at 1 July 2009	58,088	12,885	5,438	720,476	115,367	912,254
Total comprehensive income for the year		17,154		426,369		443,523
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**
Total comprehensive income for the year		3,434		572,918		576,352
Profit for the year				572,918		572,918
Other comprehensive income for the year		3,434				3,434
2010 final dividend paid					(128,185)	(128,185)
2011 interim dividend paid				(128,185)		(128,185)
2011 special dividend paid				(333,281)		(333,281)
2011 final dividend proposed				(51,274)	51,274	—
Transfer from revaluation reserve (note 29)		(1,201)		1,201		—
Recognition of share based payments			1,315			1,315
Balance as at 30 June 2011	**58,088**	**32,272**	**10,383**	**964,672**	**51,274**	**1,116,689**

Statements of Cash Flows

for the year ended 30 June 2011

	Notes	Group 30 June 2011 P'000	Group 30 June 2010 P'000	Company 30 June 2011 P'000	Company 30 June 2010 P'000
Cash flows from operating activities					
Cash generated by operations before taxation and working capital changes	30	719,072	590,308	716,167	578,625
Taxation paid	31	(69,351)	(92,002)	(67,070)	(88,379)
		649,721	498,306	649,097	490,246
Increase/(decrease) in amounts due to other banks		211,186	(9,851)	211,186	(9,851)
Increase/(decrease) in deposit and current accounts	33	309,872	(248,067)	309,872	(248,067)
Increase/(decrease) in balances due to related companies		89,822	(125,618)	92,177	(117,799)
Decrease in accrued interest payable		(8,966)	(24,481)	(8,966)	(24,481)
Increase/(decrease) in creditors and accruals		529,039	(81,903)	525,537	(83,861)
Increase/(decrease) in provisions		18,816	(911)	18,816	(911)
Decrease/(increase) in investments - held for trading		154,485	(17,412)	154,485	(17,412)
Increase in advances to customers	34	(1,426,197)	(1,203,188)	(1,426,197)	(1,203,187)
Increase in advances to banks		(361,178)	—	(361,178)	—
(Increase)/decrease in accounts receivable		(112,783)	305,673	(111,238)	307,889
Increase in amounts due from related companies		(8,058)	(1,119)	(8,058)	(1,137)
Net cash generated from/(utilised in) operating activities		45,759	(908,571)	45,533	(908,571)

Statements of Cash Flows (continued)

for the year ended 30 June 2011

	Notes	Group 30 June 2011 P'000	Group 30 June 2010 P'000	Company 30 June 2011 P'000	Company 30 June 2010 P'000
Cash flows utilised in investing activities					
Purchase of property and equipment to maintain operations	19	(31,629)	(50,505)	(31,606)	(50,505)
Proceeds on disposal of property and equipment		94	17	297	17
Dividends from associate company	17	1,366	1,184	1,366	1,184
Net cash utilised in investing activities		(30,169)	(49,304)	(29,943)	(49,304)
Cash flows utilised in financing activities					
Dividends paid	35	(589,651)	(230,734)	(589,651)	(230,734)
Repayments of borrowings		(255,545)	(8,073)	(255,545)	(8,073)
Borrowings raised		37,151	50,000	37,151	50,000
Net cash utilised in financing activities		(808,045)	(188,807)	(808,045)	(188,807)
Net decrease in cash and cash equivalents		(792,455)	(1,146,682)	(792,455)	(1,146,682)
Cash and cash equivalents at the beginning of the year		5,948,755	7,095,437	5,948,755	7,095,437
Cash and cash equivalents at the end of the year	36	5,156,300	5,948,755	5,156,300	5,948,755

Notes to the Annual Financial Statements

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
1. ACCOUNTING POLICIES				
The accounting policies of the Group are set out on pages 75 to 93.				
2. INTEREST AND SIMILAR INCOME				
Held for trading				
- Investment securities	7,306	9,464	7,306	9,464
Loan and receivables				
- Advances	780,462	623,129	780,462	623,129
- Cash and short term funds	20,082	31,914	20,082	31,914
- Unwinding of discounted present value of security on non-performing loans (Note 13)	(1,000)	(2,426)	(1,000)	(2,426)
Designated at fair value through profit or loss				
- Advances	5,564	—	5,564	—
Available-for-sale financial assets				
- Investment securities	281,664	400,537	281,664	400,537
	1,094,078	1,062,618	1,094,078	1,062,618
3. INTEREST EXPENSE AND SIMILAR CHARGES				
Financial liabilities at amortised cost				
- Term deposit accounts	249,761	284,248	249,761	284,248
- Current accounts	136,436	169,036	136,436	169,036
- Savings deposits	16,679	21,294	16,679	21,294
- Deposits from banks and other financial institutions	7,646	2,540	7,646	2,540
- Loans from related parties (Note 15)	11,997	29,709	11,997	29,709
- Debentures	9,469	12,151	9,469	12,151
Designated at fair value through profit or loss				
- Term deposit accounts	339	—	339	—
	432,327	518,978	432,327	518,978

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
4. NON-INTEREST INCOME				
Fee and commission income				
Loans and receivables				
- Card commissions	97,613	80,463	97,613	80,463
- Insurance commissions	35,459	22,662	33,280	13,973
- Facility fees	43,020	30,881	43,020	30,881
- Commissions - guarantees and letters of credit	10,888	7,679	10,888	7,679
Financial liabilities at amortised cost				
- Cash deposit fees	24,603	20,607	24,603	20,607
- Commissions - bills, drafts and cheques	39,271	33,879	39,271	33,879
- Service fees	104,962	89,111	104,962	89,111
- Commissions-customer services	32,786	26,219	32,786	26,219
Net fee and commission income	388,602	311,501	386,423	302,812
Fair value gains or losses				
- (Loss)/gains on bond trading	(405)	1,245	(405)	1,245
- Net loss arising on financial assets designated at fair value through profit or loss	(6,380)	—	(6,380)	—
- Net gain arising on financial liabilities designated at fair value through profit or loss	6,263	—	6,263	—
- Foreign exchange trading income	104,083	82,220	104,083	82,220
Fair value gains or losses	103,561	83,465	103,561	83,465
Other non-interest income				
Non-financial assets and liabilities				
- (Loss)/gain on sale of property and equipment	71	(161)	71	(161)
- Dividend received from an associate company	—	—	1,366	1,184
- Other non-interest income	12,286	13,507	10,097	8,192
	504,520	408,312	501,518	395,492

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
5. OPERATING EXPENSES				
Auditors' remuneration				
Audit fees				
- current year	2,947	2,413	2,947	2,413
- prior year	—	(174)	—	(174)
	2,947	2,239	2,947	2,239
Depreciation				
Buildings	6,066	3,459	5,049	3,007
Motor vehicles	583	718	583	718
Furniture and equipment	10,086	8,046	10,086	8,046
	16,735	12,223	15,718	11,771
Directors' remuneration				
For services as directors	1,938	1,597	1,938	1,597
For other services	2,427	2,609	2,427	2,609
	4,365	4,206	4,365	4,206
Exchange losses on revaluation	194	711	194	711
Operating lease charges				
Premises	17,793	17,753	18,460	18,350
- Contractual	17,513	16,453	18,180	17,050
- Straight line lease rental adjustment	280	1,300	280	1,300
Equipment	6,383	4,030	6,383	4,030
	24,176	21,783	24,843	22,380
Other operating expenses				
Advertising and marketing	23,860	22,653	23,860	22,600
Communication	16,099	14,482	16,099	14,481
Computer expenditure	15,233	12,295	15,230	12,289
Property maintenance	31,710	25,613	31,647	25,574
Stationery, storage and postage	18,707	15,773	18,707	15,691
Service fees	12,464	9,841	12,443	8,954
Service fees paid to Group	45,806	22,159	45,626	21,593
Write down of investments	—	—	—	1,193
Other	18,164	19,740	17,990	19,575
	182,043	142,556	181,602	141,950
Professional fees	7,178	8,662	7,140	8,650
Total operating expenses	237,638	192,380	236,809	191,907

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
6. EMPLOYEE BENEFITS EXPENSES				
Salaries, wages and allowances	183,349	139,832	182,789	138,830
Contributions to pension, medical and other staff funds	19,847	16,856	19,752	16,759
Share based payments expense - equity settled	1,315	3,630	1,315	3,630
Share based payments expense - cash settled	3,367	1,255	3,367	1,255
Leave pay expense	6,702	6,649	5,928	6,649
Other	11,534	12,242	11,556	12,242
	226,114	180,464	224,707	179,365

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

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
7. TAXATION				
Indirect taxation				
Value added tax	6,844	6,014	6,600	6,006
Direct taxation				
Income taxation expense				
Current tax at 15%	90,125	72,576	89,774	70,637
Additional company tax at 10%	59,945	48,385	59,849	47,091
WHT on dividend received	203	—	203	—
Under/(over) provision in prior years	2,201	(3,567)	1,878	(3,567)
Withholding tax on dividends	(86,704)	(33,927)	(86,704)	(33,927)
	65,770	83,467	65,000	80,234
Deferred taxation				
Charge to income statement				
- current year	7,025	12,347	7,023	11,723
- effect of change in tax rate	(8,045)	—	(8,714)	—
- prior year (over)/under provision	(853)	108	(285)	108
	(1,873)	12,455	(1,976)	11,831
Total taxation expense per income statement	63,897	95,922	63,024	92,065

