

# AUDITED SUMMARISED FINANCIAL Results and Dividend Announcement

for the year ended 30 June 2012

*The Directors have pleasure in announcing the audited financial results of First National Bank of Botswana Limited (the Company) and its subsidiaries (the Group) for the year ended 30 June 2012.*

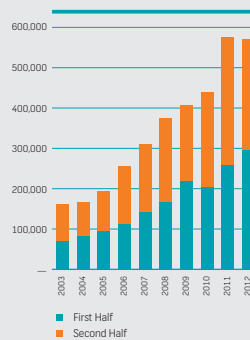
## HIGHLIGHTS

PROFIT BEFORE  
TAXATION  
INCREASED BY  
**14%**

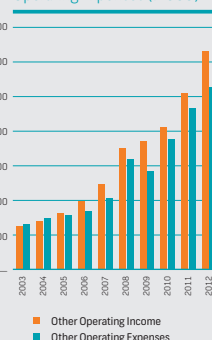
RETURN  
ON AVERAGE  
EQUITY  
**42%**

- 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

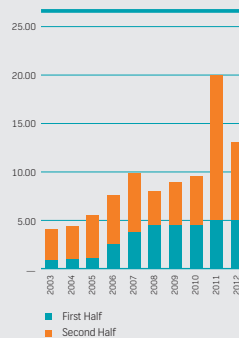
Profit After Tax (P'000)



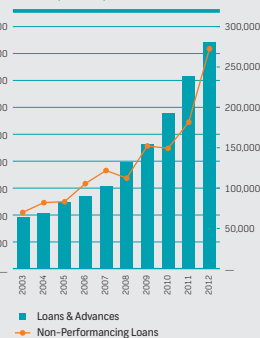
Other Operating Income vs Other Operating Expenses (P'000)



Dividends Per Share (thebe)



Advances vs Non-Performing Loans (P'000)



\* 2011 includes a special dividend of 8.00 thebe per share.



**FNB**  
First National Bank

how can we help you?

# FIRST NATIONAL BANK OF BOTSWANA LIMITED

(Incorporated in the Republic of Botswana)

## AUDITED SUMMARISED FINANCIAL RESULTS AND DIVIDEND ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2012

The Directors have pleasure in announcing the audited financial results of First National Bank of Botswana Limited (the Company) and its subsidiaries (the Group) for the year ended 30 June 2012.

### BASIS OF PRESENTATION AND ACCOUNTING POLICIES

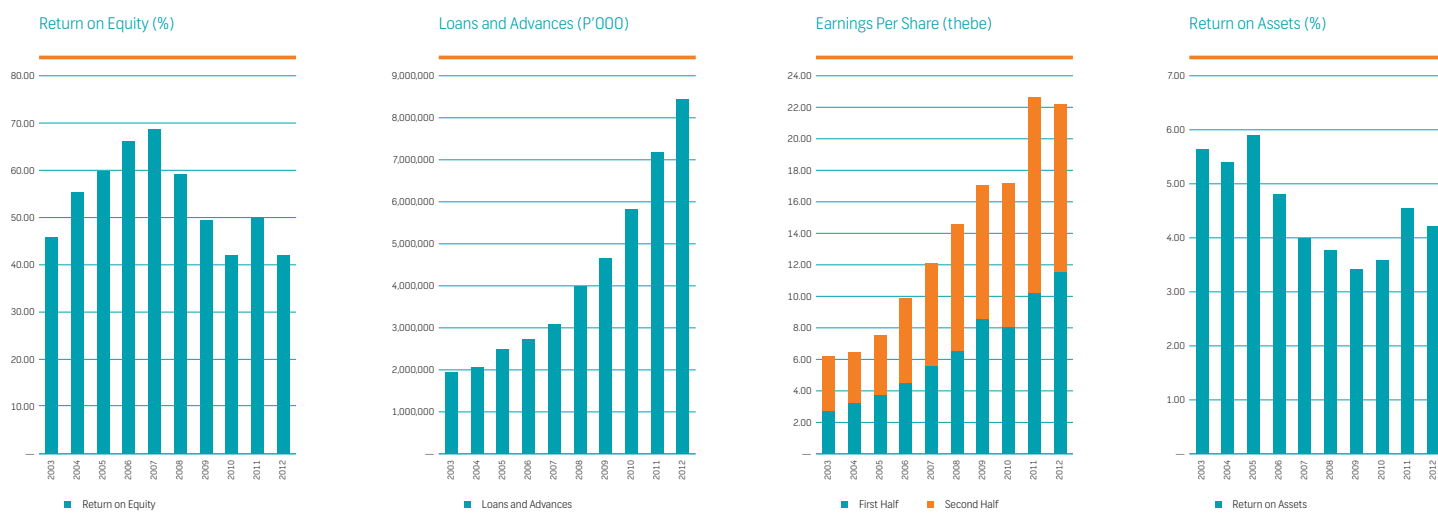
- The summarised financial results have been prepared applying the recognition and measurement criteria in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).
- In preparing the underlying consolidated financial statements from which these summarised financial results were extracted, all International Financial Reporting Standards and International Reporting Interpretations Committee interpretations issued and effective for annual periods ended 30 June 2012 have been applied.
- The Group's underlying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of the revisions in the standards which have not had a material impact on the financial statements.
- In the preparation of the summarised consolidated financial results, the Group has applied key assumptions concerning the future and other inherent uncertainties in recording various assets and liabilities. These assumptions were applied consistently to the financial results for the year ended 30 June 2012. These assumptions are subject to ongoing review and possible amendments.

