YEARS OF **PEOPLE** **PASSION AND PROGRESS**

FIRST NATIONAL BANK OF BOTSWANA LIMITED

ANNUAL REPORT 2012

FNB

First National Bank

how can we help you?

FNB
First National Bank
how can we help you?

ANNUAL **REPORT 2012**

VISION

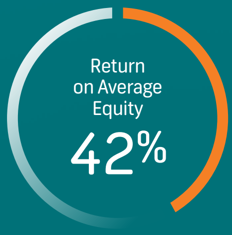
The Bank of choice delivering innovative solutions and a superior customer experience.

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.

Contents

FINANCIAL **PERFORMANCE**



- Profit before taxation increased by 14%
- Non-interest income increased by 24%
- Other operating expenses increased by only 9%
- Cost to income ratio at 38%
- Advances growth of 17%
- Return on average assets 4.2%
- Return on average equity recorded at 42%
- Total dividend per share of 13.00 thebe per share

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21 YEARS OF **PEOPLE PASSION AND PROGRESS**

21 Years of People, Passion and Progress is a customer centric theme which recognises and celebrates the diverse contributions of shareholders and stakeholders, including staff and our valued clients, towards building the FNB brand over the stated period.

We value People in their various capacities as loyal customers, supportive investors, or as the human engine that powers growth and prosperity throughout FNB's service channels. The Passion with which we deliver our promises feeds into the helpful character of our brand, while Progress speaks to our creativity, innovation as well as competitive advantages.

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During the 2011/2012 financial year, First National Bank of Botswana (FNBB) focused on solidifying its position as one of Botswana's premier financial services institution, against a backdrop of global and local economic uncertainties.

Liquidity challenges, job losses and other fiscal consternations impacted FNBB as replicated on interest income and impairment of advances.

OUR **MILESTONES**

1991

FNBB was established in Botswana in September as a registered subsidiary of the FirstRand Group.

1992

FNBB took over the operations of BCCB which was under Bank of Botswana administration and operated 5 branches. This was the start of Main, Industrial, Lobatse and 2 Francistown branches.

1993

FNBB obtained listing on the Botswana Stock Exchange.

FINANCIAL HIGHLIGHTS

The Bank continues to invest in systems to effectively manage risks and improve management information for decision making and regulatory reporting. During the period, the Bank continued to expand its footprint with increased ATMs and the opening of the Rail Park Mall branch. Despite these projects and expansion initiatives, other operating expenses only increased by 9%.

1993

FNBB acquired Financial Services Company, a leasing and property finance company from which FNBB Property finance and WesBank were born.

1994

FNB acquired Zimbank Limited.

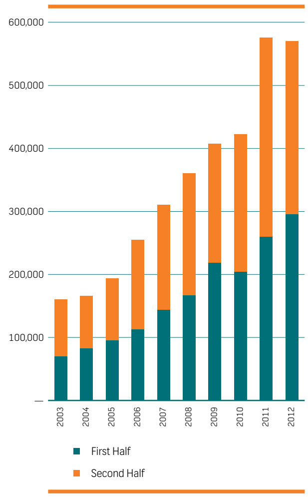
Financial Highlights – Graphs

STATEMENT OF FINANCIAL POSITION

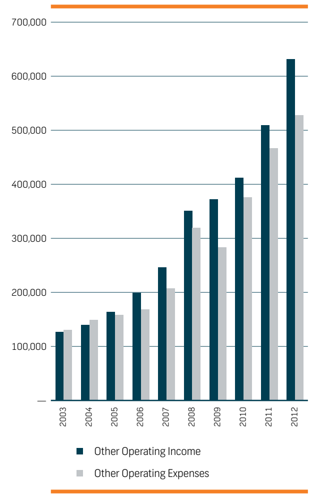
The Bank's Statement of Financial Position increased by 8%. This was mainly as a result of a 17% growth in advances to customers chiefly driven by Property Finance and the Wholesale and Consumer segments respectively. The ratio of Non Performing Loans relative to Gross Advances remains low at 3%.

Growth in deposits from customers was lower than expected at 8%, reflecting the current strain on the consumer and the liquidity changes in the market. The Bank continues with planned initiatives to reduce reliance on professional deposits and to focus on other segments for funding.

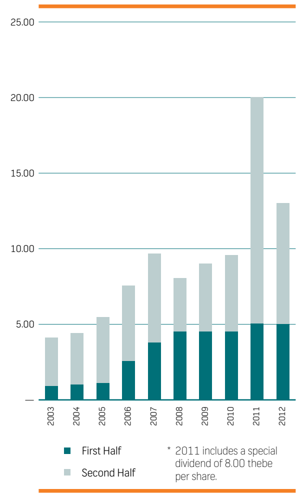
Profit After Tax (P'000)



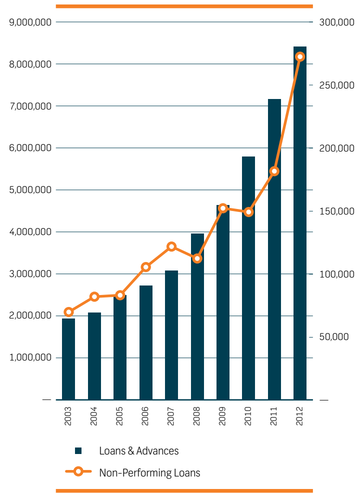
Other Operating Income vs Other Operating Expenses (P'000)



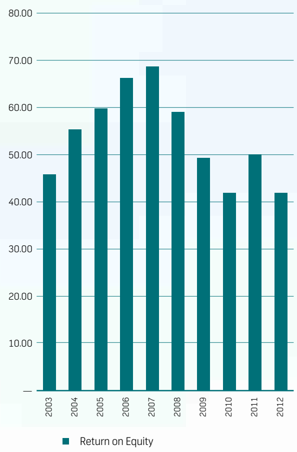
Dividends Per Share (thebe)



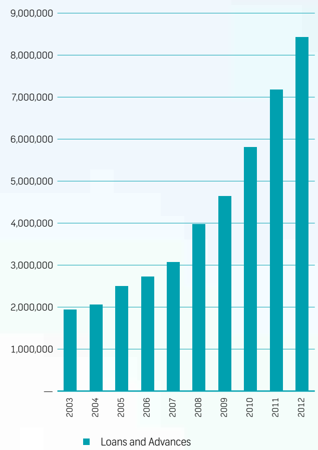
Advances vs Non-Performing Loans (P'000)



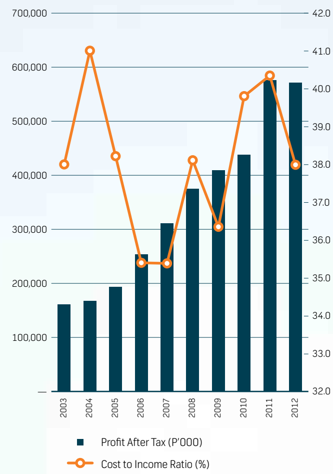
Return on Equity (%)



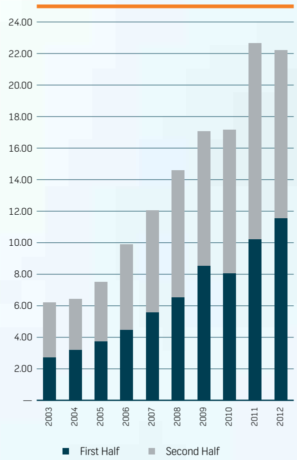
Loans and Advances (P'000)



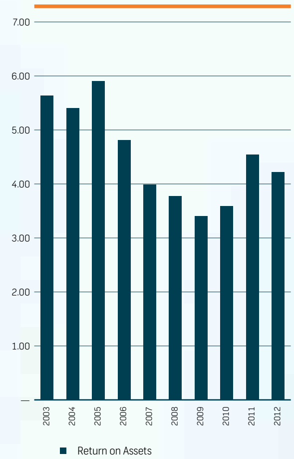
Profit After Tax vs
Cost to Income Ratio



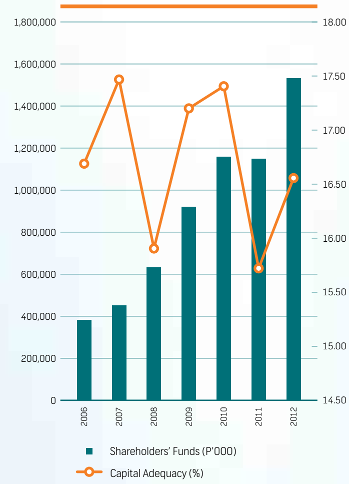
Earnings Per Share (thebe)



Return on Assets (%)



Shareholders' Funds vs
Capital Adequacy



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The effects of the slowing world economy on the prices of commodities have had a positive impact on inflationary risks. Inflation fell to 7.3% in June 2012. The medium-term outlook is that inflation will only fall within the Bank of Botswana target range of between 3-6% in the second quarter of 2013 subject to stable prices of fuel and food.

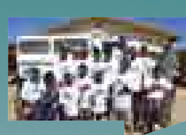
A survey carried out by Bank of Botswana on business confidence indicates that only 51% of the companies surveyed were satisfied with prevailing economic conditions compared with 54% in 2011. Most companies expect conditions to improve in the short-term.

OUR **MILESTONES**

1998

FNBB introduced a Pula based Credit card. These VISA cards are accepted in more than 200 countries worldwide.

2001



FNBB established the FNBB Foundation; one of the biggest corporate givers and a leader in CSR in the financial services sector. To date, the Foundation has invested more than P22 million in various projects, enriching and uplifting the lives of Batswana.

STRATEGY AND PERFORMANCE

The first half of the financial year saw a recovery in diamond sales but this proved to be short-lived, with reduced volumes and declining prices characterising the second half of the year. The non-mining sector maintained expansion, despite the reduced public spending in the development budget following the Government continuing to consolidate its fiscal position.

2003

FNBB harnessed the power and functionality of the cellphone and email by introducing *inContact*; a free message service that sends customers a real time SMS or email confirming all transactions taking place on their accounts.

2004

FNBB pioneered Internet Banking in Botswana. The service offers customers the benefit of direct, secure and real-time access to their accounts 24/7.

Chairman's Report

The sovereign credit ratings by Moody's and Standard & Poor's clearly indicate that despite continued challenges, Botswana remains one of the best investment opportunities in the developing world, and at par with many countries in Europe, Asia and the Latin America.

The international economies upon which Botswana depends for diamond sales, and particularly the United States and the Eurozone, continue to create global uncertainty.

The first half of the financial year saw a recovery in diamond sales but this proved to be short-lived, with reduced volumes and declining prices characterising the second half of the year. The non-mining sector maintained expansion, despite the reduced public spending in the development budget following the Government continuing to consolidate its fiscal position.

Unless diamond sales improve markedly in the near future, the consequent constraints on the Government budget will impact on economic growth in Botswana. GDP growth is already forecast to be less than 4% in 2012, compared with the 2011 growth of 5.7%.

The effects of the slowing world economy on the prices of commodities have had a positive impact on inflationary risks. Inflation fell to 7.3% in June 2012. The medium-term outlook is that inflation will only fall within the Bank of Botswana target range of between 3-6% in the second quarter of 2013 subject to stable prices of fuel and food. The possible effect on the latter of the current drought in the USA has yet to be quantified.

A survey carried out by Bank of Botswana on business confidence indicates that only 51% of the companies surveyed were satisfied with prevailing economic conditions compared with 54% in 2011. Most companies expect conditions to improve in the short-term. The sovereign credit ratings by Moody's and Standard & Poor's clearly indicate that despite continued challenges, Botswana remains one of the best investment opportunities in the developing world, and at par with many countries in Europe, Asia and the Latin America.

I am pleased to report that despite the pressures and challenges encountered during the year, First National Bank of Botswana achieved very satisfactory results.

On behalf of the Board, I wish to extend gratitude to the Executive, Management, and Staff members of First National Bank of Botswana Limited for their achievement. There is no doubt that the coming year will continue to pose challenges, but with the same level of commitment and effort by the Bank's exceptional team of staff, I am confident that positive results will be again be yielded.

We acknowledge Bank of Botswana for their role in supervising the Banking sector and skilfully managing and monitoring the policies of the economy.

The FNB Foundation will continue with projects for the upliftment of communities throughout the country. Our commitment remains to contribute up to one percent of profit after taxation for this purpose.

The Board of First National Bank of Botswana is fully committed to ensuring that good governance principles are adhered to and that value is delivered to all our stakeholders whether they be our staff, our customers, our suppliers, shareholders or the communities in which we operate.

We are most fortunate that the Board of Directors comprises a well-balanced team that has a wealth of experience spanning a wide spectrum of competencies. I wish to thank my fellow directors for their vision, support and guidance during the year.

Peter David Stevenson
Chairman

Chief Executive Officer's Report

CEO's Report

We have come of Age! First National Bank of Botswana had its genesis exactly 21 years ago through organic growth and a series of mergers and acquisitions to eventually be known as the fully fledged entity that it is today and the home of many "Firsts". I would like to invite you to join me in celebrating a Bank that has flourished during the past 21 years and has subsequently become one of the steadfast leaders in the local financial sector.

As I look back and reflect on the numerous firsts we have achieved in the last 21 years, I'm proud to say that they are many.

FNB was the First to introduce a Pula based credit card; First to provide internet banking; First to introduce inContact – a real time transaction based SMS/email messaging; First to introduce Cellphone Banking; First to introduce an instant accounting solution for SMMEs; First to introduce a Mobile ATM; First to introduce a one stop payment solution: FirstPay Portal, First to introduce payment through an eWallet and the First Bank in Botswana to establish a charitable Foundation – the FNB Foundation just to mention a few.

During the period under review, despite the challenging local and global financial market environment we registered consistent growth in many of our key performance indicators which is a good indication of a solid business and the strength of our Bank. I'm pleased to report that we have achieved a respectable set of results despite the headwinds, with improvements in profit before tax, good revenue growth, control over expenditure and good growth in our balance sheet. Our vision going forward is to build on this momentum.

The FNB Team

We continue to focus on our key stakeholder staff. During the year we further refined the employee value proposition by improving staff benefits and salaries in an effort to become more competitive. Multi skilling of staff continued at a much faster pace and our staff leadership development programs, which were successfully launched a year ago, gained traction. These efforts were rewarded when our People's Pillar Survey (PPS) results for 2012, which is a survey measuring staff engagement, were released showing a remarkable improvement over the previous year. This year we recorded the highest score ever of 81%. A true indication that indeed the focus on the employee value proposition is beginning to yield positive results and would recommend FNB as a great place to work. This positioned us well for "The Best Company to Work For" status that we aim to achieve.

Customer Focus

We experienced good customer growth rates due to better focus on service in the branches and the rest of the bank as well as our innovative systems. To stay as the most innovative bank, we refocused our electronic solutions division which followed through on its mandate to create convenient and innovative products for customers who do not necessarily bank with us. We successfully launched e-wallet - a cellphone payment solution; and e-collect – an e-solution targeting customers looking for a seamless collection solution from their clients and the First Pay Portal.

Public Sector, Wholesale and Consumer segments are responsible for customer strategy and growth. To be successful on this mandate, the segments focused on service during the year. We are proud that our first External Customer Survey Index (ECSI) gave us a score of 82.3% for a pan bank survey. This customer survey will assist us measure our success on this key strategic area of service and we plan to use this measure to gain insight into our customer views about us going forward.

Our Product Houses achieved great results with the Property Finance reaching the P3 billion mark in total property assets. WesBank had a challenging year due to the economic environment but stemmed the tide by introducing some innovative products: Wescare for finance of vehicle maintenance, Wesloan and AgriWes for financing of Agricultural implements. These products were well received in the market and will position the business for success in the coming year.

As true acknowledgement of strategy and performance by the market and analysts in particular, FNB was awarded the "Best Commercial Bank in Botswana Award" by the World Finance Banking Awards 2012, in recognition of our financial performance, innovative and cutting edge financial solutions and systems.

Our expansion on infrastructure has seen us increase our branches from 18 to 21. Our latest additions being: a branch in Ghanzi as well as Rail Park Mall and Airport Junction in Gaborone. We have also increased our ATM footprint to boost the highest number of ATMs in country by increasing them to 127 machines spread throughout the country.

In continuing as a bank of "Firsts", FNB was again the talk of town during the year as we hosted two jazz maestros: Joe Sample and David Sanborn from the USA, in a show held in Gaborone dubbed "FNB All that's Jazz". As Promotion of Arts and Culture is one of the focus areas of our corporate social responsibility, the success of this show assisted us achieve this goal.

Our business strategy is underpinned by a strong Enterprise Risk Management (ERM) Strategy. We believe that an efficient ERM division must underscore the business strategy. We continue to refine and refocus the ERM Unit to achieve this objective. We strive for 100% acceptable audit results and put a lot of effort in this regard.

Chief Executive Officer's Report (continued)

Corporate Social Responsibility

The Bank continued with its efforts in being a responsible community stakeholder by contributing 1% of after tax profits made in the previous year to the foundation during the year under review. The Trustees reviewed the requests to the foundation and approved those that were in line with the foundation's focus areas and mandates. Staff was also given an opportunity to select and partake in some of the social responsibility projects of their choice. This initiative is an extension of the Foundation's commitment to the community. To date the Bank has contributed P25.3 million to the foundation and has been involved in 133 staff volunteer projects.

Stakeholder Acknowledgement

It is with immense pride that I report a respectable set of results that have been achieved by the FNB Team in the financial year June 2012. It is because of the dedication and a great vision from this team that this became possible. I have a renewed confidence in the management and staff of FNB and I am convinced that we are in good position to strive to be the best bank in the country as we continue our focus on Our Journey to Excellence. Thank you team FNB for your unwavering dedication and support.

We also extend gratitude to our Board of Directors and thank them for their guidance and leadership. To our customer, we would like to sincerely thank you for being with us throughout the year and look forward to a long and rewarding partnership.

Finally, I would like to acknowledge our shareholders.

Thank you for your support.

Lorato E. Boakgomo-Ntakhwana
Chief Executive Officer

Executive Committee

Executive Committee

1. Lorato Boakgomo-Ntakhwana
   Chief Executive Officer

2. Richard Wright
   Deputy Chief Executive Officer

3. Boitumelo Mogopa
   Director - Consumer Banking Segment

4. Steven Bogatsu
   Chief Financial Officer

5. Grace Setlhare-Mankanku
   Director - Wholesale Corporate Banking Segment

6. Boiki Tema
Director - Property Finance

7. Martin Knollys
Director - Distribution Channel

8. Lehuka Maseng
Chief Information Officer

9. Ogone Madisa-Kgwarae
Director - Credit

10. Denis Ivins
Chief Operating Officer

11. Yolisa Phillips-Lejowa
Director - Public Sector Segment

12. Solomon Moremong
Treasurer

13. Kwanele Ngwenya
Director - Wholesale Commercial Banking Segment

14. Gaone Macholo
Director - Human Resources

15. Christo De Wet
Director - WesBank

16. Bomolemo Selaledi
Director - Marketing and Communications

17. Connie Storom
Director - First Card

Divisional Report

Distribution Channel

The 2011/2012 financial year saw our Branch Network increase from 19 to 21 branches with two new additions namely, RailPark Branch and Airport Junction Branch. These new branches form part of the Bank's strategy in making banking more accessible and convenient for all our customers. We believe that each and every market segment requires tailor made solutions for growth and sustainability.

The ATM Division continued to expand its footprint by increasing its number of ATM's from 122 in 2011 to 127 in 2012. The expansion included the introduction of two innovative mobile ATM's which enables us to further entrench our strategy of taking Banking to the people of Botswana.

We will continue to expand and upgrade our Distribution Channel Network by introducing a branch at the new Airport Junction shopping centre and upgrading our existing Branch and ATM infrastructure.

Consumer Segment

The Consumer segment packages and provides banking solutions to individual customers through mainly the Distribution Channels, Product houses, First Funding, and Wealth-Private clients.

The segment is responsible for crafting go-to market strategies for the various consumer related products in an effort to give FNB a single voice to the consumer. It strives to encourage the "supermarket analogy" which in essence is about availing the Bank's products through the various distribution channels optimising the bank's footprint. It strives to position FNBB as a one stop shop that offers consumers various products in one branch.

Consumer banking solutions include:

- Transactional accounts- current accounts, savings accounts, investment accounts,
- Electronic banking solutions - Cellphone banking, online banking, debit and credit cards
- Financing – Personal loans, property and vehicle finance.

The year under review the segment was successful in consolidating and packaging the many banks products to the customer.

The areas of focus in the year under review where:

- Rein fencing the Wealth Segment
- Sub segmenting the segment to align offerings – this resulted in a below the line launch of Premier.
- Vertical Sales Index drive
- Ring fencing and defending the First Funding book under very difficult market conditions.
- Group scheme sign ups
- Bricks to clicks drive

Wholesale Corporate Segment

The Wholesale Corporate Segment is the custodian of the Corporate Client's relationship and interaction with the Bank. During this financial year the Wholesale Corporate Segment's focus continued to be the provider of value-adding banking solutions as well as advisory services for the Medium to Large Corporate clients. This resulted in phenomenal growth in the segment's asset book to P2.7billion largely due to partnerships formed with clients with respect to expansion strategies. Growth was mainly driven by Term loans and Corporate property loans. The Segment further expand its Corporate Advisory services into the Botswana Corporate market by offering innovative investment products which the segment liability increasing to P6billion from P4.8billion prior year.

Public Sector Segment

The Public Sector business continues to be one of the primary focus areas of the Bank. The Segment has seen a significant increase in the uptake of its product offerings. Special focus was made in the provision of innovative eSolutions, such as revenue collection through the different delivery channels; ATMs, Cellphone banking and Online banking for the likes of Gaborone City Council for rate payments and Botswana Power Corporation for bill payment

WesBank Product House

New vehicle sales have consistently been declining over the last three years which has put the motor industry under immense pressure. In 2009 new vehicles sales were reported to have declined by 25% compared to 2008. This negative trend persisted into 2011 when a 16% decline was reported.

During the financial year pressures in the Government and Mining sector saw a large number of retrenchments which put strain on WesBank and resulted in the portfolio recording a 9% growth. Nevertheless, WesBank relentlessly made gains in revenue diversification efforts through the introduction of new products namely Wescare - vehicle maintenance finance, Wesloan and AgriWes - Agricultural implements finance. The portfolio also made gains in attracting and retaining key Corporate and Commercial customers

Firstcard Product House

The Card Division introduced an expansion of the e-Commerce Platform by introducing First Pay Portal. A "Homegrown" Card Payment Platform that allows FNB Customers and non-FNB customers the ability to pay their utilities and services online. Not only is First Pay the First in Botswana, it is the First within the FirstRand Group. The division also introduced mobile Point Of Sale terminals. So far 1300 terminals have been deployed in restaurants, courier companies and currently being piloted on long distance public transportation.

FNB introduced Chip n PIN cards which have added security features to protect consumers against fraudulent misuse of their credit cards.

Property Finance Product House

The Division had another outstanding year, posting strong set of results. Advances growth surpassed 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 CBD and the general increase in residential developments. The outlook looks favorable, with a gradual increase in both Commercial and Residential demand in the medium to long term which will most likely result in the need to increase tock over time. Our objective of continually improving our value proposition to our customers has boosted our Get, Keep and Grow Strategy. Managing the quality of our book has remained the Division's biggest focus area, hence a reduction in our impairments.

Treasury Product House

The product house, which comprises, traditional Treasury activities, Trade and Custody, had a phenomenal year during 2011/2012 financial year. Noninterest income recorded a tremendous growth on a 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 improved secondary market activity on the fixed income market, which also impacted performance positively.

Efficient balance sheet managed showed reduced investment of the Bank's excess funds into BoBCs to more higher yielding investments, thus contributing positively too. On the funding side, we continue to forecast on increasing cheaper retail deposits to further enhance our margins.

Custody area continues to grow from strength to strength and we are delighted with performance of this business and the resultant contribution to the overall results of the bank. The division has been revamped with a dedicated Manger now in place to lead the unit to higher levels.

Islamic Finance Product House

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

The product offering has a fixed repayment structure and is available to any client wishing to opt for fixed financing. The product house continues to perform well ahead of expectations. Advances growth was largely attributable to an increased appetite in commercial and residential property finance and movable assets.

E-Solutions

E-Solutions continued to introduce 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 ATM's. The recipient does not need to have a bank account with FNB or any other bank. Funds can be withdrawn at any FNB ATM, and sent to another person or used to buy airtime. In February 2011 the division introduced Instant Accounting which is a free online accounting package that allows an automated integration of the customer's statement with the generation of the financial statements.

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The FNBB Board is the focal point of corporate governance and the Board together with Executive Management ensured the establishment and maintenance of adequate processes of corporate governance consistent with the complexity and risks inherent in the day to day running of the Bank.

The Board also ensured that the process of corporate governance is efficient and effective to meet the strategy of the business both ethically and within acceptable parameters of risk.

OUR **MILESTONES**

2006

FNBB Cellphone Banking brought new meaning to convenient banking, giving customers the freedom to bank anytime and anywhere. Today, more than 300 000 utilise cellphone banking.

2006

FNBB became the largest bank by market capitalisation in the Botswana Stock Exchange, a position still held in 2012.

CORPORATE GOVERNANCE AND SUSTAINABILITY

The Bank's overarching corporate governance objective for the financial year ending 30 June 2012 was to ensure that the structures, policies, processes and procedures implemented within the Bank enable the efficient and effective management of risks impacting the sustainability of the Bank.

2009

Malebogo Makgalemele became the Diamond Person of the Year. She is a stellar example of Service Excellence.

2010

FNBB won the Euromoney Best Bank Award in Botswana. The award is attributed to the Bank's demonstration of leadership, innovation and momentum in the market.

Corporate Governance and Sustainability

Board of Directors

1. **Peter David Stevenson**
Chairman (Independent Non-Executive)

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

In April 2008 Peter was appointed a member of the Board of Directors and in November 2011 upon the retirement of the previous Board Chairman, he was announced as the successor and was duly appointed Board Chairman. He is also the Chairman of the Board Credit Committee and a member of the Board Audit and Board Risk and Compliance Committees. He however attends the Board Remuneration and the Directors Affairs and Governance Committees in his capacity as Board Chairman.

