

FIRST NATIONAL BANK OF BOTSWANA LIMITED

(Incorporated in the Republic of Botswana)

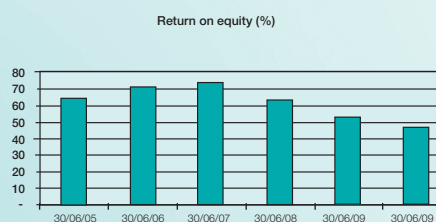
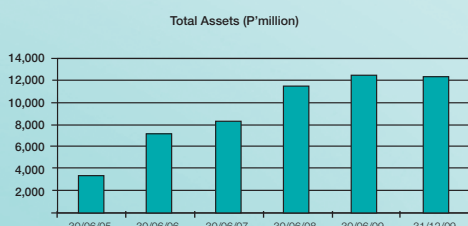
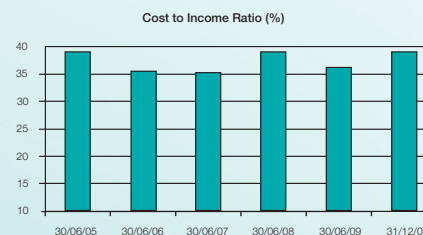
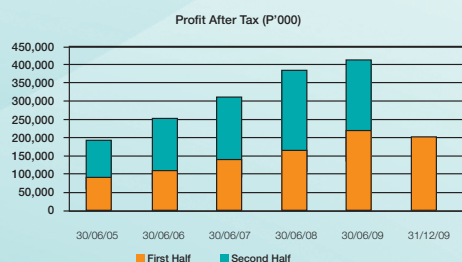
Half Year Interim Results And Dividend Announcement:

For the Period ended 31 December 2009

The Directors have pleasure in announcing the unaudited financial results of First National Bank of Botswana (the Bank) and its subsidiaries for the half year ended 31 December 2009.

Financial Highlights

- Balance sheet growth of 15%
- Impairment losses increased by only 12% on corresponding period
- Cost to income ratio of 38%
- Advances growth of 13%
- Deposits growth of 17%
- Return on average assets 3.5%
- Non interest expenditure increased by only 8% on corresponding period
- Proposed interim dividend per share of 4.5 thebe
- Profit before tax declined marginally by 3%



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The Directors have pleasure in announcing the unaudited financial results of First National Bank of Botswana Limited (the Bank) and its subsidiaries for the half year ended 31 December 2009.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

- The financial results have been prepared in accordance with International Financial Reporting Standards ("IFRS") and (IAS) 34 - Interim Financial Reporting, and the Companies Act of Botswana (Companies Act 2003).

- All new accounting standards and pronouncements, effective for the year, have been adopted by the Bank. Most significant of these are IAS 1 - Financial Statement Presentation and IFRS 8 - Operating Segments. Both of these standards focus on presentation and disclosure and have no impact on the recognition or measurement of amounts presented. No other amendments adopted in the current year had a material impact on the Bank in either the current, or prior year, and therefore no restatements have been made.
- The accounting policies applied are consistent with those applied in the annual financial statements for the year ended 30 June 2009.

CONSOLIDATED INCOME STATEMENT

	Unaudited Six months ended 31 Dec 2009 P'000	Unaudited Six months ended 31 Dec 2008 P'000	% Change	Audited Year ended 30 June 2009 P'000
Interest income and similar income	563,263	678,878	(17)	1,296,474
Interest expense and similar charges	(294,195)	(420,853)	(30)	(773,578)
Net interest income before impairment of advances	269,068	258,025	4	522,896
Impairment of advances	(20,172)	(17,991)	12	(40,752)
Net interest income after impairment of advances	248,896	240,034	4	482,144
Non interest income	187,690	192,336	(2)	370,158
Income from operations	436,586	432,370	1	852,302
Operating expenses	(171,577)	(158,957)	8	(316,534)
Depreciation	(5,666)	(4,741)	20	(10,001)
Other operating expenses	(165,911)	(154,216)	8	(306,533)
Net income from operations	265,009	273,413	(3)	535,768
Share of profits from associates	-	-	-	1,131
Profit before indirect taxation	265,009	273,413	(3)	536,899
Indirect taxation	(2,022)	(3,256)	(38)	(8,326)
Profit before direct taxation	262,987	270,157	(3)	528,573
Direct taxation	(58,075)	(51,329)	13	(121,853)
Profit for the year	204,912	218,828	(6)	406,720