7. TAXATION (continued)

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
Additional company taxation				
Opening	42,875	28,417	40,966	27,802
	(42,875)	14,458	(40,966)	13,164
Arising during the year	59,991	48,385	59,848	47,091
Forfeited at end of the year	(16,162)	—	(14,110)	—
Utilised against withholding tax on dividends in current year	(86,704)	(33,927)	(86,704)	(33,927)
Available for set off against withholding tax on future dividends payable	—	42,875	—	40,966
Reconciliation of taxation charge				
Profit before direct taxation	637,737	531,972	635,942	518,434
Taxation at current rate on profit for the year	159,435	132,993	158,986	129,609
Withholding tax on dividends	(86,704)	(33,927)	(86,704)	(33,927)
Overprovision of current tax in prior years	2,201	(3,567)	1,878	(3,567)
Effect of change in tax rate	(8,045)	—	(8,714)	—
Tax differential on dividend income	(137)	—	(137)	—
Underprovision of deferred tax in prior years	(853)	108	(285)	108
Disallowed expenses	(2,000)	315	(2,000)	(158)
Total tax expense per income statement	63,897	95,922	63,024	92,065
Deferred taxation				
Balance at the beginning of the year	100,648	79,071	95,289	77,900
Temporary differences for the year	7,025	12,347	7,023	11,723
Prior year (over)/underprovison	—	(65)	—	123
Deferred tax as a result of rate change	(9,945)	—	(9,945)	—
Deferred tax on valuation of available-for-sale investments	622	1,828	622	1,828
Transfer to revaluation reserve	—	(28)	—	(18)
Deferred tax arising on revaluation of properties	—	7,495	—	3,733
Balance at the end of the year	98,350	100,648	92,989	95,289

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
7. TAXATION (continued)				
Deferred taxation (continued)				
The balance comprises:				
Accelerated capital allowances	99,743	99,550	99,119	98,926
Revaluation surplus	7,025	8,648	3,967	4,884
Other temporary differences	(8,418)	(7,550)	(10,097)	(8,521)
	98,350	100,648	92,989	95,289

8. EARNINGS PER SHARE

Basic earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the 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 2011 P'000	Group 30 June 2010 P'000
Earnings attributable to equity holders	573,840	436,050
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)	22.56	17.14

8. EARNINGS PER SHARE (continued)

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 2011 P'000	Group 30 June 2010 P'000	Company 30 June 2011 P'000	Company 30 June 2010 P'000
Earnings attributable to equity holders	573,840	436,050		
Weighted average number of ordinary shares in issue (thousands)	2,545,135	2,549,068		
Basic diluted earnings per share (thebe)	22.55	17.11		

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 75 to page 93 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:

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
9. ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY (continued)				
ASSETS				
Loans and receivables				
Cash and short-term funds	1,706,573	1,201,491	1,706,573	1,201,491
Advances to banks	361,178	—	361,178	—
Advances to customers	6,985,265	5,803,009	6,992,265	5,810,009
Due from related companies	13,133	5,075	13,133	5,075
Accounts receivable	170,502	57,719	163,676	52,438
Designated at fair value through profit or loss				
Advances to customers	185,577	—	185,577	—
Available-for-sale financial assets				
Investment securities	3,480,757	4,775,469	3,480,757	4,775,469
Held for trading				
Investment securities	16,105	170,590	16,105	170,590
Derivative financial instruments	2,996	758	2,996	758
Non-financial assets				
Current taxation	4,622	1,041	4,305	2,235
Investment in associate company	3,058	3,151	955	955
Investment in subsidiary companies	—	—	47,244	47,244
Property and equipment	202,200	187,306	170,733	154,845
Goodwill	26,963	26,963	—	—
Total assets	13,158,929	12,232,572	13,145,497	12,221,109
LIABILITIES				
Financial liabilities at amortised cost				
Amounts due to other banks	215,186	4,000	215,186	4,000
Deposit and current accounts	10,553,984	10,304,632	10,553,984	10,304,632
Long term liabilities	244,971	207,827	244,971	207,827
Accrued interest payable	36,696	45,661	37,467	45,661
Due to related companies	140,031	50,209	170,803	78,626
Creditors and accruals	616,691	336,647	608,554	332,012
Provisions	42,646	23,830	42,646	23,830
Designated at fair value through profit or loss				
Deposits to customers	43,414	—	43,414	—
Held for trading				
Derivative financial instruments	18,794	559	18,794	559
Non-financial liabilities				
Deferred taxation	98,350	100,648	92,989	95,289
Total liabilities	12,010,763	11,074,013	12,028,808	11,092,436

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000

10. CASH AND SHORT TERM FUNDS

Coins and bank notes	120,218	123,132	120,218	123,132
Money at call and short notice				
- related companies (note 15)	432,600	292,803	432,600	292,803
- other banks	232,050	303,526	232,050	303,526
Balances with Bank of Botswana - Mandatory reserve balance	624,135	472,695	624,135	472,695
Balances with Bank of Botswana - Statutory account balance	1,070	(1,665)	1,070	(1,665)
Balances with other banks				
- related companies (note 15)	107,500	—	107,500	—
- other banks	189,000	11,000	189,000	11,000
	1,706,573	1,201,491	1,706,573	1,201,491
The carrying value of cash and short term funds approximates the fair value.				
Amounts denominated in foreign currencies included in above balances	783,709	594,937	783,709	594,937
Mandatory reserve balances	624,135	472,695	624,135	472,695

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 2011

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.

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 fair value 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.

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

11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	Assets		Liabilities	
	Notional P'000	Fair Value P'000	Notional P'000	Fair Value P'000
2011				
Currency derivatives:				
Currency options	203,345	2,105	203,345	2,105
Trading derivatives	181,860	891	73,244	313
Interest rate derivatives:				
Interest rate swaps	—	—	245,790	16,376
	385,205	2,996	522,379	18,794
Related party derivatives included in above balances				
Currency options	102,092	1,104	101,253	1,001
Trading derivatives	31,636	27	73,244	313
Interest rate swaps	—	—	245,790	16,376
	133,728	1,131	420,287	17,690
2010				
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 options				
Trading derivatives	11,560	295	12,842	72
	11,560	295	12,842	72

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
12. ADVANCES TO CUSTOMERS				
Sector analysis				
Agriculture	99,500	44,838	99,500	44,838
Building and property development	287,027	259,689	287,027	259,689
Business and trade	2,704,024	2,517,106	2,711,024	2,524,106
Government and public authorities	—	2	—	2
Individuals	3,467,824	2,597,869	3,467,824	2,597,869
Manufacturing	328,226	341,716	328,226	341,716
Mining and quarrying	240,651	51,223	240,651	51,223
Transport and communications	184,273	112,170	184,273	112,170
Gross advances	7,311,525	5,924,613	7,318,525	5,931,613
Contractual interest suspended	(25,257)	(26,340)	(25,257)	(26,340)
Gross advances after contractual interest suspended	7,286,268	5,898,273	7,293,268	5,905,273
Less: impairment of advances (Note 13)	(115,426)	(95,264)	(115,426)	(95,264)
Net advances	7,170,842	5,803,009	7,177,842	5,810,009
Category analysis				
Overdrafts and managed accounts debtors	1,025,703	1,146,519	1,032,703	1,153,520
Personal loans	2,087,083	1,068,982	2,087,083	1,068,982
Lease payments receivable	570,742	493,599	570,742	493,599
Suspensive sale debtors	786,629	766,099	786,629	766,099
Property loans	2,613,560	2,273,493	2,613,560	2,273,493
Other loans and advances	227,808	175,921	227,808	175,920
Gross advances	7,311,525	5,924,613	7,318,525	5,931,613
Contractual interest suspended	(25,257)	(26,340)	(25,257)	(26,340)
Gross advances after contractual interest suspended	7,286,268	5,898,273	7,293,268	5,905,273
Less: impairment of advances (Note 13)	(115,426)	(95,264)	(115,426)	(95,264)
Net advances	7,170,842	5,803,009	7,177,842	5,810,009

12. ADVANCES TO CUSTOMERS (continued)

	Group 30 June 2011 P'000	Group 30 June 2010 P'000	Company 30 June 2011 P'000	Company 30 June 2010 P'000
Maturity analysis				
Maturity within one year	554,901	1,425,732	561,901	1,432,732
Maturity between one and five years	2,355,722	1,599,638	2,355,722	1,599,638
Maturity more than five years	4,400,902	2,899,243	4,400,902	2,899,243
	7,311,525	5,924,613	7,318,525	5,931,613
Included in the above advances are instalment loans maturing within:				
- one year	86,492	77,951	86,492	77,951
- one to five years	1,270,879	1,181,747	1,270,879	1,181,747
	1,357,371	1,259,698	1,357,371	1,259,698
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	5,156	5,628	5,156	5,628

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.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