### AUDITED RESULTS – INDEPENDENT AUDITOR'S OPINION

Deloitte & Touche, First National Bank of Botswana's independent auditors, have audited the consolidated financial statements of First National Bank of Botswana from which the summarised financial results have been derived, and have expressed an unmodified audit opinion on the consolidated annual financial statements. The summarised consolidated financial results comprise the condensed consolidated statement of financial position at 30 June 2012, condensed consolidated income statement, condensed consolidated statement of other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the year then ended, and selected explanatory notes. The audit report is available for inspection at First National Bank of Botswana's registered office. For a better understanding of the Group's financial position and the results of its operations for the year and the scope of the audit, the summarised financial results should be read in conjunction with the audited financial statements from which the summarised financial results were derived and the audit report thereon. The audit was conducted in accordance with International Standards on Auditing.

### FORWARD-LOOKING STATEMENTS

Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Group's auditors.



## CONDENSED CONSOLIDATED INCOME STATEMENT

	Year ended 30 June 2012 P'000	Year ended 30 June 2011 P'000	% Change
Interest income and similar income	1,111,862	1,094,078	2
Interest expense and similar charges	(342,799)	(432,327)	(21)
<b>Net interest income before impairment of advances</b>	<b>769,063</b>	<b>661,751</b>	<b>16</b>
Impairment of advances	(132,714)	(59,211)	124
<b>Net interest income after impairment of advances</b>	<b>636,349</b>	<b>602,540</b>	<b>6</b>
Non-interest income	626,685	504,520	24
<b>Income from operations</b>	<b>1,263,034</b>	<b>1,107,060</b>	<b>14</b>
Operating expenses	(259,571)	(237,638)	9
Employee benefit costs	(265,444)	(226,114)	17
<b>Net income from operations</b>	<b>738,019</b>	<b>643,308</b>	<b>15</b>
Share of profits from associate company	2,423	1,273	90
<b>Profit before indirect taxation</b>	<b>740,442</b>	<b>644,581</b>	<b>15</b>
Indirect taxation	(10,481)	(6,844)	53
<b>Profit before direct taxation</b>	<b>729,961</b>	<b>637,737</b>	<b>14</b>
Direct taxation	(161,168)	(63,897)	152
<b>Profit for the year attributable to owners of the parent</b>	<b>568,793</b>	<b>573,840</b>	<b>(1)</b>
Average number of shares in issue during the period (thousands)	2,563,700	2,563,700	
Earnings per share (thebe) (based on weighted average number of shares outstanding)	22.36	22.56	(1)
Diluted earnings per share (thebe) (based on weighted average number of shares in issue)	22.35	22.55	(1)
Average number of shares outstanding takes into account 20 million shares held by the FNBB Employees Share Participation Trust			

## CONDENSED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Year ended 30 June 2012 P'000	Year ended 30 June 2011 P'000	% Change
Profit for the year	568,793	573,840	(1)
Other comprehensive (loss)/income			
Reclassification adjustment relating to available-for-sale financial assets disposed of during the year	(15,459)	2,825	
Other comprehensive (loss)/income for the year before taxation	(15,459)	2,825	
Taxation relating to components of other comprehensive income	4,124	1,278	
Other comprehensive (loss)/income for the year	(11,335)	4,103	
Total comprehensive income for the year attributable to owners of the parent	557,458	577,943	(4)

## RATIOS AND MARKET INFORMATION

	Year ended 30 June 2012 P'000	Year ended 30 June 2011 P'000	% Change
Dividend per share (thebe)	13.00	20.00	(35)
Dividend cover (times)	1.7	1.1	52
* Cost to income ratio (percent)	38.37	40.35	
** Return on average equity (percent)	42	50	
*** Return on average assets (percent)	4.2	4.5	
Capital adequacy ratio (percent)	16.56	15.72	
Closing share price (thebe)	290	272	7
Dividend yield - ordinary shares (percent)	4.5	7.4	
Price earnings ratio	13.0	12.1	7

\* 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.