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 31 Dec 2009 P'000	Unaudited Six months ended 31 Dec 2008 P'000	% Change	Audited Year ended 30 June 2009 P'000
Profit for the year	204,912	218,828	(6)	406,720
Other comprehensive income				
Available for sale financial assets	-	(7,694)	-	(6,198)
Gains on property revaluation	-	-	-	29
Other comprehensive income for the period before tax	-	(7,694)	-	(6,169)
Income tax relating to components of other comprehensive income	-	-	-	(1,173)
Other comprehensive income for the period	-	(7,694)	-	(7,342)
Total comprehensive income for the year	204,912	211,134	(3)	399,378
Total comprehensive income attributable to:				
Ordinary shareholders	204,912	211,134		399,378
Owners of the parent	142,414	146,738	(3)	277,568
Minority interest	62,498	64,396	(3)	121,810
Total comprehensive income for the period	204,912	211,134	(3)	399,378
Average number of shares in issue during the period ('000)	2,563,700	2,563,700		2,563,700
* Earnings per share (thebe) (based on weighted average number of shares outstanding)	8.06	8.60	(6)	15.99
Diluted earnings per share (thebe) (based on weighted average number of shares in issue)	7.99	8.54	(6)	15.86
* Average number of shares outstanding takes into account 20 million shares held by the FNBB Employees Share Participation Trust				
RATIOS AND MARKET INFORMATION				
Dividend per share (thebe)	4.50	4.50	0	8.70
Dividend cover (times)	1.8	1.9		1.8
* Cost to income ratio (percent)	38	36		36
** Return on equity (percent)	44	59		49
*** Return on average assets (percent)	3.5	3.6		3.0
Capital adequacy ratio (percent)	17.2	15.9		16.9
Closing share price (thebe)	250	200	25	210
Dividend yield - ordinary shares (percent)	3.6	4.5		4.1
Price earnings ratio	15.6	11.7		13.1

* Cost to income ratio is based on total non-interest expenditure including indirect taxation (Value Added Tax).

** Return on shareholders' funds is annualised and includes proposed dividend (dividend reserve).

*** Return on average assets is annualised.

STATEMENT OF FINANCIAL POSITION

	Unaudited At 31 Dec 2009 P'000	Unaudited At 31 Dec 2008 P'000	% Change	Audited At 30 June 2009
ASSETS				
Cash and short-term funds	823,624	794,148	4	1,185,914
Derivative financial instruments	-	58,281		22,611
Investment securities and other investments	5,775,725	4,210,577	37	6,085,772
Advances	5,079,906	4,478,789	13	4,643,241
Investment in associate company	1,549	2,297		2,037
Due from related companies	349,045	797,135		3,956
Accounts receivable	68,189	206,403		363,392
Property and equipment	140,097	96,120		115,601
Intangible asset	26,963	26,963		26,963
Total assets	12,265,098	10,670,713	15	12,449,487

LIABILITIES AND SHAREHOLDERS FUNDS

Liabilities

Amounts due to other banks	-	42,610		13,851
Deposits and current accounts - amortised cost	10,511,069	8,960,525	17	10,552,699
Derivative financial instruments	-	58,281		21,388
Long-term loans	310,714	320,705		316,612
Accrued interest	45,164	72,934		70,142
Balances due to Group companies	42,605	17,669		175,827
Subordinated unsecured registered bonds	100,000	100,000		100,000
Current taxation	12,710	21,571		7,494
Creditors and accruals	152,838	186,721		191,279
Deferred taxation	79,067	43,265		79,071
Total liabilities	11,254,167	9,824,281		11,528,363

Shareholders' equity

Stated capital	51,088	51,088		51,088
Reserves	844,476	679,977		754,669
Dividend reserve	115,367	115,367		115,367
Total shareholders' equity	1,010,931	846,432	19	921,124

Total liabilities and shareholders' funds

CONTINGENCIES (OFF BALANCE SHEET ITEMS)

Guarantees	943,398	716,480		868,322
Letters of credit	56,783	56,526		50,967
	1,000,181	773,006	29	919,289