	2011		
	Total impairment P'000	Retail P'000	Corporate & commercial P'000
13. IMPAIRMENT OF ADVANCES (continued)			
Group and Company			
Specific impairment			
At the beginning of the year	63,371	60,267	3,104
Amounts written off	(40,049)	(39,899)	(150)
	23,322	20,368	2,954
Impairment loss recognised in the income statement	57,081	57,045	36
New and increased provision	61,245	61,207	38
Recoveries of bad debts previously written off	(4,164)	(4,162)	(2)
At the end of the year	80,403	77,413	2,990
Present valuation of security adjustment			
At the beginning of the year	12,320	12,015	305
Unwinding of discounted present value of security on non-performing loans (Note 2)	1,000	975	25
At the end of the year	13,320	12,990	330
Portfolio impairment			
At the beginning of the year	14,243	12,423	1,820
Charge to the income statement	2,137	1,910	227
At the end of the year	16,380	14,333	2,047
IBNR impairment			
At the beginning of the year	5,330	4,895	435
Credit to income statement	(7)	(7)	—
At the end of the year	5,323	4,888	435
Total charge to the income statement	**59,211**	**58,948**	**263**
Total impairment at the end of the year	**115,426**	**109,624**	**5,802**

13. IMPAIRMENT OF ADVANCES (continued)

Group and Company

	2010 Total impairment P'000	2010 Retail P'000	2010 Corporate & 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 2011

13. IMPAIRMENT OF ADVANCES (continued)

Non-performing advances – loans and receivables

Group and Company

	Total including interest suspended P'000	Security held P'000	Contractual Interest suspended P'000	Specific Impairment P'000
Sector analysis – 2011				
Agriculture	252	75	24	153
Building and property development	2,709	811	263	1,635
Individuals	79,749	47,485	15,399	16,865
Manufacturing and commerce	28,288	8,471	2,747	17,070
Transport and communication	3,652	1,093	354	2,205
Other advances	66,619	17,674	6,470	42,475
Total non-performing advances – 30 June 2011	181,269	75,609	25,257	80,403
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
Category analysis – 2011				
Overdrafts and managed accounts	115,745	50,324	16,993	48,428
Personal loans	24,456	—	2,995	21,461
Suspensive and instalment sale debtors	5,625	82	629	4,914
Property loans	30,354	25,203	4,473	678
Other advances	5,089	—	167	4,922
Total non-performing advances – 30 June 2011	181,269	75,609	25,257	80,403
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

	Group and Company	
	30 June 2011 P'000	30 June 2010 P'000
13. IMPAIRMENT OF ADVANCES (continued)		
Contractual interest suspended		
At the beginning of the year	26,340	27,460
Written off during the year	(15,231)	(10,298)
Suspended during the year	14,148	9,178
At the end of the year	25,257	26,340

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
14. INVESTMENT SECURITIES				
Available-for-sale				
Bank of Botswana Certificates	3,449,727	4,747,264	3,449,727	4,747,264
Equity investments	31,030	28,205	31,030	28,205
	3,480,757	4,775,469	3,480,757	4,775,469
Held for trading				
Government and parastatal bonds	16,105	170,590	16,105	170,590
	3,496,862	4,946,059	3,496,862	4,946,059

P684,838,653 (2010: P945,391,000) 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 2011

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 for common control with, the entity (this includes parent companies, subsidiaries and fellow subsidiaries) (Refer to Note 18 for 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 EMA 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 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
Due from related parties				
Rand Merchant Bank Limited (Ireland)	234,610	292,901	234,610	292,901
First National Bank Limited - South Africa	313,023	—	313,023	—
First National Bank Holdings (Botswana) Limited	5,600	4,977	5,600	4,977
	553,233	297,878	553,233	297,878
Less money at call and short notice - related companies (Note 10)	(432,600)	(292,803)	(432,600)	(292,803)
Less balances with other banks (Note 10)	(107,500)	—	(107,500)	—
	13,133	5,075	13,133	5,075

15. RELATED PARTIES (continued)

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
Due to related companies - current liabilities				
Rand Merchant Bank Limited (Ireland)	28,175	34,297	28,175	34,297
Financial Services Company of Botswana (Proprietary) Limited	—	—	2,665	2,369
Financial Services Properties (Proprietary) Limited	—	—	(47)	(47)
First National Insurance Agency (Proprietary) Limited	—	—	27,142	25,083
First Funding (Proprietary) Limited	—	—	1,000	1,000
Plot Four Nine Seven Two (Proprietary) Limited	—	—	12	12
First National Bank Limited - South Africa	111,856	15,912	111,856	15,912
	140,031	50,209	170,803	78,626
Due to related companies - creditors and accruals				
Rand Merchant Bank (South Africa) (Note 24)	—	250,000	—	250,000

Refer to Note 21 for amounts included in deposits from customers.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
15. RELATED PARTIES (continued)				
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)	1,998	2,246	1,998	2,246
First National Bank, a division of FirstRand Bank Limited - South Africa	3,312	—	3,312	—
	5,310	2,246	5,310	2,246
Interest expenditure				
First National Bank Holdings (Botswana) Limited	—	3,337	—	3,337
Rand Merchant Bank Limited (Ireland)	53	123	53	123
Rand Merchant Bank (South Africa)	11,944	26,249	11,944	26,249
	11,997	29,709	11,997	29,709
Non-interest income:				
Dividend income - Finance House (Proprietary) Limited	—	—	1,366	1,184
Operating expenses:				
Rent paid - Subsidiary companies	—	—	667	667
Rent paid - Finance House (Proprietary) Limited	5,958	5,112	5,958	5,112
Service level agreement costs - FirstRand Bank Limited	66,624	48,755	66,624	48,755
	72,582	53,867	73,249	54,534
Key Management personnel				
Compensation paid to key management personnel				
Share-based payments	54	233	54	233
Salaries and allowances	7,539	6,086	7,539	6,086
Other employee benefits	112	190	112	190
Total short term benefits	7,705	6,509	7,705	6,509
Pension contribution	335	404	335	404

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000

15. RELATED PARTIES (continued)

Advances				
Personal loans	**138**	135	**138**	135
Overdrafts	**1,224**	20	**1,224**	20
Credit card	**484**	220	**484**	220
Instalment finance	**1,670**	2,411	**1,670**	2,411
Property loans	**3,407**	6,699	**3,407**	6,699
Total advances	**6,923**	9,485	**6,923**	9,485

No impairments have been recognised in respect of the above advances (2010: 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 P4,615,000 (2010: P9,076,000). Instalment finance loans are collaterised by motor vehicles with a total fair value of P1,731,000 (2010: P2,500,000).

Personal loans, overdrafts and credit card balances are unsecured.

16. ACCOUNTS RECEIVABLE

Items in transit	**109,586**	23,333	**109,586**	23,333
Other sundry debtors	**60,630**	34,100	**53,804**	28,819
School debentures	**286**	286	**286**	286
	170,502	57,719	**163,676**	52,438

The above carrying value of accounts receivable approximates their fair value.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
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	2,103	2,196	—	—
	3,058	3,151	955	955
Profit for the year	1,936	2,163		
	1,273	2,298		
Share of profit for the year	945	1,056		
Share of prior year profits	328	1,242		
Dividends received for the year	(1,366)	(1,184)		
Retained (loss)/earnings for the year	(93)	1,114		
Share of retained earnings at the beginning of the year	2,196	1,082		
Total retained earnings	2,103	2,196		
Shares at cost	955	955		
Total carrying value	3,058	3,151		
Group's share of statement of financial position				
Total assets	7,030	7,407		
Total liabilities	(764)	(950)		
Net assets	6,266	6,457		
Investment property	2,688	2,880		
Other assets/(liabilities)-Net	370	271		
	3,058	3,151		
Fair value of the investment in the associate company at directors valuation	36,200	36,200		

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% (2010: 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 (Proprieatry) 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 statements date of the Group, hence management accounts as at 30 June are used instead.

18. INVESTMENT IN SUBSIDIARY COMPANIES

Company	Nature of business	30 June 2011 P'000 Carrying amount	30 June 2010 P'000 Carrying amount
Financial Services Company of Botswana Limited	Property owning company	12,500	12,500
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	47,244

All subsidiary companies are wholly owned, incorporated in Botswana and are not listed on the Botswana Stock Exchange. Premium Credit Botswana (Proprietary) Limited 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.