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 30 June 2012 P'000	At 30 June 2011 P'000	% Change
<b>ASSETS</b>			
Cash and short-term funds	2,557,842	1,706,573	50
Derivative financial instruments	7,861	2,996	162
Advances to banks	—	361,178	(100)
Advances to customers	8,420,553	7,170,842	17
Investment securities	2,699,551	3,496,862	(23)
Current taxation	—	4,622	(100)
Due from related companies	7,839	13,133	(40)
Accounts receivable	170,800	170,502	—
Non-current assets held for sale	5,511	—	100
Investment in associate company	—	3,058	(100)
Property and equipment	317,559	202,200	57
Goodwill	26,963	26,963	—
<b>Total assets</b>	<b>14,214,479</b>	<b>13,158,929</b>	<b>8</b>
<b>LIABILITIES AND SHAREHOLDERS FUNDS</b>			
<b>Liabilities</b>			
Deposits from banks	172,510	215,186	(20)
Deposits from customers	11,443,241	10,597,398	8
Accrued interest payable	45,179	36,696	23
Derivative financial instruments	32,912	18,794	75
Due to related companies	57,883	140,031	(59)
Creditors and accruals	275,972	607,230	(55)
Provisions	52,252	42,646	23
Borrowings	519,047	254,432	104
Current taxation	461	—	100
Deferred taxation	82,296	98,350	(16)
<b>Total liabilities</b>	<b>12,681,753</b>	<b>12,010,763</b>	<b>6</b>
<b>Capital and reserves attributable to ordinary equity holders</b>			
Stated capital	51,088	51,088	—
Reserves	1,276,542	1,045,804	22
Dividend reserve	205,096	51,274	300
<b>Total ordinary equity holders' funds</b>	<b>1,532,726</b>	<b>1,148,166</b>	<b>33</b>
<b>Total liabilities and ordinary equity holders' funds</b>	<b>14,214,479</b>	<b>13,158,929</b>	<b>8</b>
<b>CONTINGENCIES AND COMMITMENTS (OFF BALANCE SHEET ITEMS)</b>			
Undrawn commitments to customers	1,373,784	1,551,262	(11)
Guarantees and letters of credit	1,641,606	1,396,344	18
<b>Total contingencies and commitments</b>	<b>3,015,390</b>	<b>2,947,606</b>	<b>2</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital P'000	Other non - distributable reserves P'000	Equity - settled employee benefits P'000	Retained earnings P'000	Dividend reserve P'000	Total P'000
Balance at 1 July 2010	51,088	48,951	9,068	921,267	128,185	1,158,559
Profit for the year				573,840		573,840
Other comprehensive income for the year		4,103				4,103
Dividends paid - 2010 final					(128,185)	(128,185)
Dividends paid - 2011 interim				(128,185)		(128,185)
Special dividend paid - 2011				(333,281)		(333,281)
Dividends proposed - 2011 final				(51,274)	51,274	—
Recognition of share-based payments			1,315			1,315
Decrease in associate company reserves - transfer		(92)		92		—
Transfer from revaluation reserve		(2,819)		2,819		—
<b>Balance at 30 June 2011</b>	<b>51,088</b>	<b>50,143</b>	<b>10,383</b>	<b>985,278</b>	<b>51,274</b>	<b>1,148,166</b>
Profit for the year				568,793		568,793
Other comprehensive loss for the year		(11,335)				(11,335)
Dividends paid - 2011 final					(51,274)	(51,274)
Dividends paid - 2012 interim				(128,185)		(128,185)
Dividends proposed - 2012 final				(205,096)	205,096	—
Recognition of share-based payments			6,561			6,561
Increase in associate company reserves - transfer		715		(715)		—
Transfer from revaluation reserve		(1,796)		1,796		—
<b>Balance at 30 June 2012</b>	<b>51,088</b>	<b>37,727</b>	<b>16,944</b>	<b>1,221,871</b>	<b>205,096</b>	<b>1,532,726</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 30 June 2012 P'000	Year ended 30 June 2011 P'000	% Change
<b>Cash flows (used in)/from operating activities</b>			
Cash generated by operations	883,692	719,072	23
Taxation paid	(167,000)	(69,351)	
	716,692	649,721	
Change in funds from operating activities	(662,891)	(621,068)	
<b>Net cash generated from operating activities</b>	<b>53,801</b>	<b>28,653</b>	
<b>Net cash used in investing activities</b>	<b>(93,074)</b>	<b>(30,169)</b>	
<b>Net cash generated from/(used in) financing activities</b>	<b>68,427</b>	<b>(790,939)</b>	
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>29,154</b>	<b>(792,455)</b>	
Cash and cash equivalents at the beginning of the year	5,156,300	5,948,755	
<b>Cash and cash equivalents at the end of the year</b>	<b>5,185,454</b>	<b>5,156,300</b>	<b>1</b>
<b>Cash and short-term funds at the end of the year</b>			
Cash and short-term funds	2,557,842	1,706,573	
Investment in Bank of Botswana Certificates	2,627,612	3,449,727	
	5,185,454	5,156,300	

## CONDENSED SEGMENTAL REPORTING

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 below and therefore Support no longer exists as a separate segment. The comparatives have been re-allocated accordingly.