2. **Lorato Edith Boakgomo-Ntakhwana**
CEO (Executive Director)

Lorato graduated with a Bachelor of Commerce Degree in 1985 and subsequently acquired an MBA whilst working for Bank of Botswana in 1992. She then moved to South Africa and joined the South African Reserve Bank where she held numerous senior positions and was ultimately appointed Head of the Reserve Management Unit and eventually Assistant General Manager in the Financial Markets department. She joined the Rand Merchant Bank's Treasury Division in 2004 as Deputy Treasurer responsible for the Africa Treasuries, the Africa Trading Desk, and International Bank Relations. At that time, she was also a member of the Treasury Management Board. After just four years, in 2008 she moved to FirstRand where her responsibilities included Developed Markets Relations, Rand Account Services and Balance Sheet Management - Africa.

Lorato joined First National Bank of Botswana as Chief Executive Officer in June 2009. She is currently the only Executive Director that sits on the Board of Directors as a substantive member. She is also a Trustee of the FNB Foundation, the bank's primary vehicle for social and community investment activities.

3. **Jabulani Richard Khethe**
(Non-Executive)

Jabu is a graduate of a Bachelor of Commerce Degree in Banking from the University of Pretoria, South Africa. He also holds a Masters in Business Administration (MBA) with Bond University and a Marketing Management Diploma. In 2001 he also completed an Executive Management Development Programme with GIBS Management College, South Africa and Harvard University.

Jabu is currently CEO of FNB Africa and has extensive banking, insurance and leadership experience with financial institutions in South Africa. He sits on a number of the African subsidiaries boards, Audit and Risk committees.

Jabu has been a member of the Board of Directors since September 2005. He is also a member of the Directors Affairs and Governance Committee.

4. **Myra Tshephonyane Sekgororoane**
(Independent Non-Executive)

Myra holds a Higher National Diploma in Hotel Management obtained in the Republic of Ireland. She started her career in the Hospitality Industry in 1985 within the Cresta Group and was the Group Operations Director at the time of leaving her employ with Cresta Group in 2000. Myra is currently the Chief Executive Officer of Botswana Tourism Organisation and sits on several corporate Boards as well.

Myra has been a member of the FNBB Board since July 2001. She is currently the Chairperson of the Board Remuneration Committee and the Chairperson of the FNBB Foundation, the bank's primary vehicle for social and community investment activities.

5. **Balisi Mohumi Bonyongo**
(Independent Non-Executive)

Balisi graduated with an honors degree in Mineral Engineering from the University of Leeds in 1992 and subsequently obtained an MBA from the University of Cape Town in 2002. He attended a Senior Executive Programme in 2007 at the London Business School. Balisi started his career at Debswana in 1993, and was appointed the General Manager of Debswana Jwaneng Mine, a position he has held since 2007. He is currently a Director of several local companies and a charitable organisation.

Balisi was appointed a member of the Board of Directors in May 2009 and is currently the Chairman for the Board Risk and Compliance and Audit Committees the position he has held since January 2012 when the incumbent then was appointed Board Chairman. He is also a member of the Directors Affairs & Governance Committee.

6. **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 started his career in Law as a part time lecturer at the University of Botswana between the years 1992 and 1994. He is an attorney of the High Court of Botswana and a senior partner in a legal firm based in Francistown. He is also a member of the Cambridge Commonwealth Society, Alumni of the International Development Law Organisation as well as a member of several other Boards.

Sifelani has been a member of the Board of Directors since November 2002. He is the current Chairman of the Directors Affairs and Governance Committee.

7. **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.

Mike was first appointed as a Board member on 1st August 2009, and he is a member of the Board Credit, Board Risk and Compliance and Board Audit Committees.

8. **Danette Higgins Zandamela**
(Non-Executive)

Danny holds a Master of Science in Strategic Management degree from the University of Derby (UK) and is currently studying towards a Doctorate in Business Administration degree with Sheffield-Hallam University (UK) in collaboration with Business School Netherlands. His other qualifications include a diploma in banking with the Institute of Bankers (SA), a mini-MBA from Wits Business School and the Strategic Leader mini-MBA Programme of Henley Management College/GIMT; he also attended the Wits Business School Executive Development Programme.

Danny is an experienced corporate and commercial banker with 30 years' experience in the industry plus extensive leadership experience, having been in the FNB Group for 18 years - 10 years in Senior Management and 8 years in Executive Management positions. He has previously held the positions of CEO FNB Corporate Banking, CEO FNB Botswana, and CEO FNB Africa. His appointment as CEO FNB Botswana was for a period of over three years, the position he held until the appointment of the present FNBB CEO in July 2009. During that time he was also a member of the Board of Directors of FNB Botswana.

In August 2012 he was appointed the CEO FNB Public Sector Banking with global responsibility across the Group's various jurisdictions. He re-joined the Board of Directors of FNB Botswana in November 2011 and is a member of the Board Audit and Board Risk and Compliance Committees. He is also a member of the Board of Directors of First National Bank of Mozambique Limited.

Corporate Governance and Sustainability (continued)

STATEMENT BY THE CHAIRMAN OF THE BOARD

The Bank's overarching corporate governance objective for the financial year ending 30 June 2012 was to ensure that the structures, policies, processes and procedures implemented within the Bank enable the efficient and effective management of risks impacting the sustainability of the Bank.

The above-mentioned objective includes the achievement of corporate governance objectives and ensuring compliance with all relevant legislation, as well as compliance with regulations relating to Banks. Furthermore, the Bank was required to assess the extent of its compliance with the King III Code of Corporate Governance Principles for South Africa 2009.

This presented the Bank with an opportunity to improve its governance structures, frameworks and processes particularly where gaps had been identified in the previous financial year.

Key Highlights for 2012

- Focus on Corporate Governance Objectives including bedding down of King III
- Governance of Risk Management
- Compliance with relevant regulations
- Assessment of Internal Controls

Following the decision to ensure the achievement of the corporate governance objectives and to determine the extent of compliance with King III Code of Corporate Governance, the following essential areas of governance were identified in order to perform an assessment of the Bank's alignment to the King III principles:

1. Corporate Governance Objectives
2. Functions of the Boards and Directors and its sub-committees
3. Risk management
4. Internal controls
5. Internal audit
6. Compliance
7. Capital Adequacy and Capital Management
8. Integrated Reporting and Disclosure
9. King III and Companies Act requirements

The Corporate Governance Report will therefore focus on these essential areas of governance and provide appropriate disclosures and/or explanations where there is non-compliance.

CORPORATE GOVERNANCE OBJECTIVES

The FNBB Board is the focal point of corporate governance and the Board together with Executive Management ensured the establishment and maintenance of adequate processes of corporate governance consistent with the complexity and risks inherent in the day to day running of the Bank.

The Board also ensured that the process of corporate governance is efficient and effective to meet the strategy of the business both ethically and within acceptable parameters of risk. The process of corporate governance referred to above includes:

- Compliance with strategic frameworks and guidelines established by the Bank
- A balance of the interest of our stakeholders
- The responsible conduct of FNBB Directors, management, and employees
- Achievement of a level of efficiency and profitability within an acceptable risk level
- The Board of Directors retaining control over the strategic direction of the Bank, whilst enabling the Executive Officers to manage the operations of the business, and
- Compliance with applicable laws & regulations and the establishment of governance in accordance with the requirements of our regulators.

All the FNBB Directors, management and employees are required to comply with Corporate Governance principles.

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

FUNCTIONS OF THE BOARD AND DIRECTORS, AND ITS SUB-COMMITTEES

The FNBB Board ensures that the Bank is seen to be a responsible corporate citizen. It considers the financial performance of the business together with the impact of its operations on the society that it operates within. FNBB is committed to a policy of fair, transparent dealing and integrity and expects employees to share this commitment.

The Board approves the strategy of the Bank in order to ensure the business's sustainability taking due consideration of the interests of all the stakeholders and as such is happy with the leadership and the direction that the business has taken.

The Board of Directors discharged its functions and responsibilities relating to the business strategy, financial soundness and governance adequately. The Board has exercised sound and objective judgement at all times because they have been able to maintain appropriate levels of qualifications and competence within its membership. This has been demonstrated by the composition of the Board which is complemented by the availability and involvement of internal and external subject matter experts where necessary. The Board was also supported by a robust and independent risk control functions for which the Board has oversight.

FNBB BOARD OF DIRECTORS

The FNBB Board is composed of both executive and non-executive Directors, with the majority being non-executive directors who are independent. A duly approved charter is in place reflecting the minimum prescribed functions of the Board, which the Board has satisfied adequately as proven by the annual evaluation process in place, where the effectiveness of the Board, its sub-committees and individual directors were assessed against objectives set.

Whilst the Board of Directors does not consist of a balance of both executive and non-executive directors as recommended by King III, the Chief Executive Officer (CEO) is a Board member together with other non-executive directors from within the FirstRand Group of Companies. This composition is a function of the regulatory restrictions on related party representation. The Deputy CEO and the Chief Financial Officer (CFO) are also standing attendees at the Board meetings.

The Board is comprised of a total of eight (8) Directors who are individuals of high caliber and credibility with the necessary skills and experience. The full details of their profiles can be seen on Page 22 of the Corporate Governance and Sustainability Section. The following Directors are considered to be independent in judgment and character:

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

Messrs J R Khethe, D H Zandamela and Ms L E Boakgomo-Ntakhwana are not deemed to be independent due to the roles they hold within the FirstRand Group of Companies.

The Chairperson of the Board is an independent Non-Executive Director, whose role is separate from that of the Chief Executive Officer (CEO) and the Chairperson of the Board Audit Committee. The appointment process for a Director is formal and transparent, and guidelines for a Director appointment have been adopted by the Board.

The Board has a comprehensive development programme which has recently been approved. The annual plan for on-going training that focuses on the governance of risk and the needs identified during the annual assessment process is in place. However, the Board acknowledges that the Board induction process is rated room for improvement and work is on-going to develop a comprehensive induction programme.

The Board continued to have full control of Bank during the course of the year; they monitored the implementation of the business plans and strategies on an on-going basis. Corporate governance frameworks ensuring full disclosure between the Board and its committees were in place, and the levels of materiality were well defined and documented by the Board of Directors.

Corporate Governance and Sustainability (continued)

The Board met a total of 6 times during the year with additional meetings convened as and when necessary. The table below depicts the attendance of the Directors to the Board meetings.

	10/8	14/9	9/11	25/1	8/3	3/5
P D Stevenson (Chairman Board)[1]	✔	✔	✔	✔	✔	✔
L E Boakgomo-Ntakhwana	✔	A	✔	✔	✔	✔
B M Bonyongo	✔	✔	✔	✔	✔	✔
J R Khethe	A	✔	A	✔	✔	A
M T Sekgororoane	✔	A	A	A	A	✔
S Thapelo	A	✔	✔	✔	✔	✔
M W Ward	✔	✔	✔	✔	✔	✔
D H Zandamela[2]	–	–	✔	✔	✔	A

[1] = Appointed Chairman 2011
✔ = attendance
A = apologies tendered
[2] = Appointed Member (November 2011)

The Board is satisfied that the various Committees of the Board have adequately assisted the Board to discharge its functions and responsibilities during the course of the year. The following Board Committees exist within the Bank:-

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

All the above Committees have charters in place which articulate their functions in terms of their mandate. The chairpersons of these committees are independent non-executive directors. A summary of the mandates of the various committees together with a disclosure on the attendance and the frequency of meetings has been provided below.

BOARD COMMITTEES

Board Committees assist the Directors in the discharge of their duties and responsibilities. The following Board Sub Committees exist in the business:

Report of the Board Audit Committee

Chairman: B M Bonyongo
Members: P D Stevenson, M W Ward and D H Zandamela

Mandate:
The Board Audit Committee fulfills the vital role of ensuring the integrity of reporting on the financial position, financial controls (including accounting practices), and the general management of financial risks, and internal controls. It ensures that there is combined assurance for all the significant risks identified.

The Committee provides the platform for a dialogue between Directors, Management, Internal Audit and External Auditors. It ensures that Internal Audit is independent and that Internal Audit has direct access to the Board.

Summary of Activities:

During the year we reviewed

- the financial statements included in the integrated report for accuracy
- the financial reports for integrity
- capital adequacy levels and proposed dividend payments
- Internal Audit plans and monitored audit reports for effectiveness of internal controls
- External Audit plans, monitored their independence, and interrogated their reports
- the performance of external auditors and recommended their appointment and the approval of their fees
- corporate governance reports
- met with the External Auditors in the absence of Management
- the composition of the Audit Committee and ensured that members were suitably skilled and experienced. Where possible gaps were identified subject matter experts within the FirstRand Group were consulted and involved in the process

The Board Audit committee met five times during the year and reported to the Board on a regular basis on its duties and recommendations to the Board.

At least three members of the Board of Directors have been appointed to serve on the Audit Committee, of which two of the members are independent non-executive directors. The Chief Executive Officer, the Shareholder Representative, the Chief Financial Officer, Head of Enterprise Risk Management and the Internal Audit Manager attend all the Board Audit Committee meetings ex-officio. The External Auditors also attend all Board Audit Committee meetings. It must be noted that by the end of the financial year, two additional members had been appointed to attend the Committee - Messrs Ward and Zandamela. They commenced attending the meetings as fully-fledged members after the April meeting.

The annual assessment of the Committee has also indicated that the Committee has adequately evaluated the effectiveness of the internal controls systems, accounting practices, and the auditing processes applied in the Bank. The committee further ensured that significant matters raised by the Independent Auditor are addressed and controls put into place to mitigate the risks identified.

The Committee confirms further that they have evaluated the comments on the information contained in the integrated report on the financial statements and have recommended the approval of the annual financial results and the announcement thereof to the Board.

	21/7	10/8	18/10	25/1	17/4
B M Bonyongo (Chairman Board)[1]	–	–	–	✔	✔
P D Stevenson	✔	✔	✔	✔	✔
M W Ward	–	–	–	–	–
D H Zandamela	–	–	–	–	–

1	=	Appointed Chairman (January 2012)
✔	=	attendance
A	=	apologies tendered

Corporate Governance and Sustainability (continued)

Report of the Board Risk & Compliance Committee

Chairman: B M Bonyongo
Members: P D Stevenson, M W Ward and D H Zandamela

Mandate:

The core duties and responsibilities of the Board Risk and Compliance Committee is to assist the Board to discharge its responsibilities in terms of the management of risk within the Bank and to monitor the effectiveness 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.

Summary of Activities:

During the year we reviewed

- the risk management framework and related policies and ensured that the methodologies therein are implemented in order to mitigate risks.
- the Business Continuity Management framework
- the identification and monitoring of key risk indicators and determined the levels of risk tolerance
- the Risk Profile Report; including monitoring all the significant risk categories
- the status of compliance of the business to all the applicable rules, regulations, and supervisory requirements.

The Board Risk and Compliance Committee maintains the overall risk profile of the Bank including a register of all the identified key risks, the inherent impact that those risks could have on the Bank, and the control measures that have been put into place to mitigate the risks identified. It also ensures that Disaster recovery is an integral part of planning of the Bank's risk management plans.

The Committee met four times during the year and they assisted the leadership of the Bank to ensure that risk management is the focal point of the Bank's governance structures and also confirmed that they are satisfied that risk is managed in the Bank. They reported regularly to the Board accordingly and assisted the Board with the following functions:-

- the evaluation of the adequacy and efficiency of risk policies, procedures, practices and controls applied within the bank in the day to day management of the business;
- the identification of the concentration of the various risks the bank is exposed to;
- the development of the mitigation strategy for the risks identified
- the regular monitoring of the key risk indicators and ensuring
- co-ordinating the monitoring of risk management; and
- the implementation process of the capital adequacy goals with regard to risk, whilst taking account of the banks strategic focus and business plan.

The Board confirms that at least three members of the Board have been appointed as members of the Board Risk and Compliance Committee, of which two of them are independent non-executive directors. The Committee attendance for the year, has been depicted below.

It must be noted further that the Chief Executive Officer, the Shareholder Representative, the Chief Financial Officer, the Head of Enterprise Risk Management, Internal Audit Manager and the Compliance Officer attend all the Board Risk and Compliance Committee meetings ex-officio. It must be emphasized that two additional members; namely Messrs M Ward and D Zandamela had been appointed to the Committee as at the end of the financial year, and their attendance will only be reflected in the integrated report for coming financial year.

	21/7	18/10	25/1	17/4
B M Bonyongo (Board Committe Chairman)[1]	–	–	✔	✔
P D Stevenson	✔	✔	✔	✔

[1] = Appointed Chairman (January 2012)
✔ = attendance
A = apologies tendered

Report of the Directors Affairs & Governance Committee

Chairman: S Thapelo
Members: B M Bonyongo and J R Khethe

Mandate:

The Committee's prime objective is to assist the Board in discharging its responsibilities in respect of the adequacy, effectiveness, and appropriateness of the corporate governance structures and practices of the Bank.

Summary of Activities:

During the year we reviewed the following-

- The composition and structure of the Board and Board Committee structures
- The continuity of the Board of Directors with a view to ensure a balance of skills, experience, and other qualities required to enhance the effectiveness of the Board of Directors.
- The selection and appointment process of new Directors
- The effectiveness of the Board, Board sub-committees, and the contribution of the individual Board of Directors to the performance of the Board.
- The appropriateness of policies and procedures put in place to ensure good corporate governance and the consideration of good ethics
- Ensuring that the Board is at all times in compliance with applicable laws, regulations, and codes of conduct and practices

Board and Director Evaluation

The Directors Affairs and Governance Committee conducted a Board evaluation to assess the effectiveness of the Board, individual Directors, and the various Board Committees. The tool utilised to assess this effectiveness is a Board Evaluation checklist and it covers:

- 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.
- Reporting of Board Committees to the Board.

A Checklist is also available for the individual Board Committees where additional items are covered as part of the review process, emphasizing the specialised 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. These are used to form part of the training plan.

Succession Planning and Director Training and Development

Board Succession Plan that takes into account the composition, experience, and skills set requirements of the Board is top most on the agenda of the Directors Affairs and Governance Committee. The process of nomination of successors for key positions is also an area of focus and Management consults the Board appropriately should there be a need to replace a key resource. During the past financial year, there has been no requirement to replace any key position.

It must be noted that Ethics has been assigned to the Directors Affairs and Governance Committee, and the Ethics Officer has been designated to the Board Secretary. Furthermore, the Bank seeks counsel from the Group Ethics Officer in need. The Board approved bank-wide code of ethics will be cascaded to the various levels of staff together with implementing a system for monitoring and reporting unethical behavior without fear of reprisal.

The sub-committee met three times during the year and has effectively assessed the process of corporate governance implemented by the Bank, and confirmed that the objectives determined by the Board of Directors on corporate governance and best practice have been achieved. Where the objectives have not been met, explanations have been provided in line with the recommendations of King III Code of Corporate Governance.

Corporate Governance and Sustainability (continued)

Succession Planning and Director Training and Development (continued)

The Committee provided regular updates to the Board regarding matters of Governance.

	14/9	9/11	17/4
S Thapelo (Board Committee Chairman)[1]	✔	✔	✔
B M Bonyongo	✔	✔	✔
J R Khethe[2]	✔	A	✔

1	=	Appointed Chairman (January 2009)
2	=	Appointed Member (September 2011)
✔	=	attendance
A	=	apologies tendered

The Board Chairman attends the Committee meetings as an ex-officio member.

Report of the Board Remuneration Committee

Chairman: M T Sekgororoane
Members: P D Stevenson

Mandate:

The Committee assists the Board in discharging its responsibilities relating to the remuneration of directors and employees of the Bank, evaluating the adequacy, effectiveness and appropriateness of the policies and practices pertaining to reward and remuneration.

Summary of Activities:

During the year the Committee ensured the:-

- review of the Remuneration Policy and the alignment of the Remuneration practices to the business strategy coupled with the conformance to the philosophy of rewarding for high performance.
- adoption and monitoring of the strategy required to attract, retain and reward high performance individuals.
- reviewed and proposed the remuneration of Executive Directors, and ensured the appropriateness of the Non-Executive Directors fees.
- review of the criteria for measuring the performance of the CEO
- approval of packages for Senior Management and ensured a fair reward for their contributions to the performance of the business.
- Recommended the policy relating to the proposed share scheme, and approved increases and performance bonus awards.

The King code recommends that the Board Remuneration committee should work closely with the bank's Risk and Capital Management Committee in the evaluation of incentives created by the compensation system. Management has assured the Board that the risks arising from the day to day operations of the management of remuneration are reported and monitored by the Main Risk Committee and escalated to the Board Risk and Compliance Committee in the normal cause of business. It has been recommended further that annual compensation reviews should be conducted independently of management together with reviews to assess the Bank's compliance with FirstRand Group's requirements. The Board has been assured that whilst reviews that are conducted do not test the alignment or compliance with Group requirements, the reviews are conducted by an independent body and the results thereof are shared with the Board Remuneration Committee that has representation from Group and therefore has oversight on all compensation processes.

The reviews conducted by the above independent bodies locally consider pay levels for the various disciplines in the business and highlights the areas that require attention, including the remuneration of staff in the risk control and compliance functions in order to ensure the attraction and retention of qualified and experienced staff.

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

Membership and Attendance

	4/7	8/3	3/5
M T Sekgororoane (Board Committe Chairman)[1]	✔	A	✔
P D Stevenson	–	✔	✔

[1] = Appointed Chairman (January 2009)
✔ = attendance
A = apologies tendered

Report of the Board Credit Committee

Chairman: P D Stevenson
Members: M W Ward

Mandate:
The major objective of the Board Credit Committee is to approve large exposures and monitor them on an on-going basis. The Committee also assists the Board to ensure that all the credit activities relating to large exposures are conducted within the risk strategy, policies and tolerance levels approved by the Board.

Summary of Activities:

During the year the Committee ensured that:-

- the Bank operates within sound and well-defined credit-granting criteria as far as large exposures are concerned,
- all extensions of credit pertaining to 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 are subject to adequate internal controls and appropriate internal-audit coverage,
- The Bank has adequate capital for the risks that it assumes relating to large exposures.

During the course of the financial year, the Board further ensured that Board Credit Committee consisted of at least two non executive Directors, including the attendance of internal credit subject matter experts, the Deputy CEO, and Director of Credit in the capacity of an invitee. The Committee further ensured the availability of board-approved policies, processes and procedures that comply with approved capital requirements or risks related to concentration risk.

The Board Credit Committee met twelve times during the year and effectively discharged the duties as specified above. They reported regularly to the Board regarding the Committee's activities, deliberations and recommendations.

	Number of Meetings Attended
P D Stevenson (Board Committee Chairman)[1]	12/12
M W Ward[2]	8/12

[1] = Appointed Chairman (November 2011)
[2] = Appointed Member (November 2011)

Corporate Governance and Sustainability (continued)

Risk Management

The Bank continued to focus on Risk Management and Corporate Governance in the business during the year under review. The Board ensured that the Bank had comprehensive and adequate risk management processes, practices and procedures, and board-approved policies in place in order to identify, measure, monitor, and control the risk universe that it operates within.

However, the review of frameworks for the management of liquidity risk and the operational framework for the management of interest rate risk are still going through the internal governance processes before being presented to the Board for approval. This will be reflected in the report for the next financial year.

There are currently 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. These committees assist management to identify risk factors which could adversely affect the business, manage these risks, and minimise the likelihood and possible impact of effects of the risks.

The Main Risk Committee ensures that the Bank has aligned its risk management structure with the Group's Business Performance and Risk Management Framework (BPRMF) in order to ensure an integrated Risk Management approach. The Board Risk and Compliance 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 risks are undertaken.

The Board of Directors, together with the senior management receive timely and appropriate information regarding the condition of the Bank's asset portfolios, including matters relating to the relevant classification of credit exposure, the level of impairment provisioning, and the problematic assets. The above are standing agenda items in the Internal Credit Risk Committee and the Board Risk and Compliance Committee.

The maintenance of sufficient levels of liquidity and capital adequacy are also focal areas for the Board with regard to risk management. The Board assures its stakeholders that the Bank maintains sufficient levels of liquidity and capital adequacy in order to remain solvent during prolonged periods of financial market stress and illiquidity.

The Bank also continued to ensure that the relevant risk management processes and practices are in place to ensure the proper customer identification, verification, and acceptance requirements. Anti-Money Laundering and Combating Terrorist Financing are top of mind topics in the various risk management governance structures, and management ensures that relevant regulatory recommendations issued from time to time are implemented. During the financial year under review, the Bank has implemented appropriate information systems to enable the proactive management of risks associated with the bank being used for money laundering and other criminal or unlawful activities.

At Board level, there are currently five sub committees; the Board Audit Committee, the Board Risk & Compliance Committee, the Board Credit Committee, Board Remuneration and the Directors Affairs and Governance Committee that assist the Board to discharge its duties pertaining to the management of risk. The Board therefore 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 CONTROLS

The Board confirms that the Bank has established and maintained an appropriate and effective internal control structure in order to monitor the Bank's continued compliance with internal policies and procedures.

The Bank's internal controls are based on established policies and procedures and are implemented by skilled individuals. Adherence to implemented controls is continuously monitored and there is appropriate involvement with Internal and external audit from an internal review perspective. The Board confirms that the Bank has an independent internal audit function which forms an integral part of the ongoing monitoring of the banks internal control systems.

INTERNAL AUDIT

An Internal Audit function has been established within the Bank to assist executive management and the Board Audit Committee to improve the effectiveness of the Bank's risk management, control and governance processes. Internal Audit is an independent, assurance and consulting activity designed to add value and improve the operations of the Bank and work is conducted in the function in terms of the Board approved Internal Audit Charter. The internal audit charter has been communicated to the various internal risk structures and will be communicated to the general staff.