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 2011

	Freehold & leasehold land & buildings P'000	Leasehold improvements P'000	Motor vehicles P'000	Furniture & equipment P'000	Total P'000
19. PROPERTY AND EQUIPMENT					
Group					
2011					
Cost or valuation					
Balance at 1 July 2010	110,202	45,544	4,027	73,803	233,576
Additions	1,736	10,781	515	18,597	31,629
Disposals	—	—	(217)	(153)	(370)
Balance at 30 June 2011	111,938	56,325	4,325	92,247	264,835
Accumulated depreciation					
Balance at 1 July 2010	368	14,032	2,883	28,987	46,270
Charge for the year	2,614	3,452	583	10,086	16,735
Disposals	—	—	(217)	(153)	(370)
Balance at 30 June 2011	2,982	17,484	3,249	38,921	62,636
Carrying amount as at 30 June 2011	108,956	38,841	1,076	53,327	202,200
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

19. PROPERTY AND EQUIPMENT (continued)

		30 June 2011 P'000	30 June 2010 P'000
Cost or valuation consists of:			
Freehold land and buildings	- cost	76,348	74,612
	- valuation adjustment	31,684	31,684
Leasehold land and buildings	- cost	1,105	1,105
	- valuation adjustment	2,825	2,825
Leasehold land improvements	- cost	56,325	45,543
Motor vehicles	- cost	4,325	4,028
Furniture and equipment	- cost	92,247	73,849
Total cost or valuation		264,859	233,646
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		67,115	67,315

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 2011

19. PROPERTY AND EQUIPMENT (continued)

	Freehold & leasehold land & buildings P'000	Leasehold improvements P'000	Motor vehicles P'000	Furniture & equipment P'000	Total P'000
Company					
2011					
Cost or valuation					
Balance at 1 July 2010	78,153	44,301	4,027	73,804	200,285
Additions	1,736	10,781	515	18,574	31,606
Disposals	—	—	(217)	(369)	(586)
Balance at 30 June 2011	79,889	55,082	4,325	92,009	231,305
Accumulated depreciation					
Balance at 1 July 2010	—	13,570	2,883	28,987	45,440
Charge for the year	1,381	3,668	583	10,086	15,718
Disposals	—	—	(217)	(369)	(586)
Balance at 30 June 2011	1,381	17,238	3,249	38,704	60,572
Carrying amount as at 30 June 2011	78,508	37,844	1,076	53,305	170,733
Company					
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	28,987	45,440
Carrying amount as at 30 June 2010	78,153	30,731	1,144	44,817	154,845

19. PROPERTY AND EQUIPMENT (continued)

		30 June 2011 P'000	30 June 2010 P'000
Cost or valuation consists of:			
Freehold land and buildings	- cost	62,164	60,428
	- valuation adjustment	17,725	17,725
Leasehold improvements	- cost	55,082	44,301
Motor vehicles	- cost	4,325	4,027
Furniture and Equipment	- cost	92,009	73,851
Total cost or valuation		231,305	200,332
Had the Company's land and buildings been measured on a historical cost basis, their carrying amount would have been:			
Freehold and Leasehold land and buildings		55,765	55,583

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 2011

	30 June 2011 P'000	30 June 2010 P'000
20. GOODWILL		
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 4.0% (2010: 5.0%) for the following three years. The discount rate used is 15% (2010: 20%) and the period is 3 years.

21. DEPOSITS FROM CUSTOMERS

	30 June 2011 P'000	30 June 2010 P'000
Group and Company		
Group and Company		
Current and managed accounts		
- financial institutions and other customers	2,175,383	2,032,049
Savings accounts	771,188	696,036
Call and term deposits	7,650,827	7,576,547
	10,597,398	10,304,632

Included in the call and term deposits is a balance of P85,131,644 (2010: P81,885,273) relating to First National Bank Holdings (Botswana) (Proprietary) Limited.

	30 June 2011 P'000	30 June 2010 P'000
Maturity analysis		
Withdrawal on demand	6,857,811	6,364,584
Maturing within one year	3,591,949	3,940,048
Maturing two to five years	147,638	—
	10,597,398	10,304,632

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

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
22. DEPOSITS FROM BANKS				
Unsecured and payable on demand	215,186	4,000	215,186	4,000
Included in this balance is an amount of P75,202,666 relating to FirstRand Bank Limited (2010: P4,000,000).				
23. LONG TERM LIABILITIES				
Public Debt Service Fund	61,018	66,563	61,018	66,563
Less: payable within 12 months included in creditors and accruals (Note 24)	(9,461)	(8,736)	(9,461)	(8,736)
	51,557	57,827	51,557	57,827
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
less: payable within 12 months included in creditors and accruals	—	(250,000)	—	(250,000)
	—	—	—	—

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
23. LONG TERM LIABILITIES (continued)				
Botswana Insurance Fund Managers (BIFM) Capital (Proprietary) Limited				
15 year zero coupon deposit	43,414	—	43,414	—
Negotiable Certificate of Deposit	50,000	50,000	50,000	50,000
Total long term liabilities	244,971	207,827	244,971	207,827

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 (2010: P7,089,540), inclusive of interest. The loans have maturities ranging from June 2012 to February 2018.

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 loan from Rand Merchant Bank (South Africa) is unsecured, bears interest at a fixed rate of 10.5% per annum. The loan was repaid during the year.

The 15 year zero coupon deposit from BIFM bears interest at a fixed rate of 8.98% and matures in 2026. Repayments of P50 million will be made in 2023, 2024, 2025, and 2026 respectively. The loan is carried at fair value.

The negotiable certificate of deposits bear interest at fixed rate of 8.90% per annum and have maturities of March 2012 and March 2015. Interest is paid semi-annually.

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
24. CREDITORS AND ACCRUALS				
Accounts payable	1,561	14,013	1,561	14,014
Short-term portion of long term loans (Note 23)	9,461	8,736	9,461	8,736
Other creditors and accruals	161,810	21,424	153,673	16,788
Items in transit	438,396	37,645	438,396	37,645
Deferred lease rental liability	2,696	2,416	2,696	2,416
Audit fees	2,767	2,413	2,767	2,413
Loan repayable within twelve months (Note 23)	—	250,000	—	250,000
	616,691	336,647	608,554	332,012

Included in creditors and accruals is a balance of P284,274,947 relating to uncleared dividend payment. The carrying value of creditors and accruals approximates fair value.

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
25. PROVISIONS				
Leave pay				
At the beginning of the year	14,204	10,213	14,204	10,213
Additional provisions recognised	6,701	6,450	6,701	6,450
Utilised	(3,142)	(2,459)	(3,142)	(2,459)
At the end of the year	17,763	14,204	17,763	14,204
Bonus provisions				
At the beginning of the year	9,626	14,528	9,626	14,528
Additional provisions recognised	36,432	19,851	36,432	19,851
Utilised	(21,175)	(24,753)	(21,175)	(24,753)
At the end of the year	24,883	9,626	24,883	9,626
Total provisions	42,646	23,830	42,646	23,830

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 2011

	Group	
	30 June 2011 P'000	30 June 2010 P'000
26. CAPITAL ADEQUACY		
Core capital		
Stated capital	**51,088**	51,088
Retained earnings - Group and associate company	**987,382**	923,463
	1,038,470	974,551
Less: Goodwill	**(26,963)**	(26,963)
	1,011,507	947,588
Supplementary capital		
Revaluation reserves subject to 50% risk adjustment	**18,352**	19,002
Portfolio and IBNR provisions (including present value of security adjustment)	**35,023**	31,893
Subordinated Unsecured Registered Bonds (Note 23)	**100,000**	100,000
	153,375	150,895
Total qualifying capital	**1,164,882**	1,098,483
Risk adjusted assets		
- balance sheet items	**6,481,055**	5,487,827
- off-balance sheet items	**927,952**	820,989
	7,409,007	6,308,816
Capital adequacy ratios (%)	**15.72**	17.41
Core capital (%) (Basel Committee guide: minimum 4%)	**13.65**	15.02
Supplementary capital (%)	**2.07**	2.39
Total (%)	**15.72**	17.41
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 accordnace 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.

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000

27. POST RETIREMENT FUND LIABILITIES

The Group had no post retirement liability as at the reporting date (2010: 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.

28. STATED CAPITAL

	Group 30 June 2011 P'000	Group 30 June 2010 P'000	Company 30 June 2011 P'000	Company 30 June 2010 P'000
2,563,700,000 ordinary shares (2010: 2,563,700,000 ordinary shares)	58,088	58,088	58,088	58,088
Less: 20,000,000 (2010: 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.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
29. RESERVES				
Non-distributable reserves				
Surplus on revaluation of properties				
Balance at the beginning of the year	38,003	11,983	21,287	6,488
Transfer to retained earnings	(2,819)	(114)	(1,201)	—
Transfer (to)/from deferred taxation	—	28	—	(18)
Arising on revaluation of properties	—	33,601	—	18,550
Deferred tax liability arising on revaluation	—	(7,495)	—	(3,733)
Effect of change in tax rate	1,520	—	851	—
Balance at the end of the year	36,704	38,003	20,937	21,287
Retained earnings in associate company				
Balance at the beginning and end of the year	2,196	1,082	—	—
Transfer (to)/ from retained earnings	(92)	1,114	—	—
	2,104	2,196	—	—
Available-for-sale reserve				
Balance at the beginning of the year	8,752	6,397	8,752	6,397
Fair valuation of available-for-sale investment	2,825	4,183	2,825	4,183
Deferred tax on valuation adjustments	(622)	(1,828)	(622)	(1,828)
Effect of change in tax rate	380	—	380	—
Balance at the end of the year	11,335	8,752	11,335	8,752
Total other non-distributable reserves	50,143	48,951	32,272	30,039
Equity-settled employee benefits reserve				
Balance at the beginning of the year	9,068	5,438	9,068	5,438
Share-based payment expense during the year	1,315	3,630	1,315	3,630
Balance at the end of the year	10,383	9,068	10,383	9,068
Retained earnings				
Balance at the beginning of the year	921,267	729,769	903,293	720,476
Transfer (to)/from associate company's reserves	92	(1,114)	—	—
Transfer from revaluation reserve	2,819	114	1,201	—
Profit for the year	573,840	436,050	572,918	426,369
Interim dividend paid	(128,185)	(115,367)	(128,185)	(115,367)
Special dividend paid	(333,281)	—	(333,281)	—
Transfer to dividend reserve	(51,274)	(128,185)	(51,274)	(128,185)
Balance at the end of the year	985,278	921,267	964,672	903,293
Total reserves	1,045,804	979,286	1,007,327	942,400