CONSOLIDATED STATEMENT OF CASH FLOWS

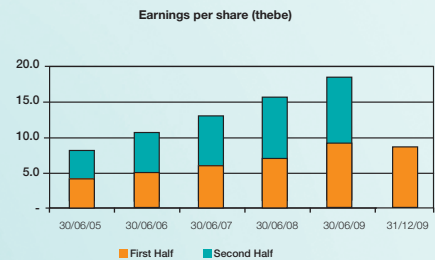
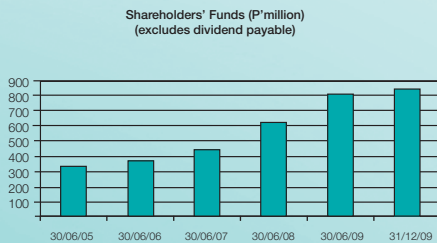
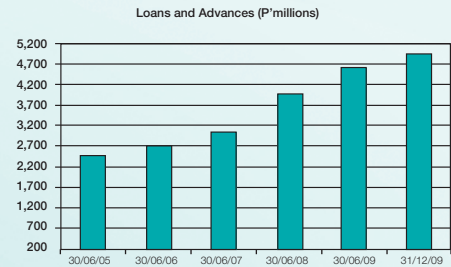
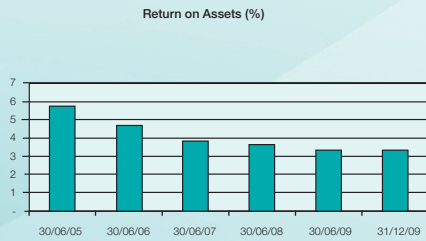
	Six months ended 31 Dec 2009 P'000	Six months ended 31 Dec 2008 P'000	% Change	Year ended 30 June 2009 P'000
Cash flows from operating activities				
Cash generated by operations	288,825	292,892	(1)	579,191
Taxation paid	(52,859)	(42,707)		(84,768)
	235,966	250,185		494,423
Net increase in assets	(16,994)	(1,294,209)		(974,226)
Net increase in liabilities	1,471,217	215,904		778,235
Net cash generated from operating activities	1,690,189	(828,120)		298,432
Dividends paid	(115,367)	(89,730)		(205,097)
Long term loans repaid	(9,991)	(14,806)		(7,455)
Net cash used by financing activities	(125,358)	(104,536)		(212,552)
Net cash used by investing activities	(38,916)	(22,192)		(43,531)
Net increase in cash and cash equivalents	1,525,915	(954,848)		42,349
Cash and cash equivalents at the beginning of the period	4,850,068	5,804,916		7,053,088
Cash and cash equivalents at the end of the period	6,375,983	4,850,068	31	7,095,437
Cash and short-term funds at the end of the period				
Cash and short-term funds	823,624	794,148		1,185,914
Investment in Bank of Botswana Certificates	5,552,359	4,055,920		5,909,523
	6,375,983	4,850,068		7,095,437

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital P'000	Associate company retained earnings P'000	Other non -distributable reserves P'000	Equity settled employee benefit reserve P'000	Retained earnings P'000	Dividend reserve P'000	Total P'000
Balance at 1 July 2009	51,088	1,082	18,668	5,438	729,481	115,367	921,124
Total comprehensive income for the period					204,912		204,912
Dividends paid - 2009 Final						(115,367)	(115,367)
Dividends proposed - 2010 interim					(115,367)	115,367	-
Recognition of share based payments				262			262
Balance at the end of the period	51,088	1,082	18,668	5,700	819,026	115,367	1,010,931

CONDENSED SEGMENTAL REPORTING

	Retail P'000	Property Divison P'000	Wesbank P'000	Corporate P'000	Treasury and International Trade P'000	Support P'000	Total P'000
Interest income	111,831	92,362	77,574	19,404	251,901	10,191	563,263
Non interest income	139,907	204	1,840	5,729	33,509	6,501	187,690
Profit before direct taxation	84,072	37,905	28,357	5,026	109,792	(2,165)	262,987
Total Assets	1,810,230	1,823,212	1,167,327	365,493	6,757,181	341,655	12,265,098
Total Liabilities	3,908,070	96,314	20,919	2,476,002	4,442,200	310,662	11,254,167



Economic Review

Indications are that the economy is recovering, albeit at a slow pace. The diamond industry has recovered somewhat but remains volatile and extremely uncertain. The non mining sector is also beginning to come under pressure as government spending slows and consumer income takes strain.

The period under review was challenging as interest rates continued on a downward cycle. The central bank continued to reduce the bank rate despite inflation being at it's lowest level since 2002.

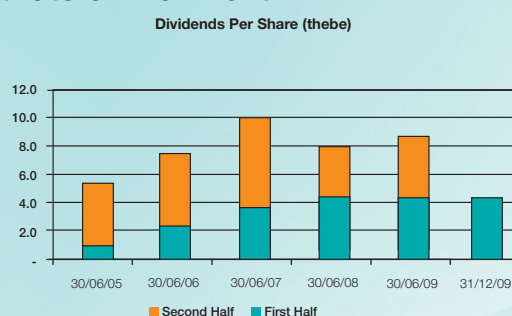
Income Statement Performance

In an environment where economic conditions have been a challenge, the Bank's profit before tax declined by only 3% compared to corresponding period.