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 and the Board Risk & Compliance Committee. The Head of Internal Audit reports administratively to the Deputy Chief Executive Officer and functionally to the Chairman of the Audit Committee. Group Internal Audit has oversight of the internal audit function and usually performs the role of quality assurance. Where gaps have been identified in Internal Audit in terms of insufficient resources or skills levels, Group Internal Audit provides the necessary support required. This includes coverage of the audit plan in need. We confirm however, that the internal audit team has sufficient and up-to-date knowledge of auditing techniques and banking activities.

Corporate Governance and Sustainability (continued)

INTERNAL AUDIT

The Board assures its stakeholders that 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.

Internal Audit has regularly reported to both the Board and Senior Management on the status of internal controls, and annually presents the audit plan for approval to the Board. Internal Audit has a robust process in place to follow-up responses that relate to audit findings and the implementation of the recommendations with a view to ensure that the concerns raised have been appropriately and adequately addressed.

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.

The Bank has established an independent compliance function in order 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.

The Compliance Officer is expected to perform the function with due diligence and care and with the competence that is reasonably expected for a compliance function. The Compliance Office reports directly to Chief Operations Officer (COO) and has demonstrable support from the Board of Directors, Board Risk and Compliance Committee and the CEO. Reports on non-compliance with laws and regulations must be reported in a timely manner together with the level of compliance to the Board Risk and Compliance Committee for escalation to the Board. Currently there is one resource dedicated to compliance and working closely with Legal Counsel who assists with the monitoring of legislation.

The Bank continues to work towards a solid compliance culture that contributes to the overall objective of risk management by the Bank. The Compliance function is currently focused on developing risk management plans and a monitoring programme for high-risk legislation as part of compliance monitoring.

CAPITAL ADEQUACY AND CAPITAL MANAGEMENT

The Board confirms that as part of the governance process the Bank has in place a strategy to ensure the maintenance of adequate capital based on the risks inherent in its balance sheet, including activities relating to risk mitigation.

An Internal Capital Adequacy Assessment Process (''ICAAP'') framework, which forms part of the Banks risk management framework for internal capital adequacy assessment, is being developed by management and will be approved by the Board during the next period under review.

The ICAAP framework includes approved policies and processes designed to ensure that the Bank identifies, measures, and reports all material risk exposures. It relates to the Bank's capital and reserve funds up to the level of risk incurred by the Bank.

Stress testing is conducted to identify possible events that could adversely affect the Bank and the result of the stress testing is regularly presented to the Board Risk and Compliance Committee when evaluating the adequacy of Bank's capital adequacy buffers.

The Board assures its stakeholders that the Bank maintains adequate capital reserves to support the nature and extent of its risk exposure. The Board confirms further that the bank has at all times complied with the minimum prescribed capital adequacy requirements during the financial year under review, and have maintained adequate buffers of capital as determined by the Board and Management (see supporting notes to the Financial Statements).

INTEGRATED REPORTING AND DISCLOSURE

We confirm that the Bank has disclosed in its annual report, its financial statements and other reliable and relevant information in compliance with the minimum specified requirements of the Companies Act and the Banking Act.

The Board ensures that systems and processes are in place in order to report to stakeholders a picture of the Bank's qualitative and quantitative information. The oversight of reporting of the sustainability of the Bank has been delegated to the Board Audit Committee who interrogates the report and recommends it to the Board for adoption.

The sustainability of the business is rigorously assessed and assured on an annual basis. This process involves an assessment of the Bank's going concern status 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.

KING III AND COMPANIES ACT REQUIREMENTS

We confirm that the Board has provided effective leadership based on an ethical foundation. Ethics has been assigned to the Directors Affairs and Governance Board Committee (DAGC) where the Directors Code of Ethics was reviewed together with the DAGC Charter. However, the responsibility of the day-to-day ethics management has been designated to the Board Secretary.

The Board has also approved the implementation of a whistle-blowing facility for staff, and an ethics related policy will be launched together with the policy.

COMPANY SECRETARY

We confirm that the Company Secretary has been appointed by the Board of Directors and that they are appropriately skilled and empowered to fulfill this role. PricewaterhouseCoopers is the identified Company Secretary of the Bank. They provide support and guidance to the Board in matters relating to governance. All our Board of Directors have unrestricted access to the Company Secretaries.

DISPUTE RESOLUTION

A formal dispute resolution policy and process is in place for disputes related to our stakeholder staff. This process is in place for both internal and external disputes and ensures the effective, efficient and expeditious resolution of issues. The Board has also approved a panel of entities or people that represent the Bank in the event of alternate dispute resolution for staff related matters.

The Banking Adjudicator's office is also in place for our stakeholder customer related disputes and a process is in place for resolving issues tabled at the Adjudicators Office.

Enterprise Risk Management

Enterprise Risk Management

The Bank has re-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.

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.

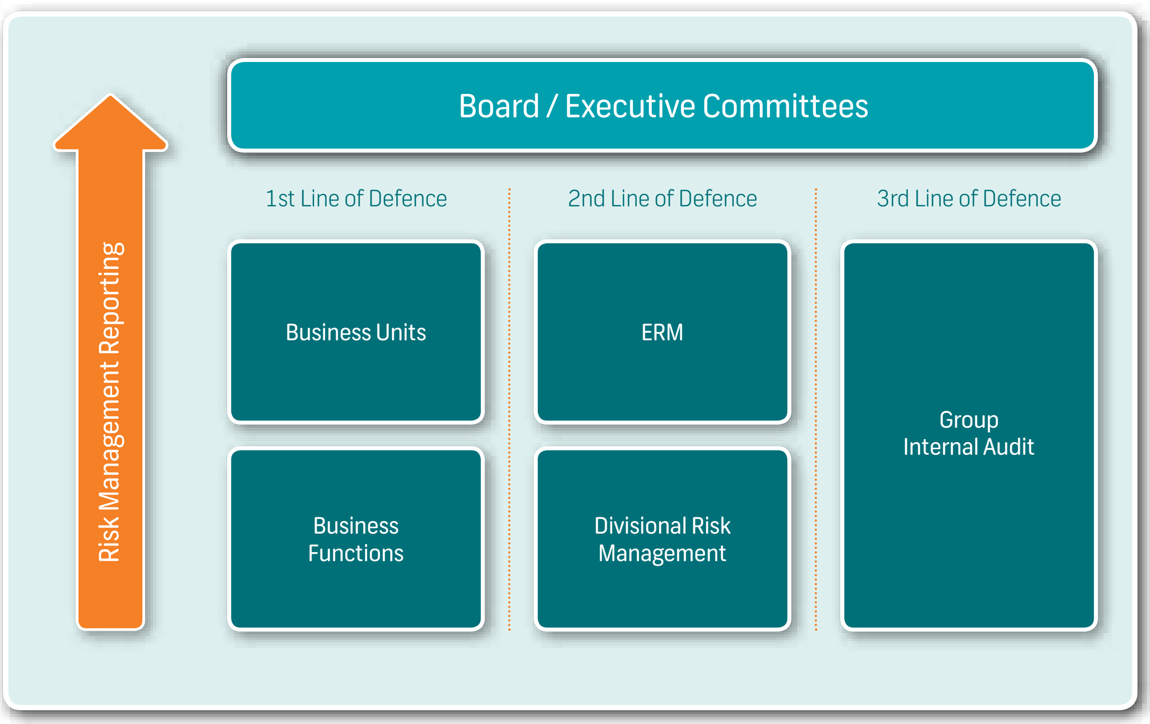
Risk management also seeks to manage these risks so as to reduce and control these risk factors and thereby minimise the incidence and impact of adverse outcomes.

Group Enterprise Risk Management Framework

The Bank has re-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.

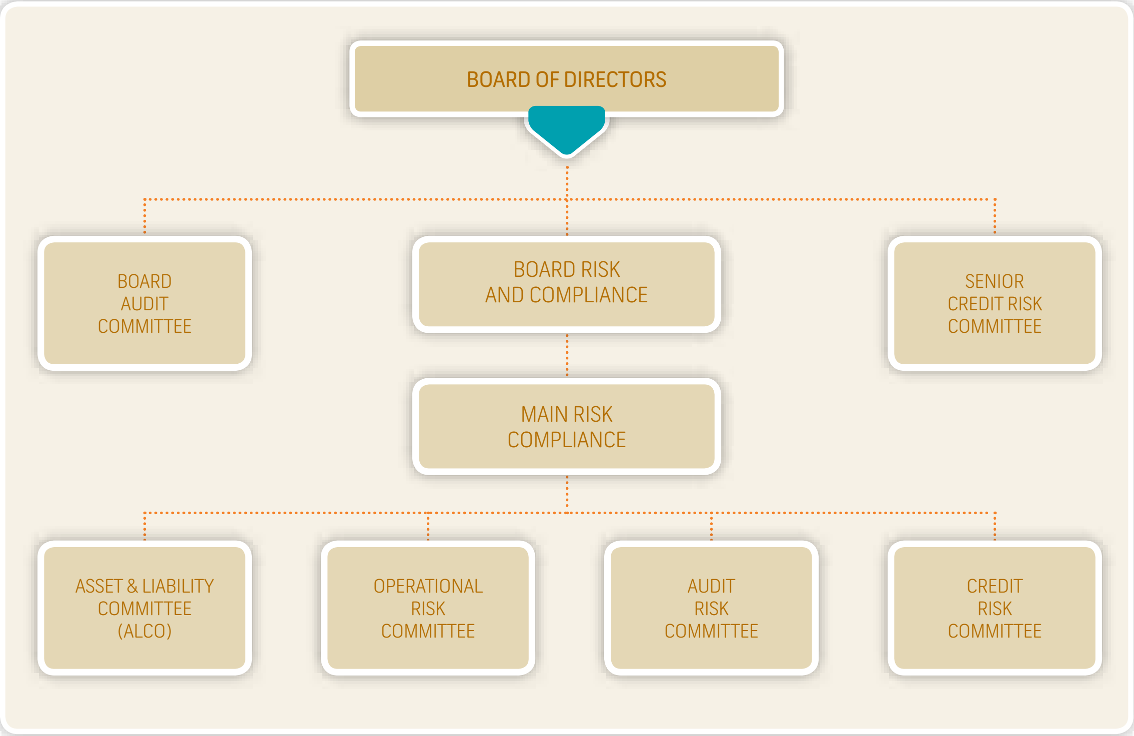
The Bank has a well developed organisational structure for risk management including roles and responsibilities which are as follows:

- The Board of Directors is ultimately responsible for risk management oversight
- Board Risk & Compliance Committee, which is a sub-committee of the Board, oversees the management of all risk types. Its duties include ensuring that there are policies, strategies and processes for identifying and managing risks.
- Main Risk Committee which reports to the Board Risk & Compliance Committee has been set up to ensure operational efficiencies across all risk types including strategic and business risks, operational risks and financial risks.
- Enterprise Risk Management (ERM) 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 all employees throughout the Bank. The efficiency of any internal control system is dependent on strict observance of prescribed measures. The ERM function, through training and management of standards, aims to develop a disciplined and constructive control environment.



Enterprise Risk Management (continued)

In order to achieve the Enterprise Risk Management objectives, specialist committees oversee the various specific risks which are in place as follows:



Specialist Committees reporting to the Main Risk Committee

Asset & Liabilities Committee (ALCO)

ALCO is responsible for managing the Liquidity Risk, Market Risk (including interest rate risk), Capital Risk Management on the Bank's balance sheet for both local and foreign currency.

Operational Risk Committee (ORC)

ORC is responsible for ensuring the effective risk management of the following risks:

- Process Risk
- Business Continuity Management Risk
- Operational Risk Governance
- Information Security Risk
- Information Technology Risk
- Legal Risk
- Regulatory Risk
- People Risk
- Reputational Risk
- Outsourcing Risks
- Project Management Risk
- Physical Security Risk
- Financial Risks

Credit Risk Committee (CRC)

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

Audit Risk Committee (ARC)

The Audit Risk Committee is responsible for quality assurance to the Bank, including reviewing the adequacy of controls and ensuring management follow up on audit findings raised.

RISK TYPES:

Liquidity Risk Management

Liquidity risk describes the risk of not being able to generate sufficient cash to meet financial commitments to extend credit, meet deposit maturities and fund other transactions in the ordinary course of business, the aim being to remain prudently and economically liquid. Maturing assets and liabilities imply an inflow and outflow of funds respectively. The mix and maturity of the balance sheet therefore impacts on liquidity. Liquidity Risk is monitored by ALCO.

The following elements form part of the liquidity management process:

- short and long-term cash flow management;
- maintaining a structurally sound balance sheet;
- ensuring the availability of sufficient contingency liquidity;
- preserving a diversified funding base;
- undertaking regular liquidity stress testing;
- maintaining liquidity contingency plans;
- monitoring of prudent liquidity limits;
- prescribing liquidity stress scenarios;
- annual review of liquidity management policies

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.

The bank operates within the Market Risk Management Framework of the FirstRand Banking Group, within which the risks associated with trading positions are managed. Market Risk is monitored by ALCO.

Interest rate risk is the risk that future cash flows or values of financial instruments will fluctuate as a result of changes in market interest rates. The ALCO is charged with the responsibility of managing the structure of the balance sheet and administering the key risks that arise during the ordinary course of banking. This risk is quantified by calculating the impact of a two per cent increase and decrease in interest rates on net interest and is reported to the Board and Group ALCO.

By managing these risks, ALCO ensures that all future cash flow commitments and capital adequacy are met and that net interest income is maximised.

Solvency 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. Bank failures cause a contraction in the economy.

A bank's solvency may be threatened if its other risks have been mismanaged. Capital adequacy is an exclusive concept which bankers, analysts and regulators measure by a variety of methods. The numerator of the calculation is always the capital base (equity capital, plus reserves, plus subordinated types of debts, plus revaluations and general bad debt provision), and the denominator is the value of the total risk-weighted assets, including off-balance sheet risks.

Credit risk

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

The credit department manages the Bank's credit risk centrally. The department's primary functions are to formulate credit policies on a macro-level, independently review the Banks largest credit exposures and manage the portfolio of risk concentrations. Efficiency of the credit process is also continuously reviewed, as is the efficiency of credit approval processes and the effectiveness of ongoing risk management of the portfolio. Portfolio credit risk is managed via a categorisation system that identifies and monitors deteriorating credit risks at an early stage. This department has oversight on the Bank's credit risk appetite.

An established credit process is in place in order to reduce the risks of experiencing high losses like those experienced in the credit crunch of overseas markets. This process involves delegated approval authorities and credit procedures. The objective of this process is to build and maintain high quality assets. The approval delegation includes the use of credit committees. These committees have been formed to effectively and objectively review proposed limits of varying amounts. The most senior of these committees includes members of the Board of Directors.

Enterprise Risk Management (continued)

Credit risk (continued)

Special attention is continually paid to the management of problematic credit. Where appropriate, this is managed to provide intensive control to maximise recoveries. The Bank has ensured a robust collections process to reduce the value of non-performing loans.

The trading portfolio

The risk of adverse movements in the comparative rates of exchange between currencies is managed in the dealing room where operations occur within limits assigned to each dealer based on individual knowledge, expertise and experience. The treasurer and independent risk manager monitor the trading portfolio on a daily basis reporting weekly to higher authority.

Operational risk with regard to market operations

All activities are authorised and conducted using operational systems that are adequate for the recording, valuation and settlement of all transactions. Adequate security measures are in place to prevent the access of unauthorised persons to the trading and settlement premises 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 counterparty to a transaction failing to meet punctually 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 risk manager monitors these limits daily and deviations are reported to a higher authority.

Operational risk

Operational risk arises from risk of loss resulting from inadequate and failed internal processes, people, and systems or from external events. The Bank guards against these risks through the following measures:

- good systems and strong internal control;
- disaster and business recovery procedures;
- regular internal and external audits;
- risk management programs; and
- external insurance policies.

The primary objective of the management of operational risk is to identify possible weak links and to strengthen these links through the constant reviewing of internal controls. The Bank has in place a comprehensive policy, standards and a business recovery plan designed to ensure that its key business functions can continue under disaster conditions. Compliance with operational risk policies and procedures is the responsibility of all line managers.

Capital Management & Stress testing

The Central Bank of Botswana sets and monitors capital requirements for all banks. Capital adequacy and use of regulatory capital is monitored by management based on guidelines as set out by the Basel Committee. The risk weighting of assets is as prescribed by the central bank.

As part of the Bank's rigorous risk assessment process, stress testing and scenario analysis are used to assess the Bank's capability to operate effectively under extreme conditions. Such conditions may arise from within the macroeconomic, political, environmental, regulatory or legal landscape the Bank operates in. Forward based planning such as stress testing and scenario analysis will assist the Board and Senior Management to understand potential future risks; adequacy of contingency planning; effectiveness of controls; and dynamics of the Bank's risk profile.

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 & Board Risk & Compliance Committee • Contingency plans
Interest Rate Risk	Interest rate risk is the possibility of incurring losses as a result of changes in interest rates.	High	• Interest Rate Risk Frameworks • Monitoring by ALCO & Board Risk & Compliance Committee
Market Risk	Market risk arises from the negative impact on the current and future earnings potential of the bank as a result of the movement and volatility of exchange rates or interest rates.	High	• Market Risk Framework • Monitoring by ALCO
Credit Risk			
Credit Risk	• the risk that a debtor will default on servicing and repaying a borrowing and also includes the possible shortfall in recovering a debt after realising security	High	• Review of Credit Risk Policy • Ongoing credit risk management • Credit Risk Assessment and Portfolio Monitoring • Monitoring of Delegated Authority • Product Lending Limits • Senior Credit Risk Committee, Sub Committee of the Board • Credit Risk Appetite
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 & Procedures • Succession Planning • Regular remuneration review by the Remuneration Committee (REMCO)
Information Technology Risk	• The risk of loss by failure, breakdown, or other disruption in technology and/or processing.	High	• IT Policies and Frameworks • Systems Audits • Project Risk Management Review of IT Projects • Regular maintenance and upgrade

Enterprise Risk Management (continued)

Risk	Description	Impact Rating	Mitigating Action
Operational Risk			
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 & 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
Process Risk	The risk of loss to the company due failed internal controls, fraudulent activities of employees and non-employees, negligence, human errors or through weaknesses of operating procedures	High	• Operational Risk Management Framework • Risk based review of processes • Physical controls & Security • Fraud Management • Internal 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 & 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

Risk	Description	Impact Rating	Mitigating Action
Operational Risk			
Physical Security Risk	The risk of loss or damage to the physical property or assets to which the company is responsible for	High	• Routine maintenance & checks • Physical Security Policies • Business Continuity Planning
Outsourcing Risk	The risk of failure of key outsourcing arrangements with external parties	High	• Outsourcing Policies & 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 • Stress testing • Regular Review by Board
Reputational Risk			
Reputational Risk	The risk of financial loss due to negative public perception	High	• Media Policies & 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 Board • Staff Training

Sustainability Reporting

SUSTAINABILITY REPORTING

BANK OVERVIEW

At FNBB we believe that we exist because of the relationships that we have developed with our stakeholders. Our key stakeholders are our staff, shareholders, customers, suppliers, the community we operate in, and our regulators and related authorities.

Our Board ensures that appropriate processes are in place in order to provide a complete picture of the Bank's profile (both qualitative and quantitative information) to our stakeholders. Complete picture in terms of the transparency and reliability of the information that we share with our stakeholders.

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 of our operations on our stakeholders.

The past financial year marked the third year of the 5 year strategic plan of the Bank. Our over arching strategic focus for the period under review was:-

- *To be the best employer;*
- *To offer the best service;*
- *Effective governance structures; and*
- *To be the best performing Bank*

On the back of the above strategy, our strategic plan therefore touched on a number of areas in the Bank which we believed would help the Bank to achieve its objectives for the financial year as follows:-

Strategic Area 1.	Retail Corporate Banking
▪	Continued focus on renewing infrastructure
▪	Increased foot print
▪	Moving from bricks to clicks strategy or technology based service offerings
▪	Service strategy
▪	Enhanced efficiencies by centralising processes and automation or improvement of business processes
▪	Focus on impairments and bad debt management
▪	Greater emphasis on augmenting the customer value proposition

Strategic Area 2.	Corporate Segment
▪	Wholesale segmentation model
▪	Focus on relationship management
▪	Leveraging on collaboration with Group
▪	Focus on e-Solutions
▪	Focus on product penetration and cross selling
▪	Customer centric solution offerings
▪	Opening a transaction service centre

Strategic Area 3.	New Products and Services
▪	Bank Your Change
▪	Savings Pocket
▪	Cellphone Banking Lite
▪	e-Wallet
▪	FNBB Instant Accounting
▪	Increased service providers for cell-phone banking

Sustainability Reporting (continued)

Strategic Area 4.	Improved Products
▪	Introduction of chip credit and debit cards
▪	Bulk e-Wallet
▪	Pre-approved temporary loans
▪	Accounts for casual workers and under-banked customers
▪	Ability to open accounts for Corporate Client employees via online banking
▪	Improved collection and payment services via internet banking and general improvement of internet banking for all customers

Strategic Area 5.	Information Technology
▪	Systems integration; interfacing to core systems
▪	Account opening optimisation
▪	Improving telecommunications connectivity
▪	Application upgrade of the Codeline Clearing System
▪	Replacement project of the Branch Teller System

Strategic Area 6.	People
▪	Improve the employee value proposition and achieve the employer of choice status
▪	Leadership development; focusing on remodelling our Junior Board and launching the Future Leaders Programme
▪	A review of our remuneration strategy and practises
▪	Focus on talent management
▪	Develop a Wellness Strategy

Strategic Area 7.	Risk and Compliance
▪	Preparations for Basel III
▪	On-going identification of KRI's and RCSA's bank wide
▪	Improved efficiencies for credit monitoring
▪	Focus on the Internal Audit report; risk based approach for auditing
▪	On-going business continuity management testing
▪	Adopting a stress testing framework

Strategic Area 8.	Customer Service
▪	Appointment of a Director Client Services
▪	Development and implementation of a service strategy
▪	Revamped look of our outlets/branches
▪	Create a Call Centre
▪	Improved turn-around times

Strategic Area 9.	Stakeholder Relations & Corporate Citizenry
▪	Continued to contribute up to 1% of profits to FNB Foundation
▪	Implementation of projects for the upliftment of society
▪	Continued with the staff volunteer programme

Strategic Area 10.	Corporate Governance
▪	Focusing on Corporate Governance objectives; bedding down of King III
▪	Governance of Risk Management
▪	Compliance
▪	Internal Controls

Sustainability Reporting (continued)

PERFORMANCE ON STRATEGY

People

In line with the Bank's Strategy and our People Dashboard for Success, staff remained an integral part of our business and they continued to be our number one stakeholder. During the year under review we developed various employee engagement initiatives in order to stimulate employee commitment, drive, and perseverance towards a culture of Excellence. These initiatives included an improved and effective Union/Management relationship, market related pay, improved employee engagement score, employee wellness, improved brand, talent retention and development, and skills and capacity development.

We believe that with constant and consistent progress towards achieving our employee value proposition (EVP), FNB will achieve the status of Employer of Choice. Below are the highlights of our achievements on the People strategy:-

a) Union/Management Relationships

For the first time in close to five years, the Bank has been able to settle negotiations with the Botswana Bank Employees Union (BOBEU) within two weeks of the negotiations process. This milestone has been attributed to improved relations between the Union and Management. This success has been achieved through extensive consultation, team building exercises, and training on Mutual Gains Negotiations. The objective of these initiatives was to break down the barriers and pave the way for discussing issues of mutual interest.

We fervently believe that these harmonious relations will be maintained through on-going consultation and negotiations on matters of common interest. We look forward to discussions around our Collective Labour Agreement with the Union together with matters of staff policy in the coming year.

b) Pay Alignment Exercise

During the period under review, the Bank achieved a tremendous stride by adopting a new pay policy and positioning pay on at least the 50th percentile of the Financial Services Market for those employees who had performed. Employees who were rated below average performers were however pegged at the 25th percentile of the market.

As a result of the adoption of this new pay policy, one hundred and thirty (130) employees were identified where their salaries had to be aligned to the pay policy accordingly. A majority of the employees who fell under this category were the clerical level and the supervisory level employees. This exercise also included a review of the salary scales and alignment of employees pay to ensure that it fell within the revised salary scales.

Moving forward the Bank will ensure that the pay policy adopted is in line with the strategy of the business and market trends.

c) Employee Engagement

During this past financial year the Bank's employee engagement score increased from 70% to 81% against a target of 80%. Our employee engagement score is measured using a People Pillar Survey and we believe that the results of the People Pillar Survey are a reflection of the Bank's achievement on their objectives on people issues during the year.

The Bank continued to focus on our number one stakeholder people and honoured the commitments that we had made to our staff. The initiatives implemented during the year included recognition for performance and meaningful rewards, alignment of pay to the market, training and development of staff, and improved communication and consultation via the Kgotla fora and other communication channels.

We are proud to state that the above engagement score is the highest in the FNB Africa Segment and also higher than the FNB Group average score. It is a clear indication of the levels of enthusiasm and commitment within our workforce and we believe that this will in turn continue to translate to improved business results in the forthcoming year.

d) Employee Wellness improvement

Improving our working environment and employee wellness was also key during the year under review. We started this process by appointing a Wellness Strategic Committee whose major focus was to develop an integrated wellness strategy.

The Wellness Strategic Committee led by an independent expert in the field, has been able to develop a strategy document that encapsulates an integrated process of managing wellness in all the spheres of the human body. The strategy document has been presented and adopted by the Executive Committee and will be launched in the near future with a view to cascade it to all staff. It is envisaged that the processes and initiatives involved in the achievement of the strategy will contribute further to the management of wellness and which will in turn translate to improved engagement and business performance.

e) Employer of Choice Branding

In an effort to achieve the status of Employer of choice and to elevate the brand of the Bank in the eyes of both the employees and potential employees, a decision was taken to participate in an Employer of Choice survey facilitated by Deloitte.