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000

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

	Group 30 June 2011 P'000	Group 30 June 2010 P'000	Company 30 June 2011 P'000	Company 30 June 2010 P'000
Profit before direct tax	637,737	531,972	635,942	518,434
Adjusted for:				
- depreciation of property and equipment	16,735	12,223	15,718	11,771
- share of profit of associate company	(1,273)	(2,298)	—	—
- dividends from associate company	—	—	(1,366)	(1,184)
- straight-line adjustment of lease rentals	280	1,300	280	1,300
- impairment losses on loans and advances	59,211	43,420	59,211	43,420
- (gain) / loss on sale of property and equipment	(71)	161	(71)	161
- unrealised gain on derivative financial instruments	1,887	(1,355)	1,887	(1,355)
- net loss on financial instruments held at fair value through profit or loss	(117)	—	(117)	—
- share-based payment expense - equity settled	1,315	3,630	1,315	3,630
- share-based payment expense - cash settled	3,367	1,255	3,367	1,255
- write down of investments	—	—	—	1,193
	719,072	590,308	716,167	578,625

31. TAXATION PAID

	Group 30 June 2011 P'000	Group 30 June 2010 P'000	Company 30 June 2011 P'000	Company 30 June 2010 P'000
Amounts overpaid at the beginning of the year	(1,041)	7,494	(2,235)	5,910
Charged to the income statement	65,770	83,467	65,000	80,234
Amounts overpaid at the end of the year	4,622	1,041	4,305	2,235
Cash amounts paid	69,351	92,002	67,070	88,379

32. CURRENT INCOME TAXATION (ASSET)/LIABILITY

	Group 30 June 2011 P'000	Group 30 June 2010 P'000	Company 30 June 2011 P'000	Company 30 June 2010 P'000
Opening liability	(1,041)	7,494	(2,235)	5,910
Charged to the income statement	65,770	83,467	65,000	80,234
Cash amounts paid	(69,351)	(92,002)	(67,070)	(88,379)
Closing (asset)/liability	(4,622)	(1,041)	(4,305)	(2,235)

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
33. INCREASE/(DECREASE) IN DEPOSITS AND CURRENT ACCOUNTS				
Increase/ (decrease) in current and managed account deposits	143,334	320,301	143,334	320,301
(Decrease)/increase in savings deposits	75,152	(105,126)	75,152	(105,126)
Increase in call and term deposits	74,280	(463,242)	74,280	(463,242)
Fair value adjustment - zero coupon deposit	17,106	—	17,106	—
	309,872	(248,067)	309,872	(248,067)
34. INCREASE IN ADVANCES TO CUSTOMERS				
Net amount outstanding at the beginning of the year	5,803,009	4,643,241	5,810,009	4,650,242
Impairment of advances	(59,211)	(43,420)	(59,211)	(43,420)
Net amount outstanding at the end of the year	(7,170,842)	(5,803,009)	(7,177,842)	(5,810,009)
Fair value adjustment - Morupule loan	847	—	847	—
	(1,426,197)	(1,203,188)	(1,426,197)	(1,203,187)
35. DIVIDENDS PAID				
Previous year's final dividend paid during the year	128,185	115,367	128,185	115,367
Interim dividend paid	128,185	115,367	128,185	115,367
Special dividend paid	333,281	—	333,281	—
Total dividends paid to shareholders	589,651	230,734	589,651	230,734
36. CASH AND CASH EQUIVALENTS				
Cash and short-term funds (Note 10)	1,706,573	1,201,491	1,706,573	1,201,491
Bank of Botswana Certificates (Note 14)	3,449,727	4,747,264	3,449,727	4,747,264
	5,156,300	5,948,755	5,156,300	5,948,755

37. CONTINGENCIES AND COMMITMENTS

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
Contingencies	1,396,344	1,065,636	1,396,344	1,065,636
The above contingencies represent guarantees and letters of credit.				
Commitments				
Undrawn commitments to customers	1,551,262	927,086	1,551,262	927,086
Capital commitments				
Capital expenditure approved by the Directors				
- not yet contracted for	49,105	27,210	49,105	27,210
- contracted for	230,000	—	230,000	—
	279,105	27,210	279,105	27,210

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.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

	Group		Company	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
37. CONTINGENCIES AND COMMITMENTS (continued)				
Operating lease commitments				
Payable within one year	4,873	9,573	4,873	9,573
Payable within two to five years	15,725	18,660	15,725	18,660
	20,598	28,233	20,598	28,233

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 (2010: 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 2011 the Group acted as a trustee in respect of Botswana Government bonds amounting to P482,436,362 (2010:P65,776,000), treasury bills amounting to P140,372,023 (2010: P1,800,000), retail bonds amounting to Pnil (2010:P26 228,100) and equities amounting to P1,170,079,158 (2010: P24,366, 435). These assets were 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.

39. FINANCIAL RISK MANAGEMENT

The Group's business involves taking on risks in a targeted manner and managing them 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 2011 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 2011 P'000	30 June 2010 P'000
Geographical distribution		
Botswana	12,387,179	11,608,367
Southern Africa	388,901	115,582
Rest of the world	382,849	508,623
	13,158,929	12,232,572
Distribution by sector		
Banks including Bank of Botswana	4,305,912	5,534,485
Government and parastatal organisations	16,105	170,590
Individuals	3,467,824	2,597,869
Business/trading	2,704,024	2,517,106
Others	2,665,064	1,412,522
	13,158,929	12,232,572

Economic sector risk concentrations in respect of advances are set out in Note 12.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Credit Risk Management (continued)

Collateral pledged

At the end of the current year the Group had no borrowings with Bank of Botswana (2010: nil). As a result no collateral had been pledged.

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 counterparties.

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.

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 2011				
	Year to date average exposure (after interest in suspense) P'000	Total exposure (after interest 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	1,012,756	1,410,073	552,818	—	857,255
- Money at call and short notice	638,419	552,818	552,818	—	—
- Balances with other banks	374,337	857,255	—	—	857,255
Advances to banks		361,178			361 178
Advances to customers - (after interest in suspense)	7,161,879	7,170,842	5,226,856	1,943,986	
Investment securities - debt	3,449,726	3,465,832			3,465,832
Accounts receivable	89,371	170,502	—	—	170,502
Derivatives	2,054	2,996	—	—	2,996
Related parties	30,322	13,133	—	—	13,133
Exposures not recognised on the statement of financial position					
Financial and other guarantees	1,478,532	1,396,344	624,094	772,250	—
Loan commitments not drawn	1,699,024	1,551,262	—	1,551,262	—
Total	**14,923,664**	**15,180,984**	**6,403,768**	**4,267,498**	**4,509,718**

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Credit Risk Management (continued)

	Group 2010				
	Year to date average exposure (after interest in suspense) P'000	Total exposure (after interest 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 - (after interest in suspense)	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**

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 2011		
	Investment grade P'000	Non-investment grade P'000	Total neither past due nor impaired P'000
Home loans	1,611,695	690,727	2,302,422
Credit Cards	122,274	52,403	174,677
Personal loans	1,411,598	604,970	2,016,568
Overdrafts	636,971	272,987	909,958
Wesbank	526,652	225,708	752,360
Total	**4,309,190**	**1,846,796**	**6,155,985**
		2010	
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**

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

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

39. FINANCIAL RISK MANAGEMENT (continued)

39.1 Credit Risk Management (continued)

Credit quality

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

			Group 2011		
Credit quality of financial assets other than advances neither past due nor impaired	Derivatives	Related parties	Other Government and Government guaranteed stock P'000	Cash and short term funds P'000	Accounts receivable P'000
Investment Grade	2,996	13,133	3,465,832	1,706,573	170,502

			Group 2010		
Credit quality of financial assets other than advances neither past due nor impaired	Derivatives	Related parties	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

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.

39.1 Credit Risk Management (continued)

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

	Group 2011					
	Neither past	Past due but not impaired				
Age analysis of arrears of advances	due 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	2,302,422	164,641	29,355	86,788	25,881	2 609 087
Other loans including credit card	174,677	14,782	3,696	29,564	4,922	227,641
Personal loans	2,016,568	18,023	8,010	20,026	21,461	2,084,088
Overdraft	909,958	—	—	—	98,752	1,008,710
WesBank asset finance	752,360	303,005	205,428	90,953	4,996	1,356,742
Total	**6,155,985**	**500,451**	**246,489**	**227,331**	**156,012**	**7,286,268**

	Group 2010					
	Neither past	Past due but not impaired				
Age analysis of arrears of advances	due 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**

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 2011

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 (2010: 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 overleaf sets out the currency position as at the year-end.