In response to the challenges being faced, First National Bank of Botswana has continued with its sound credit vetting processes. This has resulted in impairment losses growing by only 12% from a low base. Although the level of retrenchments in the mining sector has reduced, consumers are still experiencing financial strain with diminishing income levels. In the face of these economic circumstances the Bank has managed to keep its impairment losses at reasonable levels.

Further, the period under review called for the Bank to achieve extreme cost efficiencies. To this end, the Bank adopted initiatives to manage of its costs. These have been very successful with growth in costs being only 8%, which is in line with the level of inflation during the period.

The challenges posed by the economic conditions impacted most businesses and individuals. Despite this, the Bank's advances grew by 13%, albeit yielding a lower growth of 4% in net interest income before impairment of advances. The relatively low growth in interest income in relation to the growth in advances is reflective of the significant margin compression being experienced in the low interest rate environment.



Despite the economic challenges which resulted in the lower levels of foreign currency availed to the market by Debswana as well as the significant reduction in transactional volumes, non interest income experienced a decline of only 2%. This performance reflects the Banks continued commitment to revenue diversification through its innovative product offerings.

Statement of Financial Position

The Bank's balance sheet remains strong with a growth of 15%. This growth was driven mainly by growth in Bank of Botswana Certificates, which grew by 37%, as the Bank exercises caution in lending with the emphasis being on credit risk management. The growth in deposits of 17% has contributed to this position as the excess funds are invested in Bank of Botswana Certificates. Cash balances, with a growth of 4%, and advances growth of 13%, mainly in Property Finance, have also contributed to the overall growth of the balance sheet.

Reserves increased by 19% reflecting the Bank's decision to retain its profits in an effort to address capital constraints while maintaining a sound dividend payout policy.

The Directors recommend an interim dividend of 4.5 thebe per share.

Capital Management

The Bank continues to manage its capital in line with the Board approved capital management framework and Basel II which is to be adopted in Botswana in 2011. The purpose of the framework is to create objectives, policies and principles to ensure that book capital (shareholders funds or accounting capital – Net Asset Value), regulatory capital and economic capital are optimised.

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

The Bank's capital adequacy ratio, which excludes the dividend reserve, has been maintained at 17% at 31 December 2009, and is in line with the Bank's capital management framework and the required ratio by Bank of Botswana of 15%. In line with the substantial growth in assets and the planned impact of the introduction of 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.

Contingencies

Off Balance Sheet Items

Contingencies grew by 29%, driven mainly by growth in performance guarantees issued to support the current infrastructure expansion in Botswana.

Subsequent events

There were no material events that occurred subsequent to the balance sheet date that require adjustment to the income statement or balance sheet, or that require disclosure in the financial statements.

Corporate Governance

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

- Ensuring that an adequate and effective process of corporate governance, including effective risk management, is established and maintained in accordance with recommended current best practice;
- Ensuring that internal controls are maintained and material malfunctions are reported; and
- Ensuring that the Bank continues to operate as a going concern.

The Board comprises a majority of independent, non-executive Directors and meets regularly, overviews executive management performance and retains effective control over the Bank. The Board is assisted by committees, which are responsible for different aspects of governance. The main committees established by the Board are the AUDIT, CREDIT, DIRECTORS AFFAIRS AND GOVERNANCE, RISK and REMUNERATION committees.

Social Responsibility

The Bank established the FNBB Foundation for the purpose of aiding educational, arts and culture, and social welfare development in Botswana by identifying beneficiaries who are in need and deserving of assistance. The Bank has committed to contributing up to 1% of its profit after tax to the Foundation. Since the inception of the Foundation in 2001, the Bank has made grants in excess of P21.4 million to the Foundation, and in turn, the Foundation has approved donations and pledges to qualifying beneficiaries. Details of the foundation and criteria for eligibility can be found at the bank's website: www.fnbbotswana.co.bw.

Declaration of Dividend

Notice is hereby given that an interim dividend of 4.5 thebe per share has been declared for the half year ended 31 December 2009. The dividend will be paid on or about 25 March 2010 to shareholders registered at the close of business on 12 March 2010. The transfer registers will be closed from 14 March to 18 March 2010, both dates inclusive.

In terms of the Botswana Income Tax Act (Cap 52.01) as amended, withholding tax at the rate of 15% will be deducted by the company from gross dividends.

If a change of address or dividend instructions is to apply to this dividend, notification should reach the Transfer Secretaries by 19 March 2010.

For and on behalf of the Board.

P D Shah
Chairman

L E Boakgomo-Ntakhwana
Chief Executive Officer

GABORONE, 27 January 2010

TRANSFER SECRETARIES
PriceWaterHouse Coopers (Proprietary) Limited
Plot 50371, Fairground Office Park
PO Box 294
GABORONE



FNB
First National Bank
Botswana

How can we help you?