The above survey has replaced the Staff Satisfaction Index which was originally used as a "dip-stick" to assess staff satisfaction levels amongst staff. The Employer of Choice survey was carried out during the course of the year, and it was extended to a targeted sample of employees. The participation rate achieved during the process was 99%. It is envisaged that the responses provided and the output of the survey will assist Management to identify those issues that staff regard as important for staff engagement and retention purposes and also to come up with initiatives to close the gap identified.

f) Talent Retention and Development initiatives

The bank embarked on numerous initiatives aimed at key talent identification, retention, and development for future business continuity. One of these initiatives - The Future Leadership programme - has been implemented and is aimed at developing capacity around critical Banking disciplines like Credit, Branch Management, Sales, and Service.

The Junior Board programme was also overhauled during the course of the financial year, and we have seen a growing commitment on the part of Executive Management to the programme. The commitment of Executive Management includes additional resources being allocated to the programme which has resulted in unlocking the drive and commitment to the programme by the participants.

Sustainability Reporting (continued)

The Executive Training Programme continued to be utilised to complement the above initiatives. Young graduates continued to be groomed and developed into future leaders.

A key achievement in the talent management space was the classification of our talent in line with the Talent Grid model, and the identification and development of Executive Committee members' successors. We believe that this will go a long way in facilitating business continuity particularly at times when vacancies occur in the leadership.

g) Ongoing focus on Skills Development
The Bank remains one of the biggest supporters of skills and capacity development in the Financial sector. We continued to invest greatly on Investment in Excellence training and assisting our sales staff to get proficiency certificates in Insurance.

CUSTOMERS

The Bank is in the process of building a strong service culture that supports the business objectives of customer acquisition and customer retention, thereby increasing profitability.

Communication, education and engagement with our customers on our products and services is a priority as well as continually striving to provide convenient and cost effective banking to our customers. We are continuously improving accessibility to our branches, ATM's and electronic banking platforms, and this together with our ongoing commitment to introducing reliable and innovative products and services to the market is intended to further enhance our customers' banking experience.

The Bank continued to expand and upgrade the branch footprint. During the current financial year the Bank opened a new branch of its kind at Railpark Mall, in Gaborone bringing the total number of Branches to 20. The new branch - Railpark EasyPlan Branch – concept forms part of the Bank's strategy to make banking more accessible and convenient for mainstream customers.

ATM channels also continued to be expanded. At the end of the financial year the Bank stood at 127 ATM's countrywide compared to 122 at the same time last year. The above is inclusive of mobile ATMs which are placed at different locations depending on the demand for ATM usage.

We believe that the establishment of a strong service culture will differentiate us from our competitors. It is therefore our intention that our customers experience service excellence every time they interact with the Bank. In order to support the delivery of service excellence to our customers and to deliver on our commitment to service excellence, we are continuously training and up-skilling our staff.

SUPPLY CHAIN AND ENVIRONMENT

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.

In practice, supply chain sustainability can include projects to reduce energy cost and any form of waste. 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 reuse. We have recently had a problem with e-waste (old CPUs, monitors, swipe machines and other computer/IT equipment). Their disposal in Botswana is illegal and thus we had to send them to South Africa for safe disposal.

The modern supply chain also has unprecedented access to methodological and technological resources, which may help to mitigate risk. The challenge to supply chain management is to protect the very environment that sustains us, today and for future generations. This special issue of Sustainability focuses on supply chain sustainability, with particular interest in some of our most critical supply chain products: stationery, water and energy

SUPPLY CHAIN SUSTAINABILITY

We have an image of a clean, green environment with products and services to match. All businesses rely on their supply base and customers to survive. Increasingly we are being expected to know that our suppliers are as mindful of their environmental and social responsibilities as we are or should be. This is not always easy to do with local suppliers but it is even harder with suppliers from other countries. However being difficult to do is no excuse because if you do not find out about your own supply chain, someone else might do it for you.

During a slow economic growth, improving core business processes is a logical way to make our organisation more cost efficient. Business processes like contracts management, accounts payable and order fulfilment are good places to start when making an organisation cost efficient.

Through our Procurement Policies, we have integrated sound governance and purchasing practices as well as disposal ethics.

Cost Management Strategy

FNBB Limited has been focused on cost reduction. In fact, in response to slower economic growth, we have carried out more waves of cost cutting than it has been in the recent past. In essence, strategic cost management entails investing savings from short-term tactical cost reduction in longer-term structural changes that can boost the bank's flexibility, responsiveness and efficiency while spurring cost savings of 20 - 40 percent or more along the way.

A properly designed and implemented strategic cost management program like FNBB's will be sustainable no matter which direction the economy turns. The alignment of operations, strategy, risk management, and finance along with the culture of cost management lends itself to be flexible and accurate when making the strategic decisions. Using strategic cost management will prevent the loss of key people, customers, suppliers and other resources because it will ensure that when cost management actions are enacted these actions are not being done for the bottom line only, but are focused on corporate strategy and will promote economic profitability.

RELATIONSHIPS WITH STAKEHOLDERS

The Bank is subject to oversight of the Central Bank, the Botswana Stock Exchange, and Non-Bank Financial Institutions Regulatory Authorities and compliance with relevant regulations affecting the Bank is out utmost importance.

The Board and Management interact with these bodies on an ongoing basis, with the objective of ensuring that we maintain sound working relationships and a stable working environment conducive for the operation of the Bank.

The Bank is a member of the Banking Association and the association meets on a quarterly basis. The association enables the Bank to contribute and debate with various stakeholders on top of mind issues which affect our sustainability.

COMMUNITY

First National Bank of Botswana places a lot of importance on 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 projects of their choice and commit time, share skills and donate funds to support the project to achieve its objectives.

Since its establishment in 2001, the Foundation has invested more than P22 million in various projects, enriching and uplifting the lives of many people in need across the country.

how can we help you?

ANNUAL **REPORT 2012**

FNB got registered in Botswana in 1991, and in its 10th year of existence, formed the FNB Botswana Foundation. This is the focused Corporate Social Responsibility arm of the Bank, which allows FNB to sustainably empower the communities within which it operates. On an annual basis, FNB Botswana contributes up to one percent (1%) of its profits after tax to the Foundation.

The FNBB Foundation is today one of the biggest corporate donors and a leader in Corporate Social Responsibility in the financial services sector.

OUR **MILESTONES**

2010

The FNBB soccer themed 2010 Annual Report won the best published Corporate Report and Accounts in the Financial Service Sector category by the PriceWaterHouseCoopers Annual Report Awards.

2010

FNBB introduced eWallet; a card-less money transfer service that allows customers to instantly send money to anyone in Botswana with an active cell number. Recipients can use the money in the Wallet to buy airtime or Send Money on to another recipient.

FNBB FOUNDATION

FNB's greatest strength in touching the lives of the communities within which it operates is embodied in the staff. The FNBB Foundation has channeled the desires of FNB people to lend a helping hand through the Staff Volunteer Programme.

2011

Susan Kenosi became the Diamond Person of the Year. She is a stellar example of Service Excellence.

2011

FNBB unveiled the first ever mobile ATM in Botswana. This forms part of the Bank's efforts to bank the unbanked and take banking to the people.

2011

FNBB embarked on a strategic journey in 2009, whose first pit stop was on 27 August. All FNBers received Samsung LCD TV sets as reward for the Bank's stellar financial performance.

FNBB Foundation

FNBB FOUNDATION
In partnership with the community

FNB got registered in Botswana in 1991, and in its 10th year of existence, formed the FNB Botswana Foundation. This is the focused Corporate Social Responsibility arm of the Bank, which allows FNB to sustainably empower the communities within which it operates. On an annual basis, FNB Botswana contributes up to one percent (1%) of its profits after tax to the Foundation.

With the Bank's allocated funds, the Foundation's mandate is to contribute meaningfully to social development in Botswana. This mandate is broad enough to allow for a responsive and flexible approach in order to cater for the differing needs of the communities.

Some of the projects that have been sponsored range from educational endeavors, arts and culture, sports and recreation and social welfare. The common thread throughout the projects is FNB's commitment to engaging with organisations in a structured and meaningful way, with the end result being one of developing high-quality partnerships and having a greater impact on the projects it supports.

The FNBB Foundation takes a holistic approach to corporate social responsibility. While the Bank recognises the importance of financial assistance in eradicating poverty; it also encourages staff to spare time to touch the communities around them through the Staff Volunteer Programme. In its 21 years of existence, FNB Botswana has always kept the needs of its staff, customers and communities in mind, hence; *how can we help you?*

FNBB FOUNDATION SUPPORT AREAS

The FNBB Foundation considers funding of a capital nature, such as buildings (dormitories, classrooms, multi-purpose halls etc), vehicles, machinery and operating expenses.

The Fund specifically focuses on the following areas:

- 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.

During the year under review, (2011 - 2012) the Foundation assisted the following organisations:

- Bana Ba Metsi
  Contribution towards operational expenses of the school for a year

- BONEPWA Maun Centre for Excellence
  Donation of a vehicle

Staff Volunteer Programme

FNB's greatest strength in touching the lives of the communities within which it operates is embodied in the staff. The FNBB Foundation has channeled the desires of FNB people to lend a helping hand through the Staff Volunteer Programme. This part of the Foundation is of mutual benefit to the community and the FNB Staff members.

The Staff Volunteer Programme assisted the following organisations:

Molepolole Branch	Healing Art Project
Treasury, International Trade & Public Sector	Tawana Park
Distribution Channel	Countrywide distribution of food, blankets and clothing
Ghanzi Branch	Distribution of food, clothing and blankets

Since inception, the Staff Volunteer Programme has assisted 52 projects country wide.

FNBB Foundation (continued)

The FNBB Foundation is today one of the biggest corporate donors and a leader in Corporate Social Responsibility in the financial services sector. To FNBB, Corporate Social Responsibility means building enduring and rewarding relationships with all the groups and individuals that make up our society. To date the Bank has contributed P25.3 million to the Foundation and has been involved in 133 staff volunteer projects. Since its establishment in 2001, the Foundation has invested more than P22 million in various projects, enriching and uplifting the lives of many people in need across the country.

TOTAL CONTRIBUTION TO DATE BY THE BANK

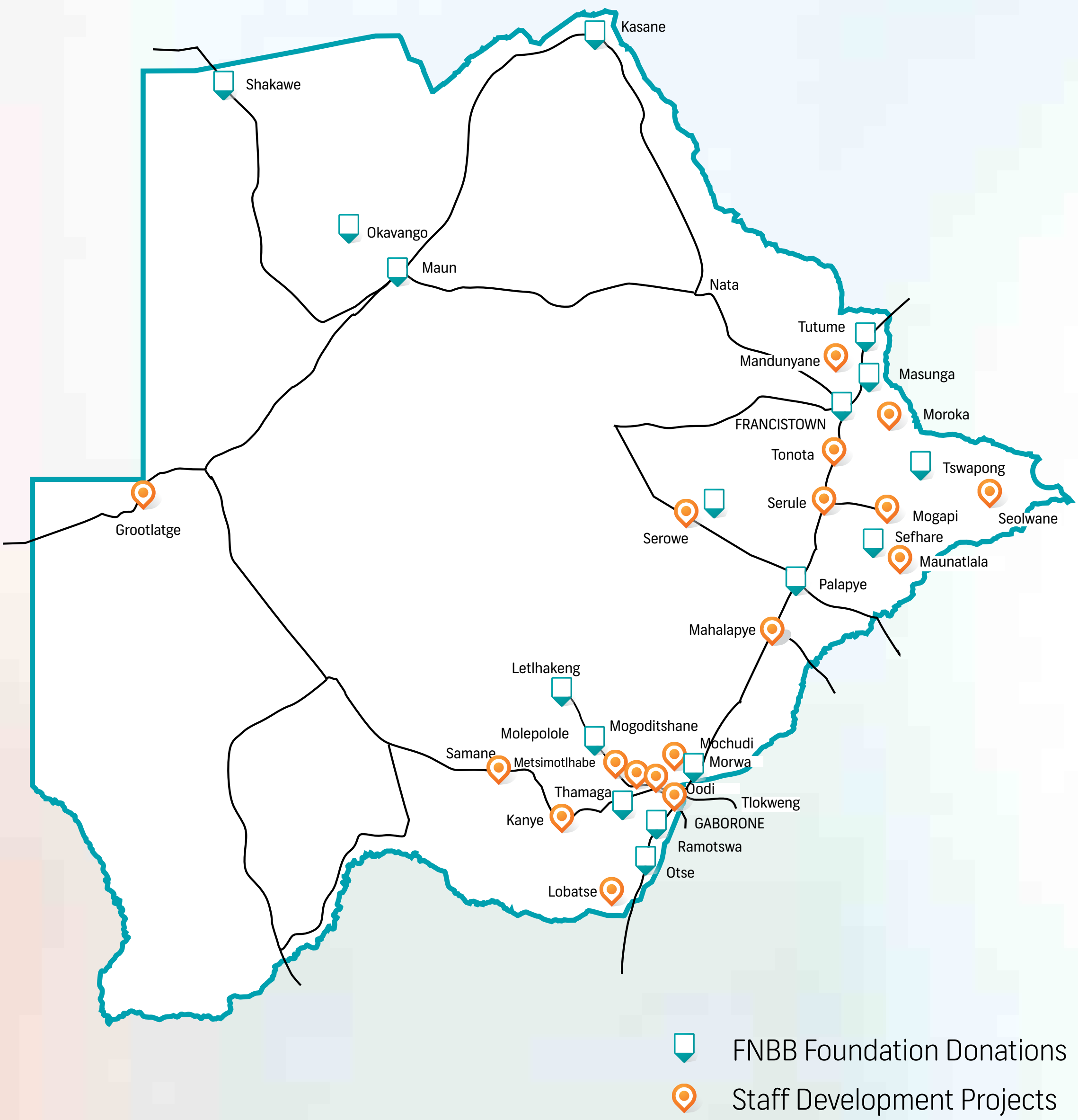
equates to P25.3m

TOTAL NUMBER OF PROJECTS

assisted to date 133

BY FNBB FOUNDATION AND THE STAFF VOLUNTEER PROGRAMME

Footprints of the FNBB FOUNDATION



how can we help you?

ANNUAL **REPORT 2012**

Net interest income grew by 16% as a result of the 17% growth in advances as well as changes in the deposit mix from the more expensive professional segment to cheaper core deposits. The increase in interest income was achieved despite the negative impact of increased reserving requirement from 6.5% to 10% introduced in July 2011 and the ongoing low interest rate environment.

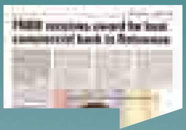
In order to cater for the risks that follow the Bank's strategy of growing assets in the retail space, a more conservative provisioning methodology has been adopted. Additionally, with the on-going difficult economic conditions putting strain on consumers, impairment charges increased by 124% off a low base.

OUR **MILESTONES**

2012

FNBB opened its 21st branch- Airport Junction Branch in its 21 years of operation in Botswana. The Bank continues to grow its footprint in the interest of serving a wider customer base.

2012



FNBB was voted the Best Commercial Bank in the World Finance Awards. The award is testament to the hard work and dedication of staff and the Bank's commitment to provide a full range of innovative financial services and products to all customers.

FINANCIAL PERFORMANCE

The strengthening in our financial position helped us maintain our strong track record of profitability wherein our profit before taxation increased from P638 million in 2011 to P730 million signifying an increase of 14%. On the other hand, FNBB's profit after tax remained flat, impacted by the 2011 changes in tax legislation and the subsequent reduction in the effective tax rate in that year.

2012

FNBB introduced FirstPay Portal; a debit and credit card payment platform that allows FNB and non-FNB customers the ability to pay their utilities and services online.

2012

FNBB is the largest Bank by market capitalisation in the Botswana Stock Exchange.

Chief Financial Officer's Report

BANK OVERALL PERFORMANCE

During the 2011/2012 financial year, First National Bank of Botswana (FNBB) focused on solidifying its position as one of Botswana's premier financial services institution, against a backdrop of global and local economic uncertainties. Liquidity challenges, job losses and other fiscal consternations impacted FNBB as replicated on interest income and impairment of advances.

Reflecting solid growth in a number of our business segments, our overall Statement of Financial Position increased by 8% to over P14 billion with advances increasing by 17% to P8.4 billion. The strengthening in our financial position helped us maintain our strong track record of profitability wherein our profit before taxation increased from P638 million in 2011 to P730 million signifying an increase of 14%. On the other hand, FNBB's profit after tax remained flat, impacted by the 2011 changes in tax legislation and the subsequent reduction in the effective tax rate in that year.

CONSOLIDATED INCOME STATEMENT

Net Interest Income and Impairments

Net interest income grew by 16% as a result of the 17% growth in advances as well as changes in the deposit mix from the more expensive professional segment to cheaper core deposits. The increase in interest income was achieved despite the negative impact of increased reserving requirement from 6.5% to 10% introduced in July 2011 and the ongoing low interest rate environment.

In order to cater for the risks that follow the Bank's strategy of growing assets in the retail space, a more conservative provisioning methodology has been adopted. Additionally, with the on-going difficult economic conditions putting strain on consumers, impairment charges increased by 124% off a low base. As illustrated by Fig1, the impairment to gross advances ratio increased to 1.6%, but remains lower than the market average.

Non-interest revenue

Non-interest income increased by 24% and this was principally due to:

- Increased usage of the Bank's technology offerings such as mobile and internet banking;
- Greater use of the Bank's ATM platform as a result of the expanded ATM network, the reduction in downtime, and general growth in customer numbers;
- Increase in trading income following improvements in diamond sales; and
- Profits from the sale of the Bank's shares in Visa Inc.

The Bank will continue to focus on non-interest income in its endeavor to diversify revenue streams.

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's ability to cover non interest expenditure with non interest revenue remains a key focus area in reducing the Bank's reliance on interest income.

Operating expenses

FNBB has invested in branches, ATMs and great technologies since 1991; however, its greatest differentiator remains its people. An investment in staff resulted in 17% growth of staff expenses. This is in line with the growth of the Bank and alignment of resources to cater for emerging risks and regulatory challenges in the financial and banking environment.

FIG 1: IMPAIRMENT CHARGE ANALYSIS (%)

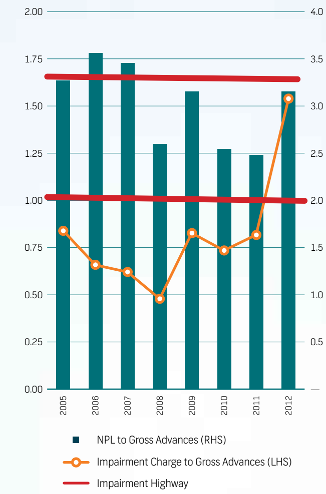
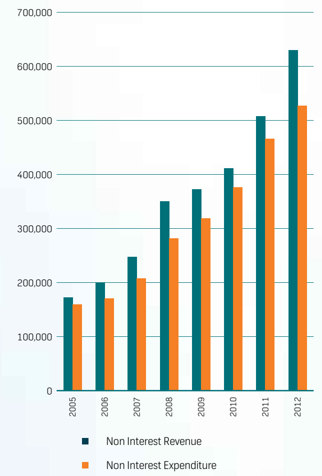


FIG 2: NON INTEREST REVENUE VS NON INTEREST EXPENDITURE



Chief Financial Officer's Report (continued)

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

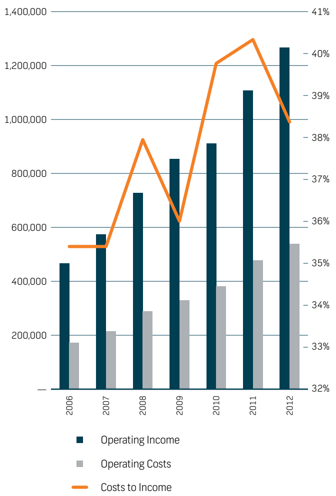


FIG 4: GROSS ADVANCES vs NON PERFORMING LOANS (P'000)

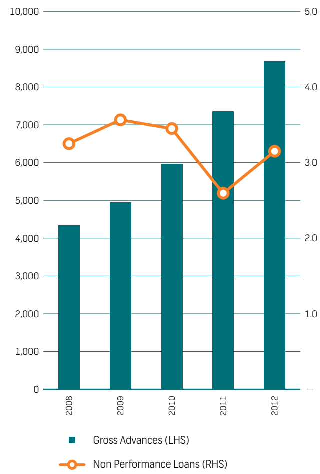
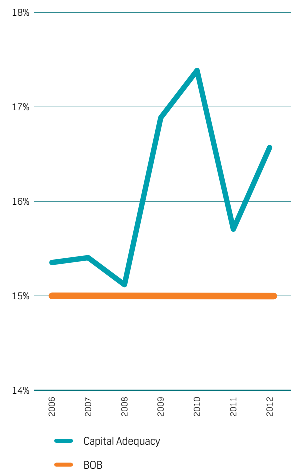


FIG 5: GROSS ADVANCES

FIG 6: CAPITAL ADEQUACY RATIO



The Bank continues to invest in systems to effectively manage risks and improve management information for decision making and regulatory reporting. During the period, the Bank continued to expand its footprint with increased ATMs and the opening of the Rail Park Mall branch. Despite these projects and expansion initiatives, other operating expenses only increased by 9%.

As illustrated by Fig 3, despite this increase in costs, the bank's cost to income ratio remains low at 38%, and a focus on cost efficiencies continues through the Cost Containment Committee.

Taxation

As a result of changes in legislation in July 2011, the effective tax rate increased from 10% in June 2011 to 23% during the reporting period.

Statement of Financial Position

The Bank's Statement of Financial Position increased by 8%. This was mainly as a result of a 17% growth in advances to customers chiefly driven by Property Finance and the Wholesale and Consumer segments respectively. As can be seen from Fig 4, the quality of the book remains a priority. The ratio of Non Performing Loans relative to Gross Advances remains low at 3%. The loan book remains well diversified, cutting across products and segments as illustrated in Fig 5.

Market Performance

FIG 7

	2012	2011	% Change
Share Price (thebe)	290	272	7
Market Capitalisation (Pm)	7,435	6,973	7
Dividend per share (thebe)*	13.0	20.0	(35)
Dividend Yield-ordinary shares (percent)*	4.5	7.4	(39)
Dividend cover (times)*	1.7	1.1	55
Return on Average Assets*	4.2	4.5	(7)
Return on Shareholders' interest (ROE)*	42.0	50.0	(15)

**Note that these ratios were impacted by a special dividend of 8 thebe in 2011.*

Growth in deposits from customers was lower than expected at 8%, reflecting the current strain on the consumer and the liquidity changes in the market. The Bank continues with planned initiatives to reduce reliance on professional deposits and to focus on other segments for funding.

Total ordinary equity holders' funds increased by 33% compared to the prior year, reflecting the impact of special dividend paid in 2011. The Bank is also gearing up for Basel II in line with its capital management framework.

Cash and short term funds grew by 50% due to an increase in the reserving requirements from 6.5% to 10% effective 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 industry (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 to be adopted in Botswana in 2014.

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.

Chief Financial Officer's Report (continued)

Capital Management *(continued)*

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 Bank 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, the Bank's capital adequacy ratio, which excludes the dividend reserve, at 16.6% as at 30 June 2012, is in line with the Bank's capital management framework and above 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.

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

The Bank ended the year with a well diversified financial position to not only cushion any future adverse economic conditions, but to also embrace opportunities anticipated in its strategy. Looking ahead, we intend to capitalise on our competitive strengths through the delivery of superior products and services to satisfy the needs of our customers while developing our human resources and building better communities.

After close to 6 years as CFO for FNBB and on the eve of the Bank's 21st anniversary in Botswana, I will be pursuing other interests within the Bank and handing over to the new CFO, who will continue the commitment to prudent stewardship of the Bank's financial resources in the years ahead.

Steven Lefentse Bogatsu
Chief Financial Officer

how can we help you?