39.2 Market Risk (continued)

39.2.1 Foreign exchange risk management (continued)

Group

	Assets		Equity and Liabilities	
	30 June 2011 P'000	30 June 2010 P'000	30 June 2011 P'000	30 June 2010 P'000
Distribution by currency				
Botswana Pula	12,941,766	11,349,542	12,603,239	11,461,416
South African Rand	2,902	143,985	78,125	134,491
United States Dollar	185,184	540,406	275,241	452,701
British Pound	72	37,257	36,145	36,487
Euro	10,315	120,303	128,277	111,037
Others	18,690	41,079	37,900	36,440
	13,158,929	12,232,572	13,158,929	12,232,572

The Group is mainly exposed to foreign currency risk on its USD denominated assets and liabilities. The following table details the gains or losses in response 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 2011 P'000	30 June 2010 P'000
Loss arising from a 10% decrease	33,853	(11,187)
Gain arising from a 10% increase	(33,853)	11,187

The above gain/(loss) would affect the income statement.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

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						
2011	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	13,158,930	1,962,385	9,643,966	24,632	57,760	55,556	1,414,631
Total liabilities and equity	13,158,930	5,575,428	3,589,199	212,166	36,435	166,239	3,579,463
Net interest sensitivity gap	—	(3,613,043)	6,054,767	(187,534)	21,325	(110,683)	(2,164,832)
2010							
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)

39. FINANCIAL RISK MANAGEMENT (continued)

39.2.2 Interest rate risk management (continued)

Interest rate sensitivity tests are performed on the Group's statement of financial position and reviewed by the Asset Liability Committee (ALCO). The table below presents the potential gains or losses that could arise if interest rates rise or fall by 100 basis points and 200 basis points:

	Group	
	30 June 2011 P'000	30 June 2010 P'000
100 basis points parallel increase - gains	31,000	16,000
100 basis points parallel decrease - losses	(31,000)	(16,000)
200 basis points parallel increase - gains	62,000	32,000
200 basis points parallel decrease - losses	(62,000)	(32,000)

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:

	Group	
	30 June 2011 P'000	30 June 2010 P'000
Impact of 10% price increase on other comprehensive income - increase	3,103	2,821
Impact of 10% price decrease on other comprehensive income - decrease	(3,103)	(2,821)

Profit for the year ended 30 June 2011 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 2011

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. Any 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.

39.3 Liquidity risk management (continued)

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						
2011	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 sensitive P'000
Total assets	13,158,929	1,962,385	4,083,483	780,361	2,577,142	2,340,928	1,414,630
Total liabilities and equity	13,158,929	5,575,428	3,589,199	212,166	36,435	166,239	3,579,461
Net liquidity gap	—	(3,613,043)	494,284	568,195	2,540,707	2,174,689	(2,164,832)
2010							
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)

Although negatively gapped in the demand bucket, the assets in the 1-3 months bucket are primarily Bank of Botswana certificates which are highly liquid and can be liquidated in times of stress. Further details on the liquidity risk management process are set out in the Risk Report included in the Annual Report.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

39. FINANCIAL RISK MANAGEMENT (continued)

39.3 Liquidity risk management (continued)

The table below has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to settle.

	Group 2011 Term to maturity					
	Call P'000	1 - 3mnths P'000	4 - 12mnths P'000	1 - 5 years P'000	Over 5 years P'000	Total P'000
Amounts due to other banks	215,186	—	—	—	—	215,186
Deposit and current accounts	6,007,573	3,461,416	817,640	379,254	335,859	11,001,741
Derivative financial instruments	1,754	5,262	15,787	105,243	54,347	182,393
Long term loans	—	5,305	38,318	327,858	204,488	575,969
Due to related companies	—	140,031	—	—	—	140,031
Creditors and accruals	—	—	616,691	—	—	616,691
Provisions	—	—	42,646	—	—	42,646
	6,224,513	3,612,014	1,531,081	812,356	594,694	12,774,657

	Group 2010 Term to maturity					
	Call P'000	1 - 3mnths P'000	4 - 12mnths 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

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			
	2011		2010	
	Carrying value P'000	Fair value P'000	Carrying value P'000	Fair value P'000
Assets				
Advances				
Home loans	2,627,510	2,574,961	2,268,783	2,075,990
Credit card	98,047	98,047	171,486	171,486
Personal loans	1,914,717	1,876,423	1,053,381	1,039,370
Overdraft	1,002,359	1,002,359	1,063,792	1,063,792
WesBank asset finance	1,342,632	1,324,321	1,245,567	1,257,817
Total advances at amortised cost	6,985,265	6,876,111	5,803,009	5,608,455
Other				
Accounts receivable	170,502	170,502	57,719	57,719
Total financial assets at amortised cost	7,155,767	7,046,613	5,860,728	5,666,174
Liabilities				
Deposits and current accounts				
Balances from banks and financial institutions (current and managed)	2,091,558	2,091,558	797,131	797,131
Balances from customers (term)	3,726,000	3,703,764	3,524,616	3,513,397
Other deposits (call and savings)	4,779,840	4,779,840	5,982,885	5,982,885
Total deposits and current accounts	10,597,398	10,575,162	10,304,632	10,293,413
Long term liabilities	201,557	245,027	207,827	216,468
Other				
Creditors and accruals	616,691	616,691	336,647	336,647
Total financial liabilities at amortised cost	11,415,646	11,436,880	10,849,106	10,846,528

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

39. FINANCIAL RISK MANAGEMENT (continued)

39.4 Fair value of financial instruments (continued)

(ii) Fair value hierachy

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.

39.4 Fair value of financial instruments (continued)

	Group 2011			
	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Financial assets held for trading				
- Investment securities	—	16,105	—	16,105
- Derivative financial instruments	—	2,996	—	2,996
Designated at fair value through profit or loss				
- Term loan	—	185,577	—	185,577
Available for sale financial assets				
- Investment securities	31,030	3,449,727	—	3,480,757
Total assets	31,030	3,654,405	—	3,685,435
Financial liabilities held for trading				
- Derivative financial instruments	—	18,794	—	18,794
Designated at fair value through profit or loss				
- Zero coupon deposit	—	—	43,414	43,414
Total liabilities	—	18,794	43,414	62,208

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

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.

Interest rate swaps are valued by determining the present values of the fixed and floating legs of the swap, by discounting the future cash inflows and outflows respectively.

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 discounted 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.

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 (Bank of Botswana);

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.

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 for 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 arsing 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 2011

40. SEGMENTAL REPORTING

SEGMENTAL ANALYSIS

Operating segments are reported in accordance with the internal reporting provided to the Chief Executive Officer (the Chief Operating Decision-Maker), who 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.

40. SEGMENTAL REPORTING (continued)

Primary segments (business)

	Retail banking P'000	Property division P'000	WesBank P'000	Corporate P'000	Treasury P'000	Support P'000	Total P'000
2011							
Segment revenue							
Interest income	345,934	223,891	155,144	54,274	304,436	10,399	1,094,078
Non-interest income	352,616	917	5,366	15,635	118,601	11,385	504,520
Total segment revenue	698,550	224,808	160,510	69,909	423,037	21,784	1,598,598
Interest expenditure	(103,806)	(105,630)	(59,369)	(25,596)	(120,764)	(17,162)	(432,327)
Net interest income before impairment of advances	594,744	119,178	101,141	44,313	302,273	4,622	1,166,271
Impairment of advances	(48,623)	685	(7,733)	(3)	—	(3,537)	(59,211)
Net interest income after impairment of advances	546,121	119,863	93,408	44,310	302,273	1,085	1,107,060
Segment expenditure							
- Employee benefits	(91,005)	(6,221)	(14,075)	(6,629)	(14,188)	(93,996)	(226,114)
- Communication	(6,549)	(282)	(1,022)	(188)	(257)	(7,801)	(16,099)
- Stationery, storage and postage	(11,424)	(139)	(902)	(334)	(490)	(5,418)	(18,707)
- Property rentals and maintenance	(28,578)	(57)	(1,738)	(87)	(1,412)	(17,631)	(49,503)
- Recharges	(100,068)	(15,228)	(12,516)	(12,036)	(33,792)	173,640	—
- Other operating expenses	(36,448)	(3,151)	(4,709)	(2,392)	(14,732)	(91,897)	(153,329)
	(274,072)	(25,078)	(34,962)	(21,666)	(64,871)	(43,103)	(463,752)
Segment results before indirect taxation	272,049	94,785	58,446	22,644	237,402	(42,018)	643,308
Indirect taxation	(6,102)	(228)	(1,112)	(124)	(724)	1,446	(6,844)
Segment results	265,947	94,557	57,334	22,520	236,678	(40,572)	636,464
Share of associate company income							1,273
Direct taxation							(63,897)
Income after taxation							573,840
Statement of financial position:							
Total assets	2,806,130	2,541,845	1,429,287	789,156	5,592,511	—	13,158,929
Total liabilities	5,791,469	182,953	20,274	1,543,904	4,472,163	—	12,010,763
Advances (included in assets above)	2,242,844	2,542,302	1,365,225	791,041	229,430	—	7,170,842
Advances to banks	—	—	—	—	361,178		361,178
Non-performing advances	50,785	59,758	5,624	65,102	—	—	181,269
Deposits (included in liabilities above)	4,820,304	167,671	18,493	1,542,150	4,048,780	—	10,597,398
Key ratios							
Cost to income ratio	47.1	21.2	35.7	49.2	21.7	>100	40.4
Bad debt charge as a % of advances	2.2	0.0	0.6	0.0	0.0	0.0	0.8
Non-performing loans as a % of advances	2.3	2.4	0.4	8.2	0.0	0.0	2.5

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 2011

40. SEGMENTAL REPORTING (continued)

Primary segments (business)

	Retail banking P'000	Property division P'000	WesBank P'000	Corporate P'000	Treasury P'000	Support P'000	Total P'000
2010							
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.

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:

	30 June 2011	30 June 2010
Group and company		
Number of options in force at beginning of the year	14,568,349	19,468,347
Granted at prices ranging between P3.32 to P1.51		
Number of options granted during the year	5,390,000	—
Granted at a price of P2.69 (2010: NIL) per share		
Number of options exercised during the year	(1,933,330)	(4,899,998)
Market value ranged between P2.05 to P2.80 (2010: P1.32 to P2.92)		
Number of options cancelled/lapsed during the year	(200,000)	—
Granted at a price of P2.69		
Number of options in force at end of the year	17,825,019	14,568,349
Granted at prices ranging between P3.32 to P1.51 (2010: P2.80 to P1.51)		
Number of options available for future allocation	2,174,981	5,431,651
Total number of options of the scheme	20,000,000	20,000,000
Number of participants	60	46

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

41. EMPLOYEE SHARE PARTICIPATION SCHEME (continued)

	30 June 2011	30 June 2010
Options outstanding are exercisable over the following periods		
(first date able to release)		
Financial year 2010/2011	—	3,144,979
Financial year 2011/2012	3,396,627	5,078,338
Financial year 2012/2013	7,928,351	3,278,336
Financial year 2013/2014	4,783,351	3,066,696
Financial year 2014/2015	1,716,690	—
Total	17,825,019	14,568,349
Options outstanding		
(by expiry date)		
Financial year 2011/2012	2,782,019	4,715,349
Financial year 2012/2013	453,000	653,000
Financial year 2013/2014	9,200,000	9,200,000
Financial year 2014/2015	5,390,000	—
Total	17,825,019	14,568,349

The significant assumptions used to estimate the fair value of the options granted are as follows:

	30 June 2011	30 June 2010
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

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 2011

41. EMPLOYEE SHARE PARTICIPATION SCHEME (continued)

The details of the respective share option scheme is as follows:

	2011			
	FirstRand Share Appreciation Right Scheme (FSR shares)	FirstRand Black Employee Trust	Conditional share plan	Forfeitable share plan
Share option detail				
Number of options in force at the beginning of the year	844,000	1,426,500	137,700	56,962
Granted at prices ranging between (P)	11.18 - 17.70	12.28	—	—
Weighted average (thebe)	13.98	12.28	—	—
Number of options granted/transferred in during the year	311,000	—	185,769	—
Granted at prices ranging between (P)	11.18 - 17.70	—	—	—
Weighted average (P)	13.13	—	—	—
Number of options exercised / released during the year	—	—	—	—
Market value range at date of exercise / release (P)	—	—	—	—
Weighted average share price for the year (P)	—	—	—	—
Number of options cancelled / lapsed during the year	(75,000)	(90,500)	—	—
Granted at prices ranging between (P)	11.18 - 17.70	12.28	—	—
Weighted average (P)	13.85	12.28	—	—
Number of options in force at the end of the year	1,080,000	1,336,000	323,469	56,962
Granted at prices ranging between (P)	11.18 - 17.70	12.28	—	—
Weighted average (P)	13.74	12.28	—	—
Options are exercisable over the following periods (first date able to release)				
Financial year 2009/2010	—	—	—	—
Financial year 2010/2011	—	—	—	—
Financial year 2011/2012	—	—	—	56,962
Financial year 2012/2013	936,660	—	182,871	—
Financial year 2013/2014	143,340	—	140,598	—
Financial year 2014/2015	—	1,336,000	—	—
Total	**1,080,000**	**1,336,000**	**323,469**	**56,962**

41. EMPLOYEE SHARE PARTICIPATION SCHEME (continued)

	FirstRand Share Appreciation Right Scheme (FSR shares)	FirstRand Black Employee Trust	Conditional share plan	Forfeitable share plan
Options outstanding (by expiry date)				
Financial year 2010/2011	—	—	—	—
Financial year 2011/2012	350,000	—	—	56,962
Financial year 2012/2013	300,000	—	182,871	—
Financial year 2013/2014	430,000	—	140,598	—
Financial year 2014/2015	—	1,336,000	—	—
Total	**1,080,000**	**1,336,000**	**323,469**	**56,962**
Total options outstanding - in the money	430,000	1,336,000	323,469	56,962
Total options outstanding - out of the money	650,000	—	—	—
Total	**1,080,000**	**1,336,000**	**323,469**	**56,962**
Number of participants	10	4	10	1

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

	Group and Company	
The income statement charge for all share based payments is as follows:	30 June 2011 P'000	30 June 2010 P'000
FirstRand Share Incentive Scheme	**(1,639)**	14
FirstRand Black Employee Trust	**—**	539
First National Bank of Botswana share option scheme	**2,954**	3,077
Total equity settled share option scheme charge to income statement	**1,315**	3,630
FirstRand Share Appreciation Right Scheme	**967**	680
Forfeitable share plan	**613**	—
Conditional share plan	**1,788**	575
Total cash settled share option scheme charge to income statement	**3,367**	1,255
Charge to income statement	**4,682**	4,885

At year end, the liability for FirstRand share scheme amounted to P4,678,830 (2010: P1,310,365) and has been included in creditors and accruals.

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

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.

(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. Some share options are cash settled, whereas some 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 2011

43 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

	The Group will comply with the following new standards and interpretations from the stated effective date.	Effective date
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. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment is not expected to have an impact to the Group.	Annual periods commencing on or after 1 January 2011
IFRS 9	**Financial Instruments** IFRS 9 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 and financial liabilities. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial liabilities can also be classified as financial liabilirties at amortised cost or fair value in line with the existing requirements of IAS 39, however if an entity chooses to measure its financial liabilities at fair value, it should present the portion of the change in fair value due to changes in its own credit risk in other comprehensive income. The Group is in the process of assessing the impact that IFRS 9 would have on the financial statements. Until the process is completed, the Group is unable to determine the significance of the impact of IFRS 9.	Annual periods beginning on or after 1 January 2013
IAS 24 (amended)	**Related Party Disclosures** The amendment removes certain of the disclosure requirements for government related entities, clarifies the definition of a related party and introduces a requirement for entities to disclose commitments to related parties. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact of the revised disclosure is not expected to be significant.	Annual periods commencing on or after 1 January 2011

	The Group will comply with the following new standards and interpretations from the stated effective date.	Effective date
IFRS 7 (amended)	Transfers of Financial Assets The amendments to IFRS 7 requires additional disclosure for financial assets transferred but not derecognised and for financial assets that are derecognised, but the entity retains some form of continuing involvement after the transaction. This amendment will result in additional disclosures in the annual financial statements and will not affect recognition and measurement.	Annual periods commencing on or after 1 July 2011
Annual Improvements	Improvements to IFRS As part of its annual improvements projects, the IASB has issued its 2010 annual improvement project. The annual improvement project's 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. There are no significant changes in the improvement projects that are expected to affect the Group.	Annual periods commencing on or after 1 January 2011 except for the improvements to IFRS 3 and IAS 27 that are effective for annual periods commencing on or after 1 July 2010
IFRS 10	Consolidated financial statements IFRS 10 supersedes IAS 27 and establishes control as the basis for determining which entities should be consolidated. In addition, it defines control and provides guidance on how to apply the principle of control to identify whether an investor controls an investee. The Group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the Group is unable to determine the significance of the impact of IFRS 10.	Annual ending on or after 01 January 2013
IFRS 11	Joint arrangements The standard supersedes IAS 31 Joint Ventures and aims to improve on the IAS 31 by establishing accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements, joint operations and joint ventures. The accounting for joint operations remains unchanged from IAS 31 and all joint ventures should be equity accounted on the financial statements of the venturer. The standard will not have a significant impact on the Group as the Group equity accounts for all its joint ventures already.	Annual ending on or after 01 January 2013

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

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

	The Group will comply with the following new standards and interpretations from the stated effective date.	Effective date
IFRS 12	Disclosure of interests in other entities The standard also aims to provide consistent disclosure requirements for subsidiaries, joint arrangements; associate and structured entities. IFRS 12 requires disclosure of information that will enable the users to evaluate the nature of the risks associated with the interest; and the effect of the interest on the financial position, performance and cash flows of the reporting entity. The Group is in the process of assessing the impact that IFRS 12 would have on the financial statements. Until the process is completed, the Group is unable to determine the significance of the impact of IFRS 12.	Annual ending on or after 01 January 2013
IFRS 13	Fair value measurement IFRS 13 was issued in order to eliminate inconsistencies in the fair value measurement and disclosure requirements that currently exist under the different IFRSs that require or permit fair value measurement. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The Group is in the process of assessing the impact that IFRS 13 would have on the financial statements. Until the process is completed, the Group is unable to determine the significance of the impact of IFRS 13.	Annual ending on or after 01 January 2013

	The Group will comply with the following new standards and interpretations from the stated effective date.	Effective date
IAS 19	**Employee Benefits (2011)** An amended version of IAS 19 Employee Benefits with revised requirements for pensions and other postretirement benefits, termination benefits and other changes. The key amendments include: Requiring the recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of remeasurements in other comprehensive income, plan amendments, curtailments and settlements (eliminating the 'corridor approach' permitted by the existing IAS 19) Introducing enhanced disclosures about defined benefit plans Modifying accounting for termination benefits, including distinguishing benefits provided in exchange for service and benefits provided in exchange for the termination of employment and affect the recognition and measurement of termination benefits Clarifying various miscellaneous issues, including the classification of employee benefits, current estimates of mortality rates, tax and administration costs and risk-sharing and conditional indexation features Incorporating other matters submitted to the IFRS Interpretations Committee.	Applicable to annual reporting periods beginning on or after 1 January 2013
IAS 12 (amended)	**Deferred Tax: Recovery of Underlying Assets** Amends IAS 12 Income Taxes to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. As a result of the amendments, SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.	Applicable to annual periods beginning on or after 1 January 2012