ANNUAL **REPORT 2012**

Annual Financial Statements

Contents

Value Added Statements

to the members of First National Bank of Botswana Limited

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 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	1,738,547	1,598,598	1,734,182	1,595,596
Cost of services	(1,039,463)	(966,820)	(1,035,301)	(963,467)
Value added banking services	699,084	631,778	698,881	632,129
Non-operating and other income and expenditure	367,114	258,079	364,595	253,265
Value added	1,066,198	889,857	1,063,476	885,394
Value allocated				
To employees				
Salaries, wages and other benefits	268,589	228,541	267,410	227,134
To providers of capital				
Dividends to shareholders	179,459	589,651	179,459	589,651
To Government				
Taxation	171,649	70,741	170,512	69,624
To expansion and growth				
Retained income	389,334	(15,811)	386,708	(16,733)
Depreciation	19,462	16,735	18,291	15,718
	408,796	924	404,999	(1,014)
	1,028,493	889,857	1,022,380	885,394
Summary	%	%	%	%
Employees	26.2	25.7	26.2	25.7
Providers of capital	17.4	66.3	17.6	66.6
Government	16.7	7.9	16.7	7.9
Expansion and growth	39.7	0.1	39.6	(0.1)
	100.0	100.0	100.0	100.0

Ten-Year Consolidated Statements of Financial Position

for the year ended 30 June 2012

	30 June 2012 P'000	30 June 2011 P'000	30 June 2010 P'000
STATEMENT OF FINANCIAL POSITION			
ASSETS			
Cash and short term funds	2,557,842	1,706,573	1,201,491
Derivative financial instruments	7,861	2,996	758
Advances to banks	—	361,178	—
Advances to customers	8,420,553	7,170,842	5,803,009
Investment securities	2,699,551	3,496,862	4,946,059
Current taxation	—	4,622	1,041
Due from related companies	7,839	13,133	5,075
Accounts receivable	170,800	170,502	57,719
Non-current assets held for sale	5,511	—	—
Investment in associated company	—	3,058	3,151
Property and equipment	317,559	202,200	187,306
Goodwill	26,963	26,963	26,963
Total assets	14,214,479	13,158,929	12,232,572
LIABILITIES			
Deposits from banks	166,900	215,186	4,000
Deposits from customers	11,448,851	10,597,398	10,304,632
Accrued interest payable	45,179	36,696	45,661
Derivative financial instruments	32,912	18,794	559
Current taxation	461	—	—
Due to related companies	57,883	140,031	50,209
Creditors and accruals	275,972	616,691	336,647
Provisions	52,252	42,646	23,830
Borrowings	519,047	244,971	207,827
Deferred taxation	82,296	98,350	100,648
Total liabilities	12,681,753	12,010,763	11,074,013
EQUITY			
Stated capital	51,088	51,088	51,088
Reserves	1,276,542	1,045,804	979,286
Dividend reserve	205,096	51,274	128,185
Total ordinary equity holder's funds	1,532,726	1,148,166	1,158,559
Total equity and liabilities	14,214,479	13,158,929	12,232,572

30 June 2009 P'000	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
1,185,914	1,796,013	904,941	570,245	334,887	420,681	429,959
22,611	59,514	18,476	—	—	—	—
—	—	—	—	—	—	—
4,643,241	3,969,496	3,073,209	2,716,404	2,513,929	2,053,400	1,916,745
6,085,772	5,363,202	4,060,061	3,760,394	391,845	545,168	436,979
—	—	—	—	320	6,014	2,111
3,956	2,029	1,151	—	—	—	—
363,392	181,911	197,447	96,171	59,353	106,215	75,090
—	—	—	—	—	—	—
2,037	2,297	2,421	2,499	2,302	1,694	1,721
115,601	80,737	63,184	39,354	37,601	38,559	40,915
26,963	26,963	26,963	26,963	26,963	26,963	22,193
12,449,487	11,482,162	8,353,070	7,212,030	3,367,200	3,198,694	2,925,713
13,851	142,310	125,463	142,299	53,950	58,263	75,000
10,552,699	9,763,624	6,744,640	5,881,827	2,430,240	2,261,314	2,145,438
70,142	86,594	85,100	60,902	17,302	18,520	18,818
21,388	59,514	18,476	—	—	—	—
7,494	5,173	308	138	1,131	—	—
175,827	97,587	213,482	48,834	102,789	146,819	16,400
166,538	91,514	57,517	60,268	63,682	88,158	97,035
24,741	43,267	34,776	34,532	—	—	—
416,612	424,694	430,907	438,851	195,137	200,933	106,276
79,071	43,267	34,776	33,507	42,432	45,491	45,412
11,528,363	10,757,544	7,745,445	6,701,158	2,906,663	2,819,498	2,504,379
51,088	51,088	51,088	51,088	51,088	51,088	51,088
754,669	583,800	400,151	331,599	299,210	240,942	288,208
115,367	89,730	156,386	128,185	110,239	87,166	82,038
921,124	724,618	607,625	510,872	460,537	379,196	421,334
12,449,487	11,482,162	8,353,070	7,212,030	3,367,200	3,198,694	2,925,713

Ten-Year Consolidated Income Statements

for the year ended 30 June 2012

	30 June 2012 P'000	30 June 2011 P'000	30 June 2010 P'000
INCOME STATEMENT			
Interest and similar income	1,111,862	1,094,078	1,062,618
Interest expense and similar charges	(342,799)	(432,327)	(518,978)
Net interest income before impairment of advances	769,063	661,751	543,640
Impairments losses on loans and advances	(132,714)	(59,211)	(43,420)
Net interest income after impairment of advances	636,349	602,540	500,220
Non interest income	629,108	505,793	410,610
Income from operations	1,265,457	1,108,333	910,830
Operating expenses	(535,496)	(470,596)	(378,858)
Income before taxation	729,961	637,737	531,972
Taxation	(161,168)	(63,897)	(95,922)
Income after taxation	568,793	573,840	436,050
Dividends paid and proposed	(333,281)	(589,651)	(230,734)
Retained income for the year	235,512	(15,811)	205,316

	30 June 2009 P'000	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
	1,296,474	1,168,337	1,005,074	583,923	467,009	439,510	397,884
	(773,578)	(768,085)	(657,297)	(295,654)	(223,956)	(212,722)	(185,246)
	522,896	400,252	347,777	288,269	243,053	226,788	212,638
	(40,752)	(20,804)	(22,012)	(19,393)	(19,483)	(22,962)	(16,919)
	482,144	379,448	325,765	268,876	223,570	203,826	195,719
	371,196	348,980	244,931	197,471	170,900	137,139	124,923
	853,340	728,428	570,696	466,347	394,470	340,965	320,642
	(324,860)	(279,148)	(205,052)	(167,184)	(160,061)	(150,403)	(130,076)
	528,480	449,280	365,644	299,163	234,409	190,562	190,566
	(121,760)	(75,253)	(55,797)	(45,920)	(37,715)	(24,986)	(31,778)
	406,720	374,027	309,847	253,243	196,694	165,576	158,788
	(230,734)	(205,097)	(252,525)	(192,27)	(138,440)	(211,505)	(104,086)
	175,986	168,930	57,322	60,965	58,254	(45,929)	54,702

Directors' Responsibility Statement

for the year ended 30 June 2012

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

The financial statements have been audited by the independent accounting firm, Deloitte & Touche, which was given unrestricted access to all financial records and related data, including minutes of the Board of Directors and committees of the Board. The Directors believe that all representations made to the independent auditors during their audit are valid and appropriate. The independent auditor's report is presented on page 71.

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 also responsible for the Bank's system of internal financial control. These are designed to provide reasonable, but not absolute, assurance as to the reliability of the financial statements, and to adequately safeguard, verify and maintain accountability of the assets, and to prevent and detect misstatement and loss. Nothing has come to the attention of the Directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

Against this background, the Directors accept responsibility for the Group and Company annual financial statements presented on pages 75 to 166, which were approved on 8 August 2012 and are signed on their behalf by:

P. D. STEVENSON
Chairman

L. E. BOAKGOMO-NTAKHWANA
Chief Executive Officer

B. M. BONYONGO
Director

Independent Auditor's Report

to the members of First National Bank of Botswana Limited

We have audited the Group and Company annual financial statements of First National Bank of Botswana Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2012, 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 166.

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 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 about 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 give a true and fair view of the consolidated and separate financial position of First National Bank of Botswana Limited as at 30 June 2012, and its consolidated and separate financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matter – Supplementary Information

Without qualifying our opinion, we draw attention to the fact that the supplementary information as set out on page 65 to 69 does not form part of the annual financial statements and is presented as additional information. We have not audited this information and accordingly we do not express an opinion on it.

Deloitte & Touche

Deloitte & Touche
Certified Auditors
Practicing Member: M Marinelli (19900028.17)

Gaborone
8 August 2012

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).

B. M. Bonyongo
Chairman

8 August 2012
Gaborone

Directors' Report

for the year ended 30 June 2012

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 2012.

The annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) 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 P568.8 million (2011: P573.8 million) decreased by 1% compared to the results for the year ended 30 June 2011. 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)*

for the year ended 30 June 2012

Directors' interests

The aggregate number of First National Bank of Botswana Limited shares held directly or indirectly by Directors of the Company amounts to 85,649 (2011: 95,649), which represents approximately 0.0033% (2011: 0.0037%) of the stated capital of the Company.

Dividends

An interim dividend of 5.00 thebe per share (2011: 5.00 thebe) for the year ended 30 June 2012 has been paid to holders of ordinary shares. The Directors propose a final dividend of 8.00 thebe per share (2011: 2.00 thebe).

Directorate

The composition of the Board as at 30 June 2012 was as follows:

P. D. Stevenson	Chairman (Motswana)
B. M. Bonyongo	Independent Non-Executive Director (Motswana)
L. E. Boakgomo-Ntakhwana	Chief Executive Officer (Motswana)
R. C. Wright	Deputy CEO (South African) (Alternate to L. E. Boakgomo-Ntakhwana)
J. R. Khethe	Non-Executive Director (South African)
J. K. Macaskill	Non-Executive Director (South African) (Alternate to J. R. Khethe)
M. T. Sekgororoane	Independent Non-Executive Director (Motswana)
S. Thapelo	Independent Non-Executive Director (Motswana)
M. W. Ward	Independent Non-Executive Director (British)
D. H. Zandamela	Non-Executive Director (South African)
L. J. Haynes	Non-Executive Director (South African) (Alternate to D. H. Zandamela)

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 2012

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

Standards and interpretations affecting amounts reported in the current period

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of the following standards and interpretations:

- IFRS 7 Financial Instruments: Disclosures was amended in to include additional disclosure requirements 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 addresses disclosure in the annual financial statements and does not impact the recognition and measurement of financial assets.

- IAS 24 Related Party Disclosures was amended to remove certain 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 does not affect recognition and measurement.

- As part of its annual improvements project the IASB made amendments to a number of accounting standards. The aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. The annual improvements project for 2010 is effective for annual periods commencing on or after 1 January 2011. With the exception of the improvements made to IFRS 3 and IAS 27, which were effective for annual periods commencing on or after 1 July 2010, these amendments do not have a significant impact on the Group's results nor have they resulted in the restatement of prior year numbers.

Standards and interpretations adopted with no effect on the financial statements

- IAS 32 Financial Instruments: Presentation was amended to clarify 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.

3 CONSOLIDATION

Subsidiaries

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are all entities over which the Group, directly or indirectly, 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.

Significant Accounting Policies *(continued)*

for the year ended 30 June 2012

3 CONSOLIDATION *(continued)*

Business combinations

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The consideration transferred for the acquisition is measured at the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date. 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 consideration is initially measured at fair value on the acquisition date. An obligation to pay a contingent consideration is classified as a liability or equity based on the respective definitions set out in IAS 32 and a right to the return of previously transferred consideration is classified as an asset. The asset or liability arising from the contingent consideration arrangement is subsequently measured at fair value. Any changes resulting from additional and new information about events and circumstances that existed at the acquisition date and, if known would have affected the measurement of the amounts recognised at that date, are considered to be a measurement period adjustment and retrospective adjustment of the consideration is required. The measurement period ends when the acquirer receives all the information it was seeking about facts and circumstances that existed at acquisition date or learns that information is not obtainable. The measurement period shall however not exceed one year from the acquisition date, to the extent that changes in the fair value relate to post acquisition events, these changes are recognised in accordance with the IFRS applicable to the specific asset or liability. Contingent consideration that is classified as equity is not re-measured after the 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 value at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the subsidiary 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 immediately in profit or loss.

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.

Associates and joint ventures

Associates are entities in which the Group holds an equity interest of between 20% and 50% but has no control. The Group 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 are measured 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. 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. Other comprehensive income includes the Group's share of other comprehensive income of associates and joint ventures. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment in the associate or joint venture.

Goodwill on the acquisition of associates and joint ventures is included in the carrying amount of the investment in associates or joint ventures. The Group assesses at each reporting period whether there is objective evidence in terms of IAS 39 that an investment in an associate or joint venture is impaired. If such evidence of impairment exists, the entire carrying amount, including the goodwill, is tested for impairment in terms of IAS 36.

Equity accounting is discontinued from the date that the Group ceases to have significant influence over the associate or joint venture. The Group measures at fair value any investment it has retained in the entity when significant influence is lost and recognises the resulting gain or loss in profit or loss. The gain or loss is measured as the difference between the fair value of this retained investment and the carrying amount of the original investment at the date significant influence is lost.

After discontinuing equity accounting, the Group accounts for any retained investment in the entity in accordance with the relevant IFRS as appropriate.

The Group does not account for any further losses of the associate or joint venture 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.

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

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.

4 INTEREST INCOME AND EXPENSE

The Group recognises interest income and expense in profit or loss 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 expected life of the financial instruments or portfolios of financial instruments.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) 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.

Instruments with characteristics of debt, such as redeemable preference shares, are included in 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 INCOME

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

6 NET FEE AND COMMISSION INCOME

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 capitalised and recognised 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.

Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated. Fees related to services rendered are recognised as fee and commission income on an accrual basis when the service is rendered, for example banking fees and commission income and asset management and related fees. The Group recognises fees that are earned on the execution of a significant act, for example knowledge-based fee and commission income and non-banking fee and commission income when the significant act has been completed.

Significant Accounting Policies *(continued)*

for the year ended 30 June 2012

6 NET FEE AND COMMISSION INCOME *(continued)*

Fee and commission 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.

Fee and commission expenses

Fee and commission expenses are expenses that are incremental or directly attributable to the generation of fee and commission income. Fee and commission expenses include transaction and service fees, which are expensed as the services are received. Fee and commission expenses that form an integral part of the effective interest rate of a financial instrument are recognised as part of net interest income.

7 DIVIDEND INCOME

The Group recognises dividend income 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

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.

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.

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 in profit or loss for the year. Translation differences on non-monetary items, such as equities classified as available-for-sale, are reported as part of the fair value adjustment and are included in other comprehensive income when incurred.

Foreign exchange gains or losses on monetary items measured at amortised cost are included in a separate line item, foreign exchange differences, within non-interest income in profit or loss for the year. Translation differences on monetary items measured at fair value through profit or loss are reported as part of the fair value gain or loss in profit or loss. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost and other changes in the fair value of the security. Translation differences relating to changes in the amortised cost are recognised in profit or loss and other changes in the fair value are recognised in other comprehensive income.

9 BORROWING COSTS

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

10 DIRECT AND INDIRECT TAXES

Direct taxes include Botswana and foreign jurisdiction corporate tax payable. Indirect taxes include various other taxes paid to central and local governments, including value added tax. Indirect taxes are disclosed separately from direct tax in the income statement.

The charge for current tax is based on the results for the year as adjusted for items that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date, in each particular jurisdiction within which the Group operates.

11 RECOGNITION OF ASSETS

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 Group.

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

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 upon settlement is determined by considering the class of the obligations 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 small.

Provisions are measured at the present value of expenditures expected to be required to settle the obligation using a pre tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities

The Group discloses a contingent liability when:

- 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
- it has a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources will be required to settle an obligation, or the amount of the obligation cannot be measured with sufficient reliability.

13 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.

14 CASH AND CASH EQUIVALENTS

In the statement of cash flows, cash and cash equivalents comprise:

- coins and bank notes;
- money at call and short notice;
- balances with central banks; and
- Bank of Botswana Certificates (BoBCs).

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

15 FINANCIAL INSTRUMENTS

General

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, property and equipment, assets and liabilities of insurance operations, deferred income tax, tax payable, intangible assets, inventory and post-retirement liabilities. The Group recognises a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

Significant Accounting Policies *(continued)*

for the year ended 30 June 2012

15 FINANCIAL INSTRUMENTS *(continued)*

Financial assets

The Group classifies its financial assets in the following categories:

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

Management determines the classification of the asset at initial recognition.

Financial instruments are initially recognised at fair value plus transaction costs for all financial instruments not carried at fair value through profit or loss.

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently measured at fair value. Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment. 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 profit or loss as gains less losses from investment activities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in profit or loss as part of interest income. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established and are included in investment income.

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.

The fair values of financial assets quoted in active markets are based on current bid prices. The fair values of financial liabilities quoted in active markets are based on current ask/offer prices. When the Group has assets and liabilities with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the ask/offer price to the net open position as appropriate. Alternatively, the Group derives fair value 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.

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 on initial recognition.

A financial asset is classified, as a trading instrument if acquired principally for the purpose of selling in the short-term or 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.

Financial assets and liabilities are designated on initial recognition as at fair value through profit and loss to the extent that it produces more relevant information because it either:

- 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

- 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

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

The main financial assets and liabilities designated at fair value through profit and loss under criteria (i) are certain advances to customers, structured notes and other investments that form part of the investment banking division. These financial instruments have been designated to eliminate the accounting mismatch between these assets and the underlying derivatives and funding instruments. If the assets were not designated at fair value through profit or loss, the mismatch would be as a result of the assets being recognised at amortised cost and the derivatives and funding instruments being recognised at fair value.

Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

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.

Held-to-maturity investments

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, were the Group to sell other than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale.

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

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 other comprehensive income. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate using the effective interest method. Interest income is excluded from the fair value gains and losses reported in other comprehensive income. When the available-for-sale financial assets are disposed of or impaired, the related accumulated fair value adjustments are included in profit or loss as gains and losses from investment securities. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established and are included in investment income.

Treasury bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value through profit and loss are classified as available-for-sale.

Financial liabilities

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss. Interest paid is recognised in profit or loss over the period of the borrowing using the effective interest method. Discounts or premiums on financial liabilities carried at amortised cost are amortised on a basis that reflects the effective interest rate on the debentures over their life span.

The Group classifies a financial instrument that it issues as a financial liability, or an equity instrument in accordance with the substance of the contractual agreement. If a financial instrument includes a contractual obligation to deliver cash or another financial asset, or to exchange financial assets or financial liabilities on potentially unfavourable terms, such as redeemable preference shares the financial instrument is classified as a financial liability. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

Significant Accounting Policies *(continued)*

for the year ended 30 June 2012

15 FINANCIAL INSTRUMENTS *(continued)*

Financial liabilities

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

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:

- 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

- 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

- 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.

Compound financial instruments

The Group separately measures and recognises the debt component of a compound financial instrument, such as an issued convertible bond, as a financial liability with the residual value separately allocated to equity. The initial fair value of the debt component is recognised at the fair value of a similar non-convertible instrument. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying values.

Off-setting financial instruments

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

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

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:

- their risks and characteristics are not closely related to those of the host contract;
- they meet the definition of a derivative; and
- the host contract is not carried at fair value, with gains and losses reported in profit or loss.

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

Derecognition

The Group derecognises a financial asset when:

- the contractual rights to the asset expire; or
- where there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- 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 rewards associated with the asset.

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

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

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

- if the Group has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- 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 when it is extinguished, i.e. when the obligation specified in the contract is discharged, 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.

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 fair value income.

Sale and repurchase agreements and securities lending

The financial statements reflect securities sold subject to a linked repurchase agreement ("repos") as trading and investment securities. These instruments are recognised at fair value through profit or loss. The counterparty liability is included in deposits held under repurchase agreements. These financial liabilities are either carried at fair value or amortised cost.

Securities purchased under agreements to resell ('reverse repos') are recorded as advances under agreements to resell relating to the repurchase transactions and recognised in line with the requirements of IAS 39. 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 fair value income. The obligation to return these securities is recorded as a liability at fair value.

Impairment of financial assets

General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Assets carried at amortised cost

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

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

- significant financial difficulty of the issuer or counterparty;
- a breach in contract, such as default or delinquency in payments of principal or interest;
- it becomes probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties, or adverse changes in the market, economic or legal environment in which the entity operates; or

Significant Accounting Policies *(continued)*

for the year ended 30 June 2012

15 FINANCIAL INSTRUMENTS *(continued)*

Assets carried at amortised cost *(continued)*

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the group, including:
  - adverse changes in the payment status of issuers or debtors in the group; or
  - national or local economic conditions that correlate with defaults on the assets in the group.

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 profit or loss.

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.

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 profit or loss. 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 profit or loss.

Past due advances

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular instalments (e.g. mortgage loans, personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date; or
- loans payable on demand (e.g. overdrafts) are treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

In these instances, the full outstanding amount is considered overdue even if part of it is not yet due.

The past due analysis is performed for disclosure purposes. This analysis is only performed for advances with specific expiry dates or instalment repayment dates or demand loans that have been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The risk assessment on these types of products is done with reference to the counterparty ratings of the exposures and reported as such.

Re-negotiated advances

Financial assets that would otherwise be past due or impaired that have been re-negotiated are separately classified as neither past-due nor impaired assets. Re-negotiated advances are advances where, due to deterioration in the counterparty's financial condition, the bank granted a concession where original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance. Advances are only classified as re-negotiated if the terms of the renegotiated contract have not yet expired, and remain classified as such until the terms of the re-negotiated contract expire. Where the advances are reclassified as neither past due nor impaired the adherence to the new terms and conditions are closely monitored. Re-negotiated advances exclude advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original. Non-performing advances are not reclassified as re-negotiated. These assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

Available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of available-for-sale financial assets is impaired.

In the case of equity investments classified as available-for-sale, objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost. If any such objective 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 previously recognised impairment loss on that financial asset, is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

In the case of a debt instrument classified as available-for-sale, the same objective evidence of impairment as for financial assets measured at amortised cost is considered in determining if an impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. 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 profit or loss, the impairment loss is reversed through profit or loss.

16 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 profit or loss.

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.

Significant Accounting Policies *(continued)*

for the year ended 30 June 2012

16 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING *(continued)*

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 financial instrument 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 markets. 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 not recognised in the statement of financial position. These differences are however monitored for disclosure purposes. If 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.

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 profit or loss 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.

Freehold properties and properties held under finance leases are broken down into significant components that are depreciated to their respective residual values over the economic lives of these components.

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 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.

The following useful lives are used in the calculation of depreciation:

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

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 profit or loss on disposal.

18 LEASES

A group company is the lessee

Finance leases

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

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 balance outstanding. The interest component of the finance charge is recognised in profit or loss over the lease period in interest expense.

The property and equipment acquired is 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.

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 profit or loss 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. Minimum rentals due after year end are reflected under commitments.

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.

A group company is the lessor

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 as interest income over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

Operating leases

The Group includes in a separate category as "assets held under operating lease" property and equipment assets leased out under operating leases. 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.

Instalment credit agreements

The Group regards instalment credit agreements as financing transactions and includes the total rentals and instalments 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 interest income in proportion to capital balances outstanding.

Significant Accounting Policies *(continued)*

for the year ended 30 June 2012

19 INTANGIBLE ASSETS

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 fair value of the identifiable net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in the carrying amount of the investment.

Goodwill is tested annually for impairment, or more frequently if an impairment indicator exists at the reporting date 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. The recoverable amount of a cash generating unit is the higher of fair value less costs to sell and value in use.

20 INCOME TAX

Current income tax

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.

Deferred income tax

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 income 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 or taxable profit nor loss.

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

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward.

Deferred income 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 income 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 recognised directly in other comprehensive income and is subsequently reclassified to profit or loss together with the deferred gain or loss.

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In respect of temporary differences arising from the fair value adjustments on investment properties, deferred income tax is provided at the normal income tax rate if the property is considered to be a long term strategic investment or at the capital gains tax rate if recovery is anticipated to be mainly through disposals.

21 EMPLOYEE BENEFITS

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.

Post-retirement medical benefits

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

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.

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.

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 STATED CAPITAL

Share issue costs

Shares 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, net of any related tax benefit.

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.

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 re-measured 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.

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.

23 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.

Significant Accounting Policies *(continued)*

for the year ended 30 June 2012

23 SEGMENT REPORTING *(continued)*

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.

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 and Treasury.

24 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.

25 SHARE-BASED PAYMENT TRANSACTIONS

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

Equity settled share-based compensation plan

The Group expenses as, employee costs, the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, 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.

Cash settled share-based compensation plan

The Group expenses as, employee costs, the fair value of the employee services received in exchange for the grant of options, over the vesting period of the options with a corresponding credit to payables in the statement of financial position. The total value of the services received is calculated with reference to the fair value of the options on grant date.

26 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.

27 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 45 to the annual financial statements.