Notes to the Annual Financial Statements (continued)

for the year ended 30 June 2011

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

	The Group will comply with the following new standards and interpretations from the stated effective date.	Effective date
IAS 27	**Separate Financial Statements (2011)** Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements. The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments. The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements. Note: Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 28 'Investments in Associates and Joint Ventures' (2011).	Applicable to annual reporting periods beginning on or after 1 January 2013 (see note regarding early adoption)
IAS 28	**Investments in Associates and Joint Ventures (2011)** This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. Note: Entities early adopting this standard must also adopt the other standards included in the 'suite of five' standards on consolidation, joint arrangements and disclosures: IFRS 10 'Consolidated Financial Statements', IFRS 11 'Joint Arrangements', IFRS 12 'Disclosure of Interests in Other Entities' and IAS 27 'Separate Financial Statements' (2011).	Applicable to annual reporting periods beginning on or after 1 January 2013 (see note regarding early adoption)

Shareholder Information

Shareholder's Diary

Declaration of final dividend and announcement of results	October 2011
Payment of final dividend	October 2011
Publication of Annual Financial Statements	October 2011
Annual General Meeting	9 November 2011
Publication of half-year interim report and dividend announcement	February 2012
Payment of interim dividend	March 2012
Next financial year end	30 June 2012

List of Major Shareholders

30 June 2011

	30 June 2011	30 June 2010
FIRST NATIONAL BANK HOLDINGS (BOTSWANA) LIMITED	1,780,590,000	1,800,590,000
SCBN (PTY) LTD RE: BIFM BPOPF BW000000894-2	103,961,239	101,603,361
SCBN (PTY) LTD RE: IAM 030/14	80,710,490	89,329,767
STANBIC NOMINEES RE: BIFM	78,644,445	76,241,478
SCBN (PTY) LTD RE: FAM 3582376	70,788,842	70,788,842
SCBN (PTY) LTD RE: SSB 001/77	57,060,000	57,060,000
MOTOR VEHICLE ACCIDENT FUND	50,552,910	50,552,910
FNB NOMINEES (PTY) LTD RE: SIMS BPOPF 10001009	39,792,658	—
FNB NOMINEES (PTY) LTD RE: AGRAY BPOPF 10001010	16,998,318	16,989,784
SCBN (PTY) LTD RE: BIFM DPF	16,955,833	16,857,673
BOTSWANA MEDICAL AID SOCIETY	16,598,000	16,598,000
SCBN (PTY) LTD RE: BIFM BPOPF BW 000000896-3	16,386,763	15,837,379
SCBN (PTY) LTD RE: IAM 203/001	13,586,972	13,886,972
SCBN (PTY) LTD RE: FAM 201/010	12,500,896	12,500,896
SCBN (PTY) LTD RE: AG 211/002	9,545,835	9,545,835
SCBN (PTY) LTD RE: IAM 030/30	7,535,525	7,535,525
SCBN (PTY) LTD RE: SSB 001/81	7,511,600	7,511,600
SCBN (PTY) LTD RE: MAU 067/001	6,208,380	6,218,380
BOB STAFF PENSION FUND	6,110,000	6,110,000
FNB NOMINEES (PTY) LTD RE: CFM BPOPF10001011	6,029,256	6,029,256
SCBN (PTY) LTD RE: SSB 001/114	4,730,800	4,730,800
STANBIC NOMINEES BOTSWANA RE: BIFM BR	3,680,464	3,680,464
STANBIC NOMINEES RE: BIFM BLAF	3,574,249	3,574,249
SCBN (PTY) LTD RE: FAM 3582252	3,350,052	3,350,052
SCBN (PTY) LTD RE: SIMS 207/002	3,307,012	—
SCBN (PTY) LTD RE: MAU 068/024	3,140,000	3,140,000
BENJAMIN H RASEROKA	3,000,000	3,000,000
	2,422,850,539	2,403,263,223
	94.51%	93.74%

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 12h00 on Wednesday 9 November 2011 at Gaborone International Convention Centre (GICC), 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 12h00 on Monday 7 November 2011. 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 2011)

Forms of proxy to be received by 12h00	Monday 7 November
Annual General Meeting at 12h00	Wednesday 9 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 International Convention Centre, at 12h00 on Wednesday 9 November 2011, 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 2011.

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:
   M T Sekgororoane
   B M Bonyongo
   M W Ward
   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 2011.

6. **Ordinary Resolution 8:**
   To appoint auditors for the ensuing year and to approve their remuneration for the past years audit.

7. **To transact any other business which maybe transacted at an Annual General Meeting.**

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 authorised 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 12h00 on Monday, 7 November 2011.

By Order of the Board

P D Shah
Chairman of the Board of Directors

L Boakgomo-Ntakhwana
Chief Executive Officer

Notes

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 11 Octoboer 2011.

For use at the Annual General Meeting of Shareholders of the Company to be held at Gaborone International Convention Centre at 12h00 on Wedneday 9 November 2011.

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 ______________ 2011

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 12h00 on 7 November 2011.

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 Branches

BROADHURST
Plot 5681, Orchid Centre
Kubu Road, Industrial
Private Bag BR 69
Gaborone
Tel: 397 5561
Fax: 397 5352

FRANCISTOWN
Plot 32753/4 Blue Jacket Street
Private Bag F35
Francistown
Tel: 241 3831
Fax: 241 2879

MAIN
Plot 8844, Khama Crescent
P O Box 1552
Gaborone
Tel: 364 2800
Fax: 390 1425 (Credit) 397 4369
(Switchboard) 390 0322
(Ledgers) 318 1082 (Enquiries)

INDUSTRIAL
Plot 1278, Luthuli Road
P O Box 871
Gaborone
Tel: 364 2900
Fax: 397 2949

JWANENG
Plot 3774, Diamond Centre
Teemane Avenue
Private Bag 049
Jwaneng
Tel: 588 0470
Fax: 588 1029

KANYE
Unit 1, 2 and 3
NDB Building
Cr. Main & Montshiwa Road
P O Box 388
Kanye
Tel: 544 0452
Fax: 544 0620

KASANE
Plot 2296, Waterfront Mall
P O Box 740
Kasane
Tel: 625 2414
Fax: 625 2416

KGALE VIEW
Shop No N3, Game City
Kgale View
Private Bag 00452
Gaborone
Tel: 368 0700
Fax: 391 0867

LOBATSE
Plot 282, Khama 1st Avenue
P O Box 381
Lobatse
Tel: 533 0827
Fax: 533 2102

LETLHAKANE
Plot 4639
Tawana Road
Box 1061
Letlhakane
Tel: 297 8930
Fax: 297 8144

MAHALAPYE
Plot 799, Main Road
Private Bag 48
Mahalapye
Tel: 471 1300
Fax: 471 1301

MALL
Ground Floor, Capitol Building
Plot 1108, Main Mall
Private Bag BO 52
Gaborone
Tel: 395 9422
Fax: 391 2596

MAUN
Shop 1 & 2
Plot 152
Ngami Centre
Private Bag 231
Maun
Tel: 686 0919
Fax: 686 0920

MOLEPOLOLE
Shop 36
Plot 39
Mafenyatlala Mall
Private Bag 27
Molepolole
Tel: 590 8800
Fax: 592 1601

PALAPYE
Shop No. 5
Solly Essack Centre
Plot 1077, Main Road
Private Bag 110
Palapye
Tel: 492 2340
Fax: 492 2341

RIVERWALK
Plot 25117
Tlokweng Road
Riverwalk Plaza
P O Box 4878
Gaborone
Tel: 368 6600
Fax: 370 0654

SELEBI-PHIKWE
Plot 6567
Tshekedi Road, Main Mall
Private Bag 2529
Selebi-Phikwe
Tel: 261 1430
Fax: 261 1569

SEROWE
Plot 2461, Unit 1,
Boiteko Junction
Shopping Centre,
Newton Ward
P O Box 1343
Serowe
Tel: 463 0765
Fax: 463 0815

GHANZI
Plot 32
Henry Jankie Drive
Private Bag 0019
Ghanzi
Tel: 659 6670
Fax: 659 6424

First National Bank of Botswana Limited
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Telephone: +267 364 2600 • Facsimile: +267 390 6130 • Website: www.fnbbotswana.co.bw

Registered Bank • Registration Number: 1119 • S.W.I.F.T • Firnbwgx
Share Transfer Secretaries • PriceWaterhouseCoopers • Plot 50371 • Fairgrounds Office Park • Gaborone

First National Bank of Botswana (FNBB) results to 30 June 2011 reflect signs of economic recovery as well as the success of the strategy adopted. Overall balance sheet increased by 8% to over P13 billion, with advances increasing by 24% to P7.1 billion. Profit before taxation increased to P638 million from P532 million in 2010, an increase of 20%. Profit after tax reflects an increase of 32% compared to previous year, as a result of a reduction in the effective tax rate.

Annual Financial Statements

for the year ended 30 June 2011

FNB
First National Bank
how can we help you?