Income Statements

for the year ended 30 June 2012

	Notes	Group 30 June 2012 P'000	Group 30 June 2011 P'000	Company 30 June 2012 P'000	Company 30 June 2011 P'000
Interest and similar income	2	1,111,862	1,094,078	1,111,862	1,094,078
Interest expense and similar charges	3	(342,799)	(432,327)	(342,799)	(432,327)
Net interest income before impairment of advances		769,063	661,751	769,063	661,751
Impairment of advances	13	(132,714)	(59,211)	(132,714)	(59,211)
Net interest income after impairment of advances		636,349	602,540	636,349	602,540
Non-interest income	4	626,685	504,520	622,320	501,518
Income from operations		1,263,034	1,107,060	1,258,669	1,104,058
Operating expenses	5	(259,571)	(237,638)	(257,725)	(236,809)
Employee benefits	6	(265,444)	(226,114)	(264,265)	(224,707)
Net income from operations		738,019	643,308	736,679	642,542
Share of profit of associate company	18	2,423	1,273	—	—
Income before taxation		740,442	644,581	736,679	642,542
Indirect taxation	7	(10,481)	(6,844)	(10,450)	(6,600)
Profit before direct taxation		729,961	637,737	726,229	635,942
Direct taxation	7	(161,168)	(63,897)	(160,062)	(63,024)
Profit for the year attributable to owners of the parent		568,793	573,840	566,167	572,918
Basic earnings per share (thebe)	8	22.36	22.56		
Diluted earnings per share (thebe)	8	22.35	22.55		

Statements of Other Comprehensive Income

for the year ended 30 June 2012

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
Profit for the year	568,793	573,840	566,167	572,918
Other comprehensive (loss)/income				
Net gains arising on available-for-sale financial assets during the year	—	2,825	—	2,825
Reclassification adjustments relating to available-for-sale financial assets disposed of during the year	(15,459)	—	(15,459)	—
Other comprehensive (loss)/income for the year before taxation	(15,459)	2,825	(15,459)	2,825
Taxation relating to components of other comprehensive income	4,124	1,278	4,124	609
Other comprehensive (loss)/income for the year	(11,335)	4,103	(11,335)	3,434
Total comprehensive income for the year attributable to owners of the parent	557,458	577,943	554,832	576,352

Statements of Financial Position

as at 30 June 2012

	Notes	Group 30 June 2012 P'000	Group 30 June 2011 P'000	Company 30 June 2012 P'000	Company 30 June 2011 P'000
ASSETS					
Cash and short term funds	10	2,557,842	1,706,573	2,557,842	1,706,573
Derivative financial instruments	11	7,861	2,996	7,861	2,996
Advances to banks		—	361,178	—	361,178
Advances to customers	12	8,420,553	7,170,842	8,427,553	7,177,842
Investment securities	14	2,699,551	3,496,862	2,699,551	3,496,862
Current taxation	33	—	4,622	—	4,305
Due from related companies	15	7,839	13,133	7,839	13,133
Accounts receivable	16	170,800	170,502	168,400	163,676
Non-current assets held for sale	17	5,511	—	2,693	—
Investment in associate company	18	—	3,058	—	955
Investment in subsidiary companies	19	—	—	47,244	47,244
Property and equipment	20	317,559	202,200	287,264	170,733
Goodwill	21	26,963	26,963	—	—
Total assets		14,214,479	13,158,929	14,206,247	13,145,497
EQUITY AND LIABILITIES					
Liabilities					
Deposits from banks	23	172,510	215,186	172,510	215,186
Deposits from customers	22	11,443,241	10,597,398	11,443,241	10,597,398
Accrued interest payable		45,179	36,696	45,179	37,467
Derivative financial instruments	11	32,912	18,794	32,912	18,794
Due to related companies	15	57,883	140,031	89,549	170,803
Creditors and accruals	25	275,972	607,230	273,326	599,093
Provisions	26	52,252	42,646	52,252	42,646
Borrowings	24	519,047	254,432	519,047	254,432
Current taxation	33	461	—	1,550	—
Deferred taxation	7	82,296	98,350	78,058	92,989
Total liabilities		12,681,753	12,010,763	12,707,624	12,028,808
Capital and reserves attributable to ordinary equity holders					
Stated capital	29	51,088	51,088	58,088	58,088
Reserves	30	1,276,542	1,045,804	1,235,439	1,007,327
Dividend reserve		205,096	51,274	205,096	51,274
		1,532,726	1,148,166	1,498,623	1,116,689
Total equity and liabilities		14,214,479	13,158,929	14,206,247	13,145,497

Statements of Changes in Equity

for the year ended 30 June 2012

	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 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 30)		(2,819)		2,819		—
Balance as at 30 June 2011	51,088	50,143	10,383	985,278	51,274	1,148,166
Total comprehensive income for the year		(11,335)		568,793		557,458
Profit for the year				568,793		568,793
Other comprehensive loss for the year		(11,335)				(11,335)
2011 final dividend paid					(51,274)	(51,274)
2012 interim dividend paid				(128,185)		(128,185)
2012 final dividend proposed				(205,096)	205,096	—
Recognition of share based payments			6,561			6,561
Increase in associate company reserves		715		(715)		—
Transfer from revaluation reserve (note 30)		(1,796)		1,796		—
Balance as at 30 June 2012	51,088	37,727	16,944	1,221,871	205,096	1,532,726

	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 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 30)		(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
Total comprehensive income for the year		(11,335)		566,167		554,832
Profit for the year				566,167		566,167
Other comprehensive loss for the year		(11,335)				(11,335)
2011 final dividend paid					(51,274)	(51,274)
2012 interim dividend paid				(128,185)		(128,185)
2012 final dividend proposed				(205,096)	205,096	—
Transfer from revaluation reserve (note 30)		(1,057)		1,057		—
Recognition of share based payments			6,561			6,561
Balance as at 30 June 2012	58,088	19,880	16,944	1,198,615	205,096	1,498,623

Statements of Cash Flows

for the year ended 30 June 2012

	Notes	Group 30 June 2012 P'000	Group 30 June 2011 P'000	Company 30 June 2012 P'000	Company 30 June 2011 P'000
Cash flows from operating activities					
Cash generated by operations before taxation and working capital changes	31	883,692	719,072	879,504	716,167
Tax paid	32	(167,000)	(69,351)	(165,014)	(67,070)
		716,692	649,721	714,490	649,097
(Decrease)/increase in amounts due to other banks		(42,676)	211,186	(42,676)	211,186
Increase in deposit and current accounts	34	845,843	292,766	845,843	292,766
(Decrease)/increase in balances due to related companies		(82,148)	89,822	(81,254)	92,177
Increase/(decrease) in accrued interest payable		8,483	(8,966)	7,712	(8,966)
(Decrease)/increase in creditors and accruals		(340,476)	529,039	(333,970)	525,537
Increase in provisions		9,606	18,816	9,606	18,816
(Increase)/decrease in investments - held for trading		(55,834)	154,485	(55,834)	154,485
Increase in advances to customers	35	(1,371,863)	(1,426,197)	(1,371,863)	(1,426,197)
Decrease/(increase) in advances to banks		361,178	(361,178)	361,178	(361,178)
Increase in accounts receivable		(298)	(112,783)	(4,724)	(111,238)
Decrease/(increase) in amounts due from related companies		5,294	(8,058)	5,294	(8,058)
Net cash generated from operating activities		53,801	28,653	53,802	28,427
Cash flows from investing activities					
Acquisition of property and equipment	20	(138,811)	(31,629)	(138,811)	(31,606)
Proceeds on disposal of available-for-sale investment		41,239	—	41,239	—
Proceeds on disposal of property and equipment		2,790	94	2,789	297
Dividends from associate company	18	1,708	1,366	1,708	1,366
Net cash utilised in investing activities		(93,074)	(30,169)	(93,075)	(29,943)
Cash flows from in financing activities					
Dividends paid	36	(179,459)	(589,651)	(179,459)	(589,651)
Repayments of borrowings		(131,594)	(238,439)	(131,594)	(238,439)
Borrowings raised		379,480	37,151	379,480	37,151
Net cash generated from/(utilised in) financing activities		68,427	(790,939)	68,427	(790,939)
Net increase/(decrease) in cash and cash equivalents		29,154	(792,455)	29,154	(792,455)
Cash and cash equivalents at the beginning of the year		5,156,300	5,948,755	5,156,300	5,948,755
Cash and cash equivalents at the end of the year	37	5,185,454	5,156,300	5,185,454	5,156,300

Notes to the Annual Financial Statements

for the year ended 30 June 2012

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
1. ACCOUNTING POLICIES				
The accounting policies of the Group are set out on pages 75 to 90.				
2. INTEREST AND SIMILAR INCOME				
Held for trading				
- Investment securities	2,873	7,306	2,873	7,306
Loan and receivables				
- Advances	937,554	780,462	937,554	780,462
- Cash and short term funds	37,774	20,082	37,774	20,082
- Unwinding of discounted present value of security on non-performing loans (Note 13)	2,080	(1,000)	2,080	(1,000)
Designated at fair value through profit or loss				
- Advances	—	5,564	—	5,564
Available-for-sale financial assets				
- Investment securities	131,581	281,664	131,581	281,664
	1,111,862	1,094,078	1,111,862	1,094,078
3. INTEREST EXPENSE AND SIMILAR CHARGES				
Financial liabilities at amortised cost				
- Term deposit accounts	212,496	249,761	212,496	249,761
- Current accounts	93,394	136,436	93,394	136,436
- Savings deposits	16,053	16,679	16,053	16,679
- Deposits from banks and other financial institutions	9,577	7,646	9,577	7,646
- Loans from related parties (Note 15)	329	11,997	329	11,997
- Borrowings	10,950	9,469	10,950	9,469
Designated at fair value through profit or loss				
- Term deposit accounts	—	339	—	339
	342,799	432,327	342,799	432,327

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
4. NON-INTEREST INCOME				
Fee and commission income				
Loans and receivables				
- Card commissions	106,484	97,613	106,484	97,613
- Insurance commissions	25,364	35,459	22,851	33,280
- Facility fees	40,465	43,020	40,465	43,020
- Commissions - guarantees and letters of credit	10,439	10,888	10,439	10,888
Financial liabilities at amortised cost				
- Cash deposit fees	29,883	24,603	29,883	24,603
- Commissions - bills, drafts and cheques	48,077	39,271	48,077	39,271
- Service fees	120,484	104,962	120,484	104,962
- Commissions-customer services	35,731	32,786	35,731	32,786
Net fee and commission income	416,927	388,602	414,414	386,423
Fair value gains or losses				
- Gain/(loss) on bond trading	2,775	(405)	2,775	(405)
- Net gain/(loss) arising on financial assets designated at fair value through profit or loss	30,389	(6,380)	30,389	(6,380)
- Net (loss)/gain arising on financial liabilities designated at fair value through profit or loss	(19,845)	6,263	(19,845)	6,263
- Gain on disposal of available-for-sale financial assets	25,667	—	25,667	—
- Foreign exchange trading income	152,895	104,083	152,895	104,083
Fair value gains or losses	191,881	103,561	191,881	103,561
Other non-interest income				
Non-financial assets and liabilities				
- Gain on sale of property and equipment	538	71	538	71
- Dividend received from associate company	—	—	1,708	1,366
- Other non-interest income	17,339	12,286	13,779	10,097
Total non-interest income	626,685	504,520	622,320	501,518

	Group 30 June 2012 P'000	Group 30 June 2011 P'000	Company 30 June 2012 P'000	Company 30 June 2011 P'000
5. OPERATING EXPENSES				
Auditor's remuneration				
Audit fees				
- current year	3,552	2,947	3,552	2,947
- prior year	190	—	190	—
	3,742	2,947	3,742	2,947
Depreciation				
Buildings	6,381	6,066	5,210	5,049
Motor vehicles	726	583	726	583
Furniture and equipment	12,355	10,086	12,355	10,086
	19,462	16,735	18,291	15,718
Directors' remuneration				
For services as directors	1,618	1,938	1,618	1,938
For other services	3,145	2,427	3,145	2,427
	4,763	4,365	4,763	4,365
Exchange losses on revaluation	629	194	629	194
Operating lease charges				
Premises	21,573	17,793	22,240	18,460
- Contractual	21,883	17,513	22,550	18,180
- Straight line lease rental adjustment	(310)	280	(310)	280
Equipment	3,544	6,383	3,544	6,383
	25,117	24,176	25,784	24,843
Other operating expenses				
Advertising and marketing	21,241	23,860	21,008	23,860
Communication	18,346	16,099	18,343	16,099
Computer expenditure	10,706	15,233	10,699	15,230
Property maintenance	19,336	31,710	18,498	31,647
Stationery, storage and postage	21,380	18,707	21,380	18,707
Service fees	13,548	12,464	13,548	12,443
Service fees paid to related company	72,998	45,806	72,998	45,626
Other	17,890	18,164	17,645	17,990
	195,445	182,043	194,119	181,602
Professional fees	10,413	7,178	10,397	7,140
Total operating expenses	259,571	237,638	257,725	236,809

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
6. EMPLOYEE BENEFITS				
Salaries, wages and allowances	206,355	183,349	205,300	182,016
Contributions to pension, medical and other staff funds	24,365	19,847	24,242	19,752
Share based payments expense - equity settled	6,561	1,315	6,561	1,315
Share based payments expense - cash settled	8,512	3,367	8,512	3,367
Leave pay expense	8,999	6,701	8,999	6,701
Other	10,652	11,535	10,651	11,556
	265,444	226,114	264,265	224,707
Details of the post retirement benefits are provided separately in Note 28				
7. TAXATION				
Indirect taxation				
Value added tax	10,481	6,844	10,450	6,600
Direct taxation				
Income taxation expense				
Current tax at 22% (2011: 15%)	166,989	90,125	165,775	89,774
Additional company tax at Nil % (2011: 10%)	—	59,945	—	59,849
WHT on dividend received	—	203	—	203
(Over)/under provision in prior years	(471)	2,201	(471)	1,878
Capital gains tax	5,565	—	5,565	—
Withholding tax on dividends paid set off	—	(86,704)	—	(86,704)
	172,083	65,770	170,869	65,000
Deferred taxation				
(Credit)/charge to income statement				
- current year	(10,915)	7,025	(10,807)	7,023
- effect of change in tax rate	—	(8,045)	—	(8,714)
- prior year over provision	—	(853)	—	(285)
	(10,915)	(1,873)	(10,807)	(1,976)
Total taxation expense per income statement	161,168	63,897	160,062	63,024
Taxation relating to components of other comprehensive income	(4,124)	(1,278)	(4,124)	(1,278)

7. TAXATION *(continued)*

	Group 30 June 2012 P'000	Group 30 June 2011 P'000	Company 30 June 2012 P'000	Company 30 June 2011 P'000
Additional company taxation				
Opening balance	—	42,875	—	40,966
	—	(42,875)	—	(40,966)
Arising during the year	—	59,991	—	59,848
Forfeited at end of the year	—	(16,162)	—	(14,110)
Utilised against withholding tax on dividends in current year	—	(86,704)	—	(86,704)
Closing balance	—	—	—	—
Reconciliation of taxation charge				
Profit before direct taxation	729,961	637,737	726,229	635,942
Taxation at current rate on profit for the year	160,591	159,435	159,771	158,986
Withholding tax on dividends	—	(86,704)	—	(86,704)
(Over)/under provision of current tax in prior years	(471)	2,201	(471)	1,878
Effect of change in tax rate	—	(8,045)	—	(8,714)
Tax rate differential on capital gains income	82	—	82	—
Tax differential on dividend income	—	(137)	—	(137)
Overprovision of deferred tax in prior years	—	(853)	—	(285)
Disallowed expenses and other allowances	966	(2,000)	680	(2,000)
Total tax expense per income statement	161,168	63,897	160,062	63,024
Deferred taxation				
Balance at the beginning of the year	98,350	100,648	92,989	95,289
Temporary differences for the year	(10,915)	7,025	(10,807)	7,023
Prior year overprovison	(1,015)	(853)	—	(285)
Deferred tax as a result of rate change	—	(9,092)	—	(9,660)
Deferred tax on valuation of available-for-sale investments	(4,124)	622	(4,124)	622
Balance at the end of the year	82,296	98,350	78,058	92,989

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
7. TAXATION *(continued)*				
Deferred taxation *(continued)*				
The balance comprises:				
Accelerated capital allowances	88,828	99,743	88,312	99,119
Revaluation surplus	7,025	7,025	3,967	3,967
Other temporary differences	(13,557)	(8,418)	(14,221)	(10,097)
	82,296	98,350	78,058	92,989

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 2012 P'000	Group 30 June 2011 P'000
Earnings attributable to ordinary equity holders	568,793	573,840
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)	22.36	22.56

8. EARNINGS PER SHARE *(continued)*

Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue by the share options in force assuming conversion of all dilutable potential ordinary shares.

Shares deemed to be issued for no consideration in respect of employee options amounting to 798,000 (2011: 1,435,000) have been adjusted to the weighted average number of ordinary shares in issue used in the basic earnings per share calculation.

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
Earnings attributable to equity holders	568,793	573,840		
Weighted average number of ordinary shares in issue (thousands)	2,544,498	2,545,135		
Diluted earnings per share (thebe)	22.35	22.55		

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 90 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 2012

	Group 30 June 2012 P'000	Group 30 June 2011 P'000	Company 30 June 2012 P'000	Company 30 June 2011 P'000
9. ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY *(continued)*				
ASSETS				
Loans and receivables				
Cash and short-term funds	2,557,842	1,706,573	2,557,842	1,706,573
Advances to banks	—	361,178	—	361,178
Advances to customers	8,074,674	6,985,265	8,081,674	6,992,265
Due from related companies	7,839	13,133	7,839	13,133
Accounts receivable	170,800	170,502	168,400	163,676
Designated at fair value through profit or loss				
Advances to customers	345,879	185,577	345,879	185,577
Available-for-sale financial assets				
Investment securities	2,627,612	3,480,757	2,627,612	3,480,757
Held for trading				
Investment securities	71,939	16,105	71,939	16,105
Derivative financial instruments	7,861	2,996	7,861	2,996
Non-financial assets				
Current taxation	—	4,622	—	4,305
Non-current assets held for sale	5,511	—	2,693	—
Investment in associate company	—	3,058	—	955
Investment in subsidiary companies	—	—	47,244	47,244
Property and equipment	317,559	202,200	287,264	170,733
Goodwill	26,963	26,963	—	—
Total assets	14,214,479	13,158,929	14,206,247	13,145,497
LIABILITIES				
Financial liabilities at amortised cost				
Deposits from banks	172,510	215,186	172,510	215,186
Deposit from customers	11,443,241	10,597,398	11,443,241	10,597,398
Long-term liabilities	452,942	211,018	452,942	211,018
Accrued interest payable	45,179	36,696	45,179	37,467
Due to related companies	57,883	140,031	89,549	170,803
Creditors and accruals	275,972	607,230	273,326	599,093
Provisions	52,252	42,646	52,252	42,646
Designated at fair value through profit or loss				
Deposits from customers	66,105	43,414	66,105	43,414
Held for trading				
Derivative financial instruments	32,912	18,794	32,912	18,794
Non-financial liabilities				
Current taxation	461	—	1,550	—
Deferred taxation	82,296	98,350	78,058	92,989
Total liabilities	12,681,753	12,010,763	12,707,624	12,028,808

10. CASH AND SHORT TERM FUNDS

	Group 30 June 2012 P'000	Group 30 June 2011 P'000	Company 30 June 2012 P'000	Company 30 June 2011 P'000
Coins and bank notes	144,820	120,218	144,820	120,218
Money at call and short notice				
- related companies (Note 15)	1,328,196	432,600	1,328,196	432,600
- other banks	—	232,050	—	232,050
Balances with Bank of Botswana - Mandatory reserve balance	1,016,350	624,135	1,016,350	624,135
Balances with Bank of Botswana - Statutory account balance	7,246	1,070	7,246	1,070
Balances with other banks				
- related companies (Note 15)	1,000	107,500	1,000	107,500
- other banks	60,230	189,000	60,230	189,000
	2,557,842	1,706,573	2,557,842	1,706,573
The carrying value of cash and short term funds approximates the fair value.				
Amounts denominated in foreign currencies included in above balances	1,346,006	783,709	1,346,006	783,709
Mandatory reserve balances	1,016,350	624,135	1,016,350	624,135

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 2012

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 entails 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 foreign exchange contracts which were unsettled as at year end. Further information pertaining to the risk management strategy of the Group is set out in note 40.

11. DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Group and Company

	Assets		Liabilities	
	Notional P'000	Fair Value P'000	Notional P'000	Fair Value P'000
2012				
Currency derivatives:				
Currency options	50,500	906	50,500	906
Trading derivatives	481,807	6,955	335,937	8,968
Interest rate derivatives:				
Interest rate swaps	—	—	264,137	23,038
	532,307	7,861	650,574	32,912
Related party derivatives included in above balances				
Currency options	11 427	205	11 427	205
Trading derivatives	187 385	2 991	40 728	4 517
Interest rate swaps	—	—	378,193	23,038
	198,812	3,196	430,348	27,760
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

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
12. ADVANCES TO CUSTOMERS				
Sector analysis				
Agriculture	96,732	99,500	96,732	99,500
Building and property development	358,540	287,027	358,540	287,027
Business and trade	2,705,006	2,704,024	2,712,006	2,711,024
Individuals	4,308,451	3,467,824	4,308,451	3,467,824
Manufacturing	261,144	328,226	261,144	328,226
Mining	728,677	240,651	728,677	240,651
Transport and communications	179,266	184,273	179,266	184,273
Gross advances	8,637,816	7,311,525	8,644,816	7,318,525
Contractual interest suspended	(35,095)	(25,257)	(35,095)	(25,257)
Gross advances after contractual interest suspended	8,602,721	7,286,268	8,609,721	7,293,268
Less: impairment of advances (Note 13)	(182,168)	(115,426)	(182,168)	(115,426)
Net advances	8,420,553	7,170,842	8,427,553	7,177,842
Category analysis				
Overdrafts and managed accounts debtors	966,884	1,025,703	973,884	1,032,703
Term loans	2,831,695	2,087,083	2,831,695	2,087,083
Lease payments receivable	583,388	570,742	583,388	570,742
Suspensive sale debtors	862,559	786,629	862,559	786,629
Property loans	3,135,381	2,613,560	3,135,381	2,613,560
Other	257,909	227,808	257,909	227,808
Gross advances	8,637,816	7,311,525	8,644,816	7,318,525
Contractual interest suspended	(35,095)	(25,257)	(35,095)	(25,257)
Gross advances after contractual interest suspended	8,602,721	7,286,268	8,609,721	7,293,268
Less: impairment of advances (Note 13)	(182,168)	(115,426)	(182,168)	(115,426)
Net advances	8,420,553	7,170,842	8,427,553	7,177,842

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
12. ADVANCES TO CUSTOMERS *(continued)*				
Maturity analysis				
Maturity within one year	988,148	554,901	995,148	561,901
Maturity between one and five years	3,604,214	2,355,722	3,604,214	2,355,722
Maturity more than five years	4,045,454	4,400,902	4,045,454	4,400,902
	8,637,816	7,311,525	8,644,816	7,318,525
Included in the above advances are instalment loans maturing within:				
- one year	72,881	86,492	72,881	86,492
- one to five years	1,373,066	1,270,879	1,373,066	1,270,879
	1,445,947	1,357,371	1,445,947	1,357,371
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	4,926	5,156	4,926	5,156

13. IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the Head of 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 2012

13. IMPAIRMENT OF ADVANCES *(continued)*

Group and Company

	2012		
	Total impairment P'000	Retail P'000	Corporate & commercial P'000
Specific impairment			
At the beginning of the year	80,403	77,413	2,990
Amounts written off	(63,892)	(49,974)	(13,918)
	16,511	27,439	(10,928)
Impairment loss recognised in the income statement	109,125	85,745	23,380
New and increased provision	164,155	135,919	28,236
Recoveries of bad debts previously written off	(55,030)	(50,174)	(4,856)
At the end of the year	125,636	113,184	12,452
Present valuation of security adjustment			
At the beginning of the year	13,320	12,990	330
Unwinding of discounted present value of security on non-performing loans (Note 2)	(2,080)	(2,028)	(52)
At the end of the year	11,240	10,962	278
Portfolio impairment			
At the beginning of the year	16,380	14,333	2,047
Charge to the income statement	13,761	11,796	1,965
At the end of the year	30,141	26,129	4,012
IBNR impairment			
At the beginning of the year	5,323	4,888	435
Charge to income statement	9,828	9,025	803
At the end of the year	15,151	13,913	1,238
Total charge to the income statement	**132,714**	**106,566**	**26,148**
Total impairment at the end of the year	**182,168**	**164,188**	**17,980**

13. IMPAIRMENT OF ADVANCES *(continued)*

Group and Company

	2011		
	Total impairment P'000	Retail P'000	Corporate & commercial P'000
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
Charge 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

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

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 - 2012				
Agriculture	2,144	827	282	1,035
Building and property development	9,792	6,637	513	2,642
Individuals	136,701	19,185	22,471	95,045
Manufacturing and commerce	38,094	31,759	395	5,940
Transport and communication	6,494	3,443	1,455	1,596
Other advances	79,750	50,402	9,980	19,368
Total non-performing advances - 30 June 2012	272,975	112,253	35,096	125,626
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
Category analysis - 2012				
Overdrafts and managed accounts	55,139	7,681	15,479	31,979
Term loans	94,936	21,537	10,802	62,597
Suspensive and instalment sale debtors	28,382	11,715	677	15,990
Property loans	79,674	71,320	7,797	557
Other advances	14,844	—	341	14,503
Total non-performing advances - 30 June 2012	272,975	112,253	35,096	125,626
Category analysis - 2011				
Overdrafts and managed accounts	115,745	50,324	16,993	48,428
Term 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

	Group and Company	
	30 June 2012 P'000	30 June 2011 P'000
13. IMPAIRMENT OF ADVANCES *(continued)*		
Contractual interest suspended		
At the beginning of the year	25,257	26,340
Written off during the year	(18,469)	(15,231)
Suspended during the year	28,308	14,148
At the end of the year	35,096	25,257

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
14. INVESTMENT SECURITIES				
Available-for-sale				
Bank of Botswana Certificates	2,627,612	3,449,727	2,627,612	3,449,727
Equity investments	—	31,030	—	31,030
	2,627,612	3,480,757	2,627,612	3,480,757
Held for trading				
Treasury bills, government and parastatal bonds	71,939	16,105	71,939	16,105
	2,699,551	3,496,862	2,699,551	3,496,862

P530,600,615 (2011: P684,838,653) of the Bank of Botswana Certificates form part of the Group's liquid assets portfolio in terms of the Banking Act 1995.

The 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 2012

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 19 for subsidiaries);
- has an interest in the entity that gives it significant influence over the entity (Refer Note 18 for associates);
- has control over the entity;
- is an associate company, joint venture, or is jointly controlled (Refer Note 18 for associates); or
- 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, the 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 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
Due from related parties				
Rand Merchant Bank Limited (Ireland)	170,912	234,610	170,912	234,610
First National Bank Limited - South Africa	1,160,168	313,023	1,160,168	313,023
First National Bank Holdings (Botswana) Limited	5,955	5,600	5,955	5,600
	1,337,035	553,233	1,337,035	553,233
Less money at call and short notice - related companies (Note 10)	(1,328,196)	(432,600)	(1,328,196)	(432,600)
Less balances with other banks (Note 10)	(1,000)	(107,500)	(1,000)	(107,500)
	7,839	13,133	7,839	13,133

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
15. RELATED PARTIES *(continued)*				
Due to related companies- current liabilities				
Rand Merchant Bank Limited (Ireland)	49	28,175	49	28,175
Financial Services Company of Botswana (Proprietary) Limited	—	—	3,114	2,665
Financial Services Properties (Proprietary) Limited	—	—	(47)	(47)
First National Insurance Agency (Proprietary) Limited	—	—	27,587	27,142
First Funding (Proprietary) Limited	—	—	1,000	1,000
Plot Four Nine Seven Two (Proprietary) Limited	—	—	12	12
First National Bank Limited - South Africa	57,834	111,856	57,834	111,856
	57,883	140,031	89,549	170,803
Due to related companies - creditors and accruals				
Refer to Note 22 for amounts included in deposits from customers.				
Related party transactions				
Transactions were carried out in the ordinary course of banking business and were supported as detailed below:				
Interest income:				
Rand Merchant Bank Limited (Ireland)	2,552	1,998	2,552	1,998
First National Bank, a division of FirstRand Bank Limited - South Africa	5,716	3,312	5,716	3,312
	8,268	5,310	8,268	5,310
Interest expenditure				
First National Bank Holdings (Botswana) Limited	2,650	3,328	2,650	3,328
Rand Merchant Bank Limited (Ireland)	329	53	329	53
Rand Merchant Bank (South Africa)	—	11,944	—	11,944
	2,979	15,325	2,979	15,325
Non-interest income:				
Dividend income - Finance House (Proprietary) Limited	—	—	1,708	1,366
Operating expenses:				
Rent paid - Subsidiary companies	—	—	667	667
Rent paid - Finance House (Proprietary) Limited	6,434	5,958	6,434	5,958
Service level agreement costs - FirstRand Bank Limited	72,998	66,624	72,998	66,624
	79,432	72,582	80,099	73,249

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
15. RELATED PARTIES *(continued)*				
Key Management personnel				
Compensation paid to key management personnel				
Share-based payments	197	54	197	54
Salaries and allowances	7,460	7,539	7,460	7,539
Other employee benefits	515	112	515	112
Total short term benefits	8,172	7,705	8,172	7,705
Pension contribution	261	335	261	335
Advances				
Personal loans	368	138	368	138
Overdrafts	130	1,224	130	1,224
Credit card	315	484	315	484
Instalment finance	1,115	1,670	1,115	1,670
Property loans	7,306	3,407	7,306	3,407
Total advances	9,234	6,923	9,234	6,923

No impairments have been recognised in respect of the above advances (2011: 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 30 years, and 5 years respectively. Property loans are collaterised by properties with a total fair value of P11,534,000 (2011: P4,615,000)

Personal loans, overdrafts and credit card balances are unsecured.

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
16. ACCOUNTS RECEIVABLE				
Items in transit	106,250	109,586	106,250	109,586
Other sundry debtors	64,264	60,630	61,864	53,804
School debentures	286	286	286	286
	170,800	170,502	168,400	163,676
The above carrying value of accounts receivable approximates their fair value				
17. NON-CURRENT ASSETS HELD FOR SALE				
Freehold land held for sale (i)	1,738	—	1,738	—
Investment in associate held for sale (ii)	3,773	—	955	—
	5,511	—	2,693	—

(i) The Group intends to dispose of freehold land it no longer utilises within the next 12 months. The property previously comprised of residential premises. The sale of the property has been sanctioned by the Board of Directors and a potential buyer has been identified. No impairment loss was recognised on re-classification of the land as held for sale as at 30 June 2012.

(ii) The Group is seeking to dispose of its 48.8% shareholding in its associate company, Finance House (Proprietary) Limited, and anticipates that the disposal will be completed within the next 12 months. No impairment loss was recognised on re-classification of the investment as held for sale as at 30 June 2012.

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

	Group 30 June 2012 P'000	Group 30 June 2011 P'000	Company 30 June 2012 P'000	Company 30 June 2011 P'000
18. 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	2,818	2,103	—	—
Reclassified to non-current assets held for sale (Note 17)	(3,773)	—	(955)	—
	—	3,058	—	955
Profit for the year	2,975	1,936		
	2,423	1,273		
Share of profit for the year	1,452	945		
Share of prior year profits	971	328		
Dividends received for the year	(1,708)	(1,366)		
Retained earnings/(loss) for the year	715	(93)		
Share of retained earnings at the beginning of the year	2,103	2,196		
Total retained earnings	2,818	2,103		
Shares at cost	955	955		
Total carrying value	3,773	3,058		
Group's share of statement of financial position				
Total assets	10,271	7,030		
Total liabilities	(2,539)	(764)		
Net assets	7,732	6,266		
Investment property at cost less depreciation	3,134	2,688		
Other assets/(liabilities)-Net assets	639	370		
	3,773	3,058		
Reclassified to non-current assets held for sale	(3,773)	—		
Total carrying value	—	3,058		
Fair value of the investment in associate company at directors valuation	—	36,200		

19. INVESTMENT IN SUBSIDIARY COMPANIES

Company	Nature of business	30 June 2012 P'000 Carrying amount	30 June 2011 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 2012

20. PROPERTY AND EQUIPMENT

	Freehold & leasehold land & buildings P'000	Leasehold improvements P'000	Capital work-in-progress P'000	Motor vehicles P'000	Furniture & equipment P'000	Total P'000
Group						
2012						
Cost or valuation						
Balance at 1 July 2011	111,938	56,325	—	4,325	92,247	264,835
Additions	—	4,354	124,105	703	9,649	138,811
Reclassified to non-current asset held for sale	(2,450)	—	—	—	—	(2,450)
Disposals	(4,210)	(5,317)	—	—	(11,092)	(20,619)
Balance at 30 June 2012	105,278	55,362	124,105	5,028	90,804	380,577
Accumulated depreciation						
Balance at 1 July 2011	2,982	17,484	—	3,249	38,920	62,635
Charge for the year	2,496	3,885	—	726	12,355	19,462
Reclassified to non-current asset held for sale	(712)	—	—	—	—	(712)
Disposals	(1,958)	(5,317)			(11,092)	(18,367)
Balance at 30 June 2012	2,808	16,052	—	3,975	40,183	63,018
Carrying amount as at 30 June 2012	102,470	39,310	124,105	1,053	50,621	317,559
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	38,920	62,635
Carrying amount as at 30 June 2011	108,956	38,841	—	1,076	53,327	202,200

20. PROPERTY AND EQUIPMENT *(continued)*

		30 June 2012 P'000	30 June 2011 P'000
Cost or valuation consists of:			
Freehold land and buildings	- cost	73,594	76,324
	- 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	51,432	56,325
Capital work-in-progress	- cost	124,105	—
Motor vehicles	- cost	5,028	4,325
Furniture and equipment	- cost	90,804	92,247
Total cost or valuation		380,577	264,835
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		69,663	67,115

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

20. PROPERTY AND EQUIPMENT

	Freehold & leasehold land & buildings P'000	Leasehold improvements P'000	Capital work-in-progress P'000	Motor vehicles P'000	Furniture & equipment P'000	Total P'000
Company						
2012						
Cost or valuation						
Balance at 1 July 2011	79,889	55,082	—	4,325	92,009	231,305
Additions	—	4,354	124,105	703	9,649	138,811
Reclassified to non-current asset held for sale	(2,450)	—	—	—	—	(2,450)
Disposals	(4,210)	(5,317)	—	—	(11,092)	(20,619)
Balance at 30 June 2012	73,229	54,119	124,105	5,028	90,566	347,047
Accumulated depreciation						
Balance at 1 July 2011	1,381	17,238	—	3,249	38,704	60,572
Charge for the year	1,325	3,885	—	726	12,355	18,291
Reclassified to non-current asset held for sale	(712)	—	—	—	—	(712)
Disposals	(1,959)	(5,317)	—	—	(11,092)	(18,368)
Balance at 30 June 2012	35	15,806	—	3,975	39,967	59,783
Carrying amount as at 30 June 2012	73,194	38,313	124,105	1,053	50,599	287,264
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)
Eliminated on revaluation	—	—	—	—	—	—
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

20. PROPERTY AND EQUIPMENT *(continued)*

		30 June 2012 P'000	30 June 2011 P'000
Cost or valuation consists of:			
Freehold land and buildings	- cost	55,504	62,164
	- valuation adjustment	17,725	17,725
Leasehold improvements	- cost	54,119	55,082
Capital work-in-progress	- cost	124,105	—
Motor vehicles	- cost	5,028	4,325
Furniture and Equipment	- cost	90,566	92,009
Total cost or valuation		347,047	231,305
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		54,104	55,765

Group and company

Freehold land and buildings consist of a commercial property and two 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 unexpired portion of all the leases is in excess of 50 years.

Capital work-in-progress relates to the ongoing construction of the Bank's head office at the Central Business District, Gaborone. The estimated time and cost to completion is January 2013 and P230 million respectively.

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

	30 June 2012 P'000	30 June 2011 P'000
21. 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 were determined with reference to the value in use. The assumptions used are that the free cash flows will grow at 4.0% (2011: 4.0%) for the following three years. The discount rate used is 15% (2011: 15%) and the forecast period is 3 years.

22. DEPOSITS FROM CUSTOMERS

Group and Company

	30 June 2012 P'000	30 June 2011 P'000
Current and managed accounts		
- financial institutions and other customers	3,172,408	2,175,383
Savings accounts	827,465	771,188
Call and term deposits	7,443,368	7,650,827
	11,443,241	10,597,398

Included in the call and term deposits is a balance of P87,517,028 (2011: P85,131,644) relating to First National Bank Holdings (Botswana) Limited.

	30 June 2012 P'000	30 June 2011 P'000
Maturity analysis		
Withdrawal on demand	6,930,296	6,857,811
Maturing within one year	4,317,437	3,591,949
Maturing two to five years	195,508	147,638
	11,443,241	10,597,398

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

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
23. DEPOSITS FROM BANKS				
Unsecured and payable on demand	172,510	215,186	172,510	215,186
Included in this balance is an amount of P51 900 000 relating to First Rand Bank Limited (2011: P75 202 666).				
24. BORROWINGS				
Public Debt Service Fund	48,462	61,018	48,462	61,018
	48,462	61,018	48,462	61,018
Subordinated Unsecured Registered Bonds				
Floating rate				
154 Medium Term Note of P1,000,000 each (2011: Nil)	154,480	—	154,480	—
Fixed rate				
25 Medium Term Note of P1,000,000 each (2011: 2 000 at P50,000)	25,000	100,000	25,000	100,000
	179,480	100,000	179,480	100,000
Botswana Life Insurance Limited (BLIL) (Proprietary) Limited				
15 year zero coupon deposit	66,105	43,414	66,105	43,414
Negotiable Certificates of Deposit	225,000	50,000	225,000	50,000
Total borrowings	519,047	254,432	519,047	254,432

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 (2011: P7,089,540), inclusive of interest. The loans have maturities ranging from April 2013 to February 2018.

The Subordinated Unsecured Registered Bonds bear interest at fixed and floating rates of 7.25% and bank rate less 190 basis points per annum respectively and mature in 2021. Interest is paid semi-annually on the fixed rate note and quarterly on the floating rate note.

The 15 year zero coupon deposit from BLIL 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 certificates of deposits bear interest at a fixed rate of 8.90% per annum and mature in March 2015. Interest is paid semi-annually. Also included is a negotiable certificate of deposits due to Stanbic Investment Management Services (SIMS) for P200 million bearing interest at 3 month BoBC rate plus 30 basis points and is due to mature in March 2013. Interest is paid on a quarterly basis.

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
25. CREDITORS AND ACCRUALS				
Accounts payable	14,526	1,561	14,526	1,561
Other creditors and accruals	139,617	161,810	136,971	153,673
Items in transit	116,012	438,396	116,012	438,396
Operating lease liability arising from straight lining of lease payments	2,386	2,696	2,386	2,696
Audit fees	3,431	2,767	3,431	2,767
	275,972	607,230	273,326	599,093
26. PROVISIONS				
Leave pay				
At the beginning of the year	17,763	14,204	17,763	14,204
Additional provisions recognised	8,999	6,701	8,999	6,701
Utilised	(5,521)	(3,142)	(5,521)	(3,142)
At the end of the year	21,241	17,763	21,241	17,763
Bonus provisions				
At the beginning of the year	24,883	9,626	24,883	9,626
Additional provisions recognised	35,540	36,432	35,540	36,432
Utilised	(29,412)	(21,175)	(29,412)	(21,175)
At the end of the year	31,011	24,883	31,011	24,883
Total provisions	52,252	42,646	52,252	42,646

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

	Group 30 June 2012 P'000	Group 30 June 2011 P'000
27. CAPITAL ADEQUACY		
Tier 1 - Core capital		
Stated capital	51,088	51,088
Retained earnings - Group and associate company	1,224,690	987,382
	1,275,778	1,038,470
Less: Goodwill	(26,963)	(26,963)
	1,248,815	1,011,507
Tier 2 - Supplementary capital		
Revaluation reserves subject to 50% risk adjustment	17,454	18,352
Portfolio and IBNR provisions	45,292	35,023
Subordinated Unsecured Registered Bonds (Note 24)	179,480	100,000
	242,226	153,375
Total qualifying capital	1,491,041	1,164,882
Risk adjusted assets		
- balance sheet items	7,981,209	6,481,055
- off-balance sheet items	1,021,327	927,952
	9,002,536	7,409,007
Capital adequacy ratios (%)	16.56	15.72
Core capital (%) (Basel Committee guide: minimum 4%)	13.87	13.65
Supplementary capital (%)	2.69	2.07
Total (%)	16.56	15.72
Bank of Botswana required minimum risk asset ratio (%)	15.00	15.00

The Group largely consists of the Bank, which is a licenced financial institution and is subject to regulatory capital requirements. The capital base of the Group provides the foundation for lending, off-balance sheet transactions and other activities. The capital adequacy of the Group is measured in accordance with the requirements of the Banking Act (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.

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000

28. POST-RETIREMENT FUND LIABILITIES

The Group had no post-retirement liability as at the reporting date (2011: 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 fund currently has a total contribution rate of 16% of pensionable salary towards retirement funding. This is made up of an employee contribution rate of 5.5% and an employer contribution rate of 10.5%. 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.

29. STATED CAPITAL

	Group 30 June 2012 P'000	Group 30 June 2011 P'000	Company 30 June 2012 P'000	Company 30 June 2011 P'000
2,563,700,000 (2011: 2,563,700,000) ordinary shares (2011: 2,563,700,000 ordinary shares)	58,088	58,088	58,088	58,088
Less: 20,000,000 (2011: 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 42.

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
30. RESERVES				
Non-distributable reserves				
Surplus on revaluation of properties				
Balance at the beginning of the year	36,704	38,003	20,937	21,287
Transfer to retained earnings	(1,796)	(2,819)	(1,057)	(1,201)
Effect of change in tax rate	—	1,520	—	851
Balance at the end of the year	34,908	36,704	19,880	20,937
Retained earnings in associate company				
Balance at the beginning and end of the year	2,104	2,196	—	—
Transfer to/(from) retained earnings	715	(92)	—	—
	2,819	2,104	—	—
Available-for-sale reserve				
Balance at the beginning of the year	11,335	8,752	11,335	8,752
Fair valuation of available-for-sale investment	—	2,825	—	2,825
Reclassification adjustments on disposal of available-for-sale financial assets	(11,335)	—	(11,335)	—
Deferred income tax liability arising on revaluation	—	(622)	—	(622)
Effect of change in tax rate	—	380	—	380
Balance at the end of the year	—	11,335	—	11,335
Total other non-distributable reserves	37,727	50,143	19,880	32,272
Equity-settled employee benefits reserve				
Balance at the beginning of the year	10,383	9,068	10,383	9,068
Share-based payment expense during the year	6,561	1,315	6,561	1,315
Balance at the end of the year	16,944	10,383	16,944	10,383
Retained earnings				
Balance at the beginning of the year	985,278	921,267	964,672	903,293
Transfer (to)/from associate company`s reserves	(715)	92	—	—
Transfer from revaluation reserve	1,796	2,819	1,057	1,201
Profit for the year	568,793	573,840	566,167	572,918
Interim dividend paid	(128,185)	(128,185)	(128,185)	(128,185)
Special dividend paid	—	(333,281)	—	(333,281)
Transfer to dividend reserve	(205,096)	(51,274)	(205,096)	(51,274)
Balance at the end of the year	1,221,871	985,278	1,198,615	964,672
Total reserves (excluding the dividend reserve)	1,276,542	1,045,804	1,235,439	1,007,327

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
31. CASH GENERATED BY OPERATIONS BEFORE TAXATION AND WORKING CAPITAL CHANGES				
Profit before direct tax	729,961	637,737	726,229	635,942
Adjusted for:				
- depreciation of property and equipment	19,462	16,735	18,291	15,718
- share of profit of associate company	(2,423)	(1,273)	—	—
- dividends from associate company	—	—	(1,708)	(1,366)
- straight-line adjustment of lease rentals	(310)	280	(310)	280
- impairment losses on loans and advances	132,714	59,211	132,714	59,211
- gain on sale of property and equipment	(538)	(71)	(538)	(71)
- gain on disposal of available-for-sale financial assets	(25,667)	—	(25,667)	—
- unrealised gain on derivative financial instruments	9,253	1,887	9,253	1,887
- net loss/(gain) on financial instruments held at fair value through profit or loss	6,167	(117)	6,167	(117)
- share-based payment expense - equity settled	6,561	1,315	6,561	1,315
- share-based payment expense - cash settled	8,512	3,367	8,512	3,367
	883,692	719,072	879,504	716,167
32. TAXATION PAID				
Amounts overpaid at the beginning of the year	(4,622)	(1,041)	(4,305)	(2,235)
Charged to the income statement	172,083	65,770	170,869	65,000
Amounts (owing)/overpaid at the end of the year	(461)	4,622	(1,550)	4,305
Cash amounts paid	167,000	69,351	165,014	67,070
33. CURRENT INCOME TAXATION LIABILITY/(ASSET)				
Opening asset	(4,622)	(1,041)	(4,305)	(2,235)
Charged to the income statement	172,083	65,770	170,869	65,000
Cash amounts paid	(167,000)	(69,351)	(165,014)	(67,070)
Closing liability/(asset)	461	(4,622)	1,550	(4,305)

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
34. INCREASE IN DEPOSITS AND CURRENT ACCOUNTS				
Increase in current and managed account deposits	997,025	143,334	997,025	143,334
Increase in savings deposits	56,277	75,152	56,277	75,152
(Decrease)/increase in call and term deposits	(207,459)	74,280	(207,459)	74,280
	845,843	292,766	845,843	292,766
35. INCREASE IN ADVANCES TO CUSTOMERS				
Net amount outstanding at the beginning of the year	7,170,842	5,803,009	7,177,842	5,810,009
Impairment of advances	(132,714)	(59,211)	(132,714)	(59,211)
Net amount outstanding at the end of the year	(8,420,553)	(7,170,842)	(8,427,553)	(7,177,842)
Fair value adjustment - Morupule loan	10,562	847	10,562	847
	(1,371,863)	(1,426,197)	(1,371,863)	(1,426,197)
36. DIVIDENDS PAID				
Previous year's final dividend paid during the year	51,274	128,185	51,274	128,185
Interim dividend paid	128,185	128,185	128,185	128,185
Special dividend paid	—	333,281	—	333,281
Total dividends paid to shareholders	179,459	589,651	179,459	589,651
37. CASH AND CASH EQUIVALENTS				
Cash and short-term funds (Note 10)	2,557,842	1,706,573	2,557,842	1,706,573
Bank of Botswana Certificates (Note 14)	2,627,612	3,449,727	2,627,612	3,449,727
	5,185,454	5,156,300	5,185,454	5,156,300

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

	Group		Company	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
38. CONTINGENCIES AND COMMITMENTS				
Contingencies	1,641,606	1,396,344	1,641,606	1,396,344
The above contingencies represent guarantees and letters of credit.				
Commitments				
Undrawn commitments to customers	1,373,784	1,551,262	1,373,784	1,551,262
Capital commitments				
Capital expenditure approved by the Directors				
- not yet contracted for	52,036	49,105	52,036	49,105
- contracted for	101,000	230,000	101,000	230,000
	153,036	279,105	153,036	279,105
The above commitments are wholly in respect of property and equipment, and funds to meet these commitments will be provided from the Group's internal resources.				
Operating lease commitments				
Payable within one year	12,985	4,873	12,985	4,873
Payable within two to five years	34,910	15,725	34,910	15,725
	47,895	20,598	47,895	20,598

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 (2011: nil).

39. 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 2012 the Group acted as a trustee in respect of Botswana Government bonds amounting to P619,790,290 (2011: P482,436,362), treasury bills amounting to P133,190,000 (2011: P140,372,023) and equities amounting to P1,584,839,260 (2011: P1,170,079,158). These assets were held in a trust or in a fiduciary capacity and are not treated as assets of the Bank. Accordingly, they have not been included in the statement of financial position.

40. 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 significant increase in credit risk. Management is monitoring this risk closely. There have been no significant changes in exposures to risks and the Group's objectives, policies and processes 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 2012 are set out on the next page:

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.1 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 2012 P'000	30 June 2011 P'000
Geographical distribution		
Botswana	12,501,885	12,387,179
Southern Africa	1,164,026	388,901
Rest of the world	198,535	382,849
	13,864,446	13,158,929
Distribution by sector		
Banks including Bank of Botswana	3,643,962	4,305,912
Government and parastatal organisations	71,939	16,105
Individuals	4,308,451	3,467,824
Business/trading	2,705,006	2,704,024
Others	3,135,088	2,665,064
	13,864,446	13,158,929

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

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.1 Credit risk management *(continued)*

Collateral pledged

At the end of the current year the Group had no borrowings with Bank of Botswana (2011: 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 instalments are fully paid.

- Property finance: Collateral consists of first and second mortgage bonds 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 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 in the statement of financial position.

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.1 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 2012				
	Year to date average exposure (after interest in suspense) P'000	Total exposure (after interest in suspense) P'000	Retail P'000	Corporate & commercial P'000	Other P'000
Exposures recognised in the statement of financial position exposures					
Cash and short term funds	2,247,665	2,413,022	1,328,196	—	1,084,826
- Money at call and short notice	1,060,669	1,328,196	1,328,196	—	—
- Balances with other banks	1,186,996	1,084,826	—	—	1,084,826
Advances to customers - (after interest in suspense)	8,588,708	8,420,553	5,457,895	2,962,658	—
Investment securities - debt	2,616,968	2,699,551	—	—	2,699,551
Accounts receivable	106,252	170,800	—	—	170,800
Derivatives	1,327	7,861	—	—	7,861
Related parties	35,093	7,839	—	—	7,839
Exposures not recognised in the statement of financial position					
Financial and other guarantees	1,510,424	1,641,606	1,592,662	48,944	—
Loan commitments not drawn	807,541	1,373,784	807,564	566,220	—
Total	15,913,978	16,735,016	9,186,317	3,577,822	3,970,877

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.1 Credit risk management *(continued)*

	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 & commercial P'000	Other P'000
Exposures recognised in the statement of financial position exposures					
Cash and short term funds	1,012,756	1,289,855	432,600	—	857,255
- Money at call and short notice	638 419	432 600	432 600	—	—
- 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	15,421,944	6,283,550	4,267,498	4,870,896

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.1 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		
	2012		
	Investment grade P'000	Non-investment grade P'000	Total neither past due nor impaired P'000
Home loans	1,927,649	826,135	2,753,784
Credit Cards	163,785	70,194	233,979
Term loans	1,852,071	793,745	2,645,815
Overdrafts	638,222	273,524	911,745
WesBank	674,620	289,123	963,743
Total	5,256,346	2,252,720	7,509,066
	2011		
Home loans	1,611,695	690,727	2,302,422
Credit Cards	122,274	52,403	174,677
Term 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

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.1 Credit risk management *(continued)*

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

			Group 2012		
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	7,861	7,839	2,699,551	2,557,842	170,800

			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

Investment grade are those financial assets rated in one of the four highest rating categories in line with international rating agencies. Non-investment grade assets are those rated in the rest of the rating categories in line with international rating agencies.

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.1 Credit risk management *(continued)*

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

	Group 2012					
		Past due but not impaired				
Age analysis of arrears of advances	Neither past 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	2,753,784	191,630	73,873	36,420	71,877	3,127,584
Other loans including credit card	233,979	2,153	1,256	5,677	14,503	257,568
Term loans	2,645,815	32,076	42,046	16,823	84,134	2,820,894
Overdraft	911,745	—	—	—	39,660	951,405
WesBank asset finance	963,743	254,906	177,361	21,555	27,705	1,445,270
Total	7,509,066	480,765	294,536	80,475	237,879	8,602,721

	Group 2011					
		Past due but not impaired				
Age analysis of arrears of advances	Neither past 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
Term 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

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.

40.2 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.

40.2.1 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 USD21 million (2011: USD28 million) while the overnight limit was USD7 million. The limits were adhered to during the year and at year-end.

The Group takes positions to mitigate the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. Consequently the Group strives to match its foreign currency assets and liabilities. The Group manages foreign currency exposures in terms of approved limits. The table below sets out the currency position as at the year-end.

Group

	Assets		Equity and Liabilities	
	30 June 2012 P'000	30 June 2011 P'000	30 June 2012 P'000	30 June 2011 P'000
Distribution by currency				
Botswana Pula	12,784,668	12,941,766	12,937,707	12,603,239
South African Rand	125,199	2,902	204,493	78,125
United States Dollar	1,091,437	185,184	870,866	275,241
British Pound	37,488	72	35,143	36,145
Euro	128,031	10,315	120,081	128,277
Others	47,656	18,690	46,189	37,900
	14,214,479	13,158,929	14,214,479	13,158,929

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 2012 P'000	30 June 2011 P'000
Loss arising from a 10% decrease	(15,304)	33,853
Gain arising from a 10% increase	15,304	(33,853)

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

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.2 Market risk *(continued)*

40.2.2 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						
2012	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	14,214,479	2,576,650	9,851,480	39,320	129,410	86,670	1,530,949
Total liabilities and equity	14,214,479	8,445,690	2,946,520	507,940	241,190	62,360	2,010,779
Net interest sensitivity gap	—	(5,869,040)	6,904,960	(468,620)	(111,780)	24,310	(479,830)
2011							
Total assets	13,158,929	1,962,385	9,643,966	24,632	57,760	55,556	1,414,630
Total liabilities and equity	13,158,929	5,575,428	3,589,199	212,166	36,435	166,239	3,579,462
Net interest sensitivity gap	—	(3,613,043)	6,054,767	(187,534)	21,325	(110,683)	(2,164,832)

40.2 Market risk *(continued)*

40.2.2 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 2012 P'000	30 June 2011 P'000
100 basis points parallel increase - gains	34,500	31,000
100 basis points parallel decrease - losses	(34,500)	(31,000)
200 basis points parallel increase - gains	69,000	62,000
200 basis points parallel decrease - losses	(69,000)	(62,000)

40.2.3 Equity price risk

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

	30 June 2012 P'000	30 June 2011 P'000
Impact of 10% price increase on other comprehensive income - increase	—	3,103
Impact of 10% price decrease on other comprehensive income - decrease	—	(3,103)

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.

The investment in Visa Inc. was disposed of in the current year and therefore the Bank did not have an equity price risk exposure as at year-end.

40.3 Liquidity risk management

The Group is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan draw-downs and other cash requirements. The Group manages its cash resources based on historical experience to meet all liquidity requirements.

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched positions potentially enhance profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.3 Liquidity risk management *(continued)*

Liquidity risk management process

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

i. Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen;
ii. Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
iii. Monitoring the liquidity ratios of the consolidated statement of financial position against internal and regulatory requirements; and
iv. Managing the concentration and profile of debt maturities.

The table below sets out the maturity analysis of the Group's statement of financial position based on the remaining period from year-end to contractual maturity. "Demand" denotes assets or liabilities with a contractual maturity of 32 days or less.

			Term to maturity				
2012	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	14,214,479	2,576,650	3,119,010	1,015,890	3,446,760	1,638,790	2,417,379
Total liabilities and equity	14,214,479	8,445,690	2,946,520	507,940	241,190	62,360	2,010,779
Net liquidity gap	—	(5,869,040)	172,490	507,950	3,205,570	1,576,430	406,600
2011							
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)

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.

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.3 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 2012 Term to maturity					
	Call P'000	1 - 3 months P'000	4 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Total P'000
Amounts due to other banks	172,510	—	—	—	—	172,510
Deposit and current accounts	7,341,564	3,501,877	1,218,049	155,256	161,760	12,378,506
Derivative financial instruments	—	1,530	20,799	65,350	87,240	174,919
Borrowings	—	8,231	215,722	135,593	429,029	788,575
Due to related companies	—	57,883	—	—	—	57,883
Creditors and accruals	—	—	275,972	—	—	275,972
Provisions	—	—	52,252	—	—	52,252
	7,514,074	3,569,521	1,782,794	356,199	678,029	13,900,617

	Group 2011 Term to maturity					
	Call P'000	1 - 3 months P'000	4 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Total P'000
Amounts due to other banks	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
Borrowings	—	5,305	38,318	327,858	204,488	575,969
Due to related companies	—	140,031	—	—	—	140,031
Creditors and accruals	—	—	607,230	—	—	607,230
Provisions	—	—	42,646	—	—	42,646
	6,224,513	3,612,014	1,521,620	812,356	594,694	12,765,196

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.4 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			
	2012		2011	
	Carrying value P'000	Fair value P'000	Carrying value P'000	Fair value P'000
Assets				
Advances				
Home loans	3,062,589	2,974,385	2,627,510	2,574,961
Credit card	113,483	113,483	98,047	98,047
Term loans	2,293,398	2,043,624	1,914,717	1,876,423
Overdraft	958,405	958,405	1,002,359	1,002,359
WesBank asset finance	1,445,270	1,354,046	1,342,632	1,324,321
Total advances at amortised cost	7,873,145	7,443,943	6,985,265	6,876,111
Other				
Accounts receivable	170,800	170,800	170,502	170,502
Total financial assets at amortised cost	8,043,945	7,614,743	7,155,767	7,046,613
Liabilities				
Deposits and current accounts				
Balances from banks and financial institutions (current and managed)	2,226,428	2,226,428	2,091,558	2,091,558
Balances from customers (term)	3,697,437	3,617,580	3,726,000	3,703,764
Other deposits (call and savings)	5,519,376	5,519,376	4,779,840	4,779,840
Total deposits and current accounts	11,443,241	11,363,384	10,597,398	10,575,162
Long-term borrowings	452,942	318,922	201,557	245,027
Other				
Creditors and accruals	275,972	275,972	616,691	616,691
Total financial liabilities at amortised cost	12,172,155	11,958,278	11,415,646	11,436,880

40.4 Fair value of financial instruments *(continued)*

(ii) Fair value hierarchy

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

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

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

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on stock exchanges which are active.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the Over The Counter(OTC) derivative contracts, traded loans and issued structured debt.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

	Group 2012			
Assets and liabilities measured at fair value	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
Financial assets held for trading				
- Investment securities	—	71,939	—	71,939
- Derivative financial instruments	—	7,861	—	7,861
Designated at fair value through profit or loss				
- Term loan	—	345,879	—	345,879
Available for sale financial assets				
- Investment securities	—	2,627,612	—	2,627,612
Total assets	—	3,053,291	—	3,053,291
Financial liabilities held for trading				
- Derivative financial instruments	—	32,912	—	32,912
Designated at fair value through profit or loss				
- Zero coupon deposit	—	66,105	—	66,105
Total liabilities	—	99,017	—	99,017

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.4 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, wiling parties in an arm's 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 the carrying amount which is measured at armotised cost.

40. FINANCIAL RISK MANAGEMENT *(continued)*

40.4 Fair value of financial instruments *(continued)*

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.

Borrowings

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.

40.5 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 in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings. The book value of goodwill is deducted in arriving at Tier 1 Capital.
ii) Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

Notes to the Annual Financial Statements *(continued)*

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41. 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 five main business segments:

i) Retail banking - comprising the branch network which provides commercial banking products incorporating customer deposits (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 Group's liquidity and funding;

In the current year all costs and revenues that were previously allocated to the Support segment in the prior year have been allocated to the five segments above and therefore Support no longer exists as a separate segment. The prior year comparatives have been re-allocated accordingly.

Transactions between the business segments are carried out at arm's 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.

41. SEGMENTAL REPORTING *(continued)*

Primary segments (business)

	Retail banking P'000	Property division P'000	WesBank P'000	Corporate P'000	Treasury P'000	Total P'000
2012						
Segment revenue						
Interest income	390,057	281,889	164,735	97,177	178,004	1,111,862
Non-interest income	457,762	4,912	5,343	2,733	155,935	626,685
Total segment revenue	847,819	286,801	170,078	99,910	333,939	1,738,547
Interest expenditure	(90,936)	(99,609)	(48,306)	(32,881)	(71,067)	(342,799)
Net income before impairment of advances	756,883	187,192	121,772	67,029	262,872	1,395,748
Impairment of advances	(90,760)	(305)	(38,416)	(3,233)	—	(132,714)
Net interest income after impairment of advances	666,123	186,887	83,356	63,796	262,872	1,263,034
Segment expenditure						
- Employee benefits	(188,652)	(12,232)	(29,512)	(12,948)	(22,100)	(265,444)
- Communication	(14,543)	(591)	(1,954)	(625)	(633)	(18,346)
- Stationery, storage and postage	(13,434)	(162)	(1,011)	(404)	(6,369)	(21,380)
- Property rentals and maintenance	(32,202)	(583)	(3,354)	(216)	(4,554)	(40,909)
- Other operating expenses	(101,350)	(21,536)	(16,182)	(18,945)	(20,924)	(178,936)
	(350,181)	(35,104)	(52,013)	(33,138)	(54,580)	(525,015)
Segment results before indirect taxation	315,943	151,784	31,343	30,658	208,292	738,019
Indirect taxation	(6,521)	(253)	(1,112)	(191)	(2,404)	(10,481)
Segment results	309,422	151,531	30,231	30,467	205,888	727,538
Share of associate company income						2,423
Direct taxation						(161,168)
Income after taxation						568,793
Statement of financial position:						
Total assets	2,627,158	3,176,077	1,518,706	1,411,572	5,480,966	14,214,479
Total liabilities	5,002,494	234,273	66,014	2,680,256	4,698,716	12,681,753
Advances (included in assets above)	2,487,625	3,175,262	1,467,484	1,074,565	215,617	8,420,553
Non-performing advances	127,923	79,674	10,239	55,139	—	272,975
Deposits (included in liabilities above)	5,643,556	206,377	19,383	1,813,902	3,760,023	11,443,241
Key ratios						
Cost to income ratio	47.1	18.9	43.6	49.7	21.7	38.4
Bad debt charge as a % of advances	3.6	0.0	2.6	0.3	0.0	1.6
Non-performing loans as a % of advances	5.1	2.5	0.7	5.1	0.0	3.2

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 40.

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

41. SEGMENTAL REPORTING *(continued)*

Primary segments (business)

	Retail banking P'000	Property division P'000	WesBank P'000	Corporate P'000	Treasury P'000	Total P'000
2011						
Segment revenue						
Interest income	356,332	223,891	155,145	54,275	304,435	1,094,078
Non-interest income	363,999	917	5,367	15,636	118,601	504,520
Total segment revenue	720,331	224,808	160,512	69,911	423,036	1,598,598
Interest expenditure	(120,966)	(105,630)	(59,370)	(25,596)	(120,765)	(432,327)
Net income before impairment of advances	599,365	119,178	101,142	44,315	302,271	1,166,271
Impairment of advances	(52,161)	686	(7,733)	(3)	—	(59,211)
Net interest income after impairment of advances	547,204	119,864	93,409	44,312	302,271	1,107,060
Segment expenditure						
Employee benefits	(155,749)	(10,648)	(24,090)	(11,345)	(24,282)	(226,114)
- Communication	(12,700)	(549)	(1,984)	(367)	(499)	(16,099)
- Stationery, storage and postage	(16,091)	(195)	(1,265)	(469)	(687)	(18,707)
- Property rentals and maintenance	(38,141)	(199)	(5,991)	(303)	(4,869)	(49,503)
- Other operating expenses	(27,786)	(28,781)	(3,489)	(19,596)	(73,677)	(153,329)
	(250,467)	(40,372)	(36,819)	(32,080)	(104,014)	(463,752)
Segment results before indirect taxation	296,737	79,492	56,590	12,232	198,257	643,308
Indirect taxation	(5,035)	(189)	(919)	(103)	(598)	(6,844)
Segment results	291,702	79,303	55,671	12,129	197,659	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	42.6	34.0	37.3	72.6	34.6	40.4
Bad debt charge as a % of advances	2.3	0.0	0.6	0.0	0.0	0.8
Non-performing loans as a % of advances	2.3	2.4	0.4	8.2	0.0	2.5

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.

42. EMPLOYEE SHARE PARTICIPATION SCHEMES

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 scheme has now been closed to further grants and will be wound down over the next 3 years. The details of the scheme are as follows:

	30 June 2012	30 June 2011
Group and company		
Number of options in force at beginning of the year	17,825,019	14,568,349
Granted at prices ranging between P1.51 to P3.32		
Number of options granted during the year	—	5,390,000
Granted at a price of P2.69 per share		
Number of options exercised during the year	(1,666,683)	(1,933,330)
Market value ranged between P2.05 to P2.80 (2011: P2.05 to P2.80)		
Number of options cancelled/lapsed during the year	(1,661,665)	(200,000)
Granted at a price of P2.69		
Number of options in force at end of the year	14,496,671	17,825,019
Granted at prices ranging between P1.51 to P3.32 (2011: P1.51 to P3.32)		
Number of options available for future allocation	5,503,329	2,174,981
Total number of options of the scheme	20,000,000	20,000,000
Number of participants	52	60

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

42. EMPLOYEE SHARE PARTICIPATION SCHEMES *(continued)*

	30 June 2012	30 June 2011
Options outstanding are exercisable over the following periods		
(first date able to release)		
Financial year 2011/2012	—	3,396,627
Financial year 2012/2013	8,123,298	7,928,351
Financial year 2013/2014	4,783,351	4,783,351
Financial year 2014/2015	1,590,022	1,716,690
Total	14,496,671	17,825,019
Options outstanding		
(by expiry date)		
Financial year 2011/2012	1,115,336	2,782,019
Financial year 2012/2013	261,335	453,000
Financial year 2013/2014	8,350,000	9,200,000
Financial year 2014/2015	4,770,000	5,390,000
Total	14,496,671	17,825,019
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

42. EMPLOYEE SHARE PARTICIPATION SCHEMES *(continued)*

In addition to its own share option scheme, the Group has employees who participate in the share options of FirstRand 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 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 in FirstRand's books, 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 2012

42. EMPLOYEE SHARE PARTICIPATION SCHEMES *(continued)*

	2012			
	FirstRand Share Appreciation Right Scheme (FSR shares)	FirstRand Employee Trust	Conditional share plan	Forfeitable share plan
Share option detail				
Number of options in force at the beginning of the year	1,080,000	1,336,000	323,469	56,962
Granted at prices ranging between (P)	10.48 - 17.00	12.28	—	—
Weighted average (thebe)	13.27	12.28	—	—
Number of options granted/transferred in during the year	—	—	195,331	—
Granted at prices ranging between (P)	—	—	—	—
Weighted average (P)	—	—	—	—
Number of options exercised/released during the year	(140,600)	—	—	(56,962)
Market value range at date of exercise / release (P)	10.48 - 13.50	—	—	—
Weighted average share price for the year (P)	10.78	—	—	—
Number of options cancelled/lapsed during the year	(336,100)	—	—	—
Granted at prices ranging between (P)	13.50	—	—	—
Weighted average (P)	13.50	—	—	—
Number of options in force at the end of the year	603,300	1,336,000	518,800	—
Granted at prices ranging between (P)	10.48 - 17.00	12.28	—	—
Weighted average (P)	13.72	12.28	—	—
Options are exercisable over the following periods (first date able to release):				
Financial year 2012/2013	300,000	—	218,600	—
Financial year 2013/2014	303,300	—	149,300	—
Financial year 2014/2015	—	1,336,000	150,900	—
Total	603,300	1,336,000	518,800	—

42. EMPLOYEE SHARE PARTICIPATION SCHEMES *(continued)*

	2011			
	FirstRand Share Appreciation Right Scheme (FSR shares)	FirstRand 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 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 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

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

42. EMPLOYEE SHARE PARTICIPATION SCHEMES *(continued)*

	2012			
	FirstRand Share Appreciation Right Scheme (FSR shares)	FirstRand Employee Trust	Conditional share plan	Forfeitable share plan
Options outstanding (by expiry date)				
Financial year 2012/2013	300,000	—	218,600	—
Financial year 2013/2014	303,300	—	149,300	—
Financial year 2014/2015	—	1,336,000	150,900	—
Total	603,300	1,336,000	518,800	—
Total options outstanding - in the money	403,308	1,336,000	518,800	—
Total options outstanding - out of the money	199,992	—	—	—
Total	603,300	1,336,000	518,800	—
Number of participants	10	4	10	—

	2011			
Options outstanding (by expiry date)				
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
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

42. EMPLOYEE SHARE PARTICIPATION SCHEMES *(continued)*

The income statement charge for all share based payments is as follows:	Group and Company 30 June 2012 P'000	Group and Company 30 June 2011 P'000
FirstRand Share Incentive Scheme	—	(1,639)
FirstRand Employee Trust	3,975	—
First National Bank of Botswana share option scheme	2,586	2,954
Total equity settled share option scheme charge to income statement	6,561	1,315
FirstRand Share Appreciation Right Scheme	1,913	967
Forfeitable share plan	(613)	613
Conditional share plan	7,212	1,788
Total cash settled share option scheme charge to income statement	8,512	3,367
Charge to income statement	15,073	4,682

At year end, the liability for FirstRand share schemes amounted to P11,559,000 (2011: P4,679,000) and has been included in creditors and accruals.

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

43. 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 non-performing 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.

43. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES *(continued)*

(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.

44. EVENTS AFTER THE REPORTING PERIOD

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

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

45. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

	The Group will comply with the following new standards and interpretations from the stated effective dates.	Effective date
IAS 1 (amended)	Presentation of Items of Other Comprehensive Income	
	This amendment was issued to eliminate inconsistencies in the presentation of items in the statement of other comprehensive income. The amendment requires an entity to group the items of other comprehensive income on the basis of whether the amounts will subsequently be reclassified to profit or loss or not i.e. the statement of comprehensive income should be split between items that will be reclassified to profit or loss and items that will not be reclassified to profit or loss. 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 July 2012.
IAS 12 (amended)	Income Taxes	
	IAS 12 requires that deferred tax assets be measured based on whether the entity expects to recover the carrying amount of the asset through use or through sale. This assessment of the method of recovery may be difficult to assess for investment property measured using the fair value model. The amendment provides a practical solution by introducing a presumption that the carrying amount of such investment property will normally be recovered through sale. As a result of the amendment, SIC 21 Income Taxes - Recovery of Revalued Non-Depreciable Assets has been withdrawn. This amendment is not expected to have a significant impact on the Group.	Annual periods commencing on or after 1 January 2012
IAS 19 (revised)	Employee Benefits	
	The main changes include the removal of the corridor approach, which allowed entities the option to defer the recognition of actuarial gains and losses on defined benefit plans. The revised standard requires that all remeasurements arising from defined benefit plans be presented in other comprehensive income. It also includes enhanced disclosure requirements for defined benefits plans. The Group is in the process of assessing the impact the revised IAS 19 would have on the financial statements.	Annual periods commencing on or after 1 January 2013

		Effective date
IAS 27 (amended)	Separate Financial Statements	
	IAS 27 removes the accounting and disclosure requirements for consolidated financial statements as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards. IAS 27 (amended) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. This amendment is not expected to have a significant impact on the Group's results.	Annual periods commencing on or after 1 January 2013
IAS 28 (amended)	Investments in Associates and Joint ventures	
	IAS 28 Investments in Associates and Joint Ventures (amended) supersedes IAS 28 Investments in Associates as a result of the issue of IFRS 11 and IFRS 12. The new IAS 28 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 disclosure requirements relating to these investments are now contained in IFRS 12. This amendment is not expected to have a significant impact on the Group's results.	Annual periods commencing on or after 1 January 2013
IAS 32	Financial Instruments: Presentation	
	This amendment requires entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its statement of financial position and the effects of set-off on the entity's rights and obligations.	Annual periods commencing on or after 1 January 2014

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

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

	The Group will comply with the following new standards and interpretations from the stated effective dates.	Effective date
IFRS 1 (amended)	First-time Adoption of International Financial Reporting Standards	
	On 13 March 2012 the IASB published an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. It provides the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. The Group is not a first-time adopter and this amended standard will therefore have no impact.	Annual periods commencing on or after 1 January 2013
IFRS 7	Financial Instruments: Disclosures	
	This amendment requires entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its statement of financial position and the effects of set-off on the entity's rights and obligations.	Annual periods commencing on or after 1 January 2013
IFRS 9	Financial Instruments	
	IFRS 9 is the first phase in the IASB's three-part project to replace 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 liabilities at amortised cost or fair value in line with the existing requirements of IAS 39. If an entity elects 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 2015

		Effective date
IFRS 10	Consolidated Financial Statements	
	IFRS 10 establishes a new control model for determining which entities should be consolidated. The standard also provides guidance on how to apply the principle of control to specific situations in order to identify whether an investor controls an investee. IFRS 10 supersedes a portion of IAS 27 Separate and Consolidated Financial Statements and SIC 12 Consolidation – Special Purpose Entities. 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 periods commencing on or after 1 January 2013
IFRS 11	Joint Arrangements	
	The standard supersedes IAS 31 Joint Ventures and aims to improve on 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 in the financial statements of the venturer. The standard is not expected to have a significant impact on the Group.	Annual periods commencing on or after 1 January 2013
IFRS 12	Disclosure of Interests in Other Entities	
	The standard aims to provide consistent disclosure requirements for subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires disclosure of information that will enable 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. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The Group is still in the process of assessing the impact of the revised disclosure.	Annual periods commencing on or after 1 January 2013

Notes to the Annual Financial Statements *(continued)*

for the year ended 30 June 2012

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

	The Group will comply with the following new standards and interpretations from the stated effective dates.	Effective date
IFRS 13	Fair Value Measurement	
	IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value 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 periods commencing on or after 1 January 2013
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine	
	This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ('production stripping costs'). The Interpretation falls outside the scope of the Groups operations and will have no impact on the Group.	Annual periods commencing on or after 1 January 2013
Annual Improvements	Improvements to IFRS	
	The IASB issued *Annual Improvements* 2009-2011 Cycle in May 2012, as its latest set of annual improvements. The collection of amendments to International Financial Reporting Standards is in response to six issues addressed during the 2009-2011 cycle. The amendments have been assessed and are not expected to have a significant impact on the Group.	Annual periods commencing on or after 1 January 2013

SHAREHOLDER INFORMATION

Shareholder's Diary

Declaration of final dividend and announcement of results	August 2012
Payment of final dividend	October 2012
Publication of Annual Financial Statements	October 2012
Annual General Meeting	8 November 2012
Publication of half-year interim report and dividend announcement	February 2013
Payment of interim dividend	March 2013
Next financial year end	30 June 2013

List of Major Shareholders

30 June 2012

	30 June 2012	30 June 2011
FIRST NATIONAL BANK HOLDINGS (BOTSWANA) LIMITED	1,780,590,000	1,780,590,000
SCBN (PTY) LTD RE: BIFM BPOPF BW000000894-2	96,588,701	103,961,239
SCBN (PTY) LTD RE: IAM 030/14	80,710,490	80,710,490
STANBIC NOMINEES RE: BIFM	77,329,329	78,644,445
SCBN (PTY) LTD RE: FAM 3582376	68,024,819	70,788,842
SCBN (PTY) LTD RE: SSB 001/77	55,310,000	57,060,000
MOTOR VEHICLE ACCIDENT FUND	50,552,910	50,552,910
FNB NOMINEES (PTY) LTD RE: SIMS BPOPF 10001009	40,310,249	39,792,658
SCBN (PTY) LTD RE: IAM 203/001	17,152,374	13,586,972
SCBN(PTY) LTD RE: BIFM BPOPF BW 000000896-3	17,133,008	16,386,763
SCBN (PTY) LTD RE: BIFM DPF	16,955,833	16,955,833
FNB NOMINEES (PTY) LTD RE: AGRAY BPOPF 10001010	16,878,318	16,998,318
BOTSWANA MEDICAL AID SOCIETY	16,598,000	16,598,000
SCBN (PTY) LTD RE: FAM 201/010	15,343,419	12,500,896
FNB NOMINEES (PTY) LTD RE: CFM BPOPF10001011	13,498,956	6,029,256
SCBN (PTY) LTD RE: AG 211/002	9,545,835	9,545,835
SCBN (PTY) LTD RE: SSB 001/81	7,511,600	7,511,600
SCBN (PTY) LTD RE: IAM 030/30	7,235,453	7,535,525
FNB NOMINEES BOTSWANA (PTY) LTD RE: SIMS BBDCSPF	6,610,000	—
STANBIC NOMINEES BOTSWANA RE: IBMF	6,042,628	—
SCBN (PTY) LTD RE: MAU 067/001	—	6,208,380
BOB STAFF PENSION FUND	—	6,110,000
SCBN (PTY) LTD RE: SSB 001/114	4,730,800	4,730,800
STANBIC NOMINEES BOTSWANA RE: BIFM BR	3,997,140	3,680,464
STANBIC NOMINEES RE: BIFM BLAF	3,574,249	3,574,249
SCBN (PTY) LTD RE: FAM 3582252	3,293,576	3,350,052
SCBN (PTY) LTD RE: SIMS 207/002	—	3,307,012
SCBN (PTY) LTD RE: MAU 068/024	—	3,140,000
BENJAMIN H RASEROKA	—	3,000,000
STANBIC NOMINEES RE: BIFM DPPF	3,208,155	—
SCBN (PTY) LTD RE:JPM BW000001036-5	3,140,000	—
SCBN (PTY) LTD RE: SSB 001/155	2,991,400	—
STANBIC NOMINEES BOTSWANA RE: BNY10000093	2,827,716	—
	2,427,684,958	2,422,850,539
	94.69%	94.51%

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 Thursday 8 November 2012 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 5 November 2012. 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 2012)

Forms of proxy to be received by 12h00	Monday 5 November
Annual General Meeting at 12h00	Thursday 8 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 Thursday 8 November 2012, 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 2012.

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

4. **Ordinary Resolutions 3,4,5 and**
   To re-elect the following directors of the Company:

   J R Khethe
   P D Stevenson
   S Thapelo

   who retire by rotation in terms of the Constitution, being eligible, offer themselves for re-election.

5. **Ordinary Resolution 6:**
   To approve the remuneration of the directors for the year ended 30 June 2012.

6. **Ordinary Resolution 7:**
   To approve the Auditors remuneration for the past year's audit.

7. **Ordinary Resolution 8:**
   To approve the appointment of Auditors for the ensuing year.

8. **Ordinary Resolution 9:**
   To approve the dissolution of the First National Bank of Botswana Limited Employee Share Participation Scheme Trust and the establishment of the Conditional Share Plan Scheme.

9. **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 (Proprietary) Limited, Plot 50371, Fairgrounds Office Park, and P O Box 294, Gaborone by not later than 12h00 on Monday, 5 November 2012.

By Order of the Board

P D Stevenson
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 10 October 2012.

For use at the Annual General Meeting of Shareholders of the Company to be held at Gaborone International Convention Centre at 12h00 on Thursday 8 November 2012.

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			
8. Ordinary Resolution 8			

Signed at ______________ on ____________ 2012

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 authorise 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 authorise 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 5 November 2012.

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.

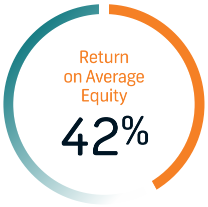
STATEMENT OF FINANCIAL POSITION

The Bank's statement of financial position increased by 8% on the previous year. Advances to customers grew by 17% mainly in Property Finance and in the Wholesale segment.

Growth in deposits from customers was lower than expected at 8%, reflecting the current strain on the consumer and the relative liquidity in the market. The Bank continues with initiatives to reduce reliance on professional deposits and to focus on other segments for funding.

Total ordinary equity holders' funds increased by 33% compared to the prior year, in line with the Bank's capital management framework to gear up for Basel II and also reflecting the impact of a special dividend paid in 2011.

FINANCIAL **PERFORMANCE**



INCOME STATEMENT PERFORMANCE

Against the challenging economic landscape, the Group's profit before taxation increased by 14% and profit after tax remained flat compared to the previous year as a result of the effect of changes to tax legislation in 2011.

On the back of advances which grew by 17%, as well as changes in the deposit mix from the more expensive professional segment to cheaper core deposits, net interest income grew by 16%. This was achieved despite the adverse impact of the increase in the reserving requirements from 6.5% to 10% in July 2011.

- Profit before taxation increased by 14%
- Non-interest income increased by 24%
- Other operating expenses increased by only 9%
- Cost to income ratio at 38%
- Advances growth of 17%
- Return on average assets 4.2%
- Return on average equity recorded at 42%
- Total dividend per share of 13.00 thebe per share

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

AIRPORT JUNCTION
Shop 01A, Plot 70665
Airport Junction Mall
P O Box 1552, Gaborone
Tel: 392 4461
Fax: 393 7346

RAIL PARK
Shop G55, Rail Park Mall
Private Bag 00446, Gaborone
Tel: 391 5226
Fax: 391 5446

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
Cnr. 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

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