	Retail Banking P'000	Property Division P'000	WesBank P'000	Corporate P'000	Treasury P'000	Total P'000
<b>30 JUNE 2012</b>						
<b>Net interest income before impairment of advances</b>	299,121	182,280	116,429	64,296	106,937	769,063
Impairment of advances	(90,760)	(305)	(38,416)	(3,233)	—	(132,714)
<b>Net interest income after impairment of advances</b>	208,361	181,975	78,013	61,063	106,937	636,349
Non-interest income	457,762	4,912	5,343	2,733	155,935	626,685
<b>Income from operations</b>	666,123	186,887	83,356	63,796	262,872	1,263,034
Operating expenses	(161,529)	(22,872)	(22,501)	(20,190)	(32,480)	(259,571)
Employee benefit costs	(188,652)	(12,232)	(29,512)	(12,948)	(22,100)	(265,444)
<b>Net income from operations</b>	315,943	151,784	31,343	30,658	208,292	738,019
Share of profits from associates						2,423
<b>Profit before indirect taxation</b>	315,943	151,784	31,343	30,658	208,292	740,442
Indirect taxation	(6,521)	(253)	(1,112)	(191)	(2,404)	(10,481)
<b>Profit before direct taxation</b>	309,422	151,531	30,231	30,467	205,888	729,961
Direct taxation						(161,168)
<b>Profit for the year</b>						568,793
Total assets	2,627,158	3,176,077	1,518,706	1,411,572	5,480,966	14,214,479
Advances to customers	2,487,625	3,175,262	1,467,484	1,074,565	215,617	8,420,553
Total liabilities	5,002,494	234,273	66,014	2,680,256	4,698,716	12,681,753
Deposits	5,643,556	206,377	19,383	1,813,902	3,760,023	11,443,241

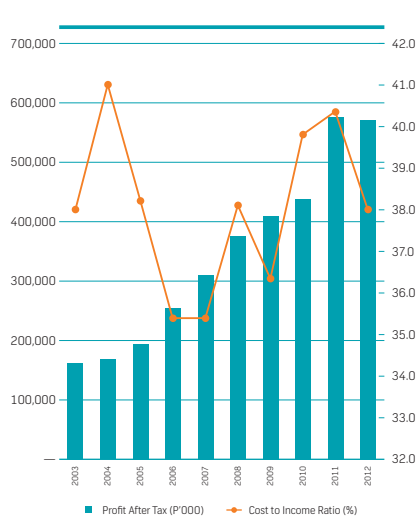
## CONDENSED SEGMENTAL REPORTING

	Retail Banking P'000	Property Division P'000	WesBank P'000	Corporate P'000	Treasury P'000	Total P'000
<b>30 JUNE 2011</b>						
Net interest income before impairment of advances	235,366	118,261	95,775	28,679	183,670	661,751
Impairment of advances	(52,161)	686	(7,733)	(3)	—	(59,211)
Net interest income after impairment of advances	183,205	118,947	88,042	28,676	183,670	602,540
Non-interest income	363,999	917	5,367	15,636	118,601	504,520
Income from operations	547,204	119,864	93,409	44,312	302,271	1,107,060
Operating expenses	(94,718)	(29,724)	(12,729)	(20,735)	(79,732)	(237,638)
Employee benefit costs	(155,749)	(10,648)	(24,090)	(11,345)	(24,282)	(226,114)
Net income from operations	296,737	79,492	56,590	12,232	198,257	643,308
Share of profits from associates						1,273
Profit before indirect taxation	296,737	79,492	56,590	12,232	198,257	644,581
Indirect taxation	(5,035)	(189)	(919)	(103)	(598)	(6,844)
Profit before direct taxation	291,702	79,303	55,671	12,129	197,659	637,737
Direct taxation						(63,897)
Profit for the year						573,840
Total assets	2,806,130	2,541,845	1,429,287	789,156	5,592,511	13,158,929
Advances to customers	2,242,844	2,542,302	1,365,225	791,041	229,430	7,170,842
Advances to banks	—	—	—	—	361,178	361,178
Total liabilities	5,791,469	182,953	20,274	1,543,904	4,472,163	12,010,763
Deposits	4,820,304	167,671	18,493	1,542,150	4,048,780	10,597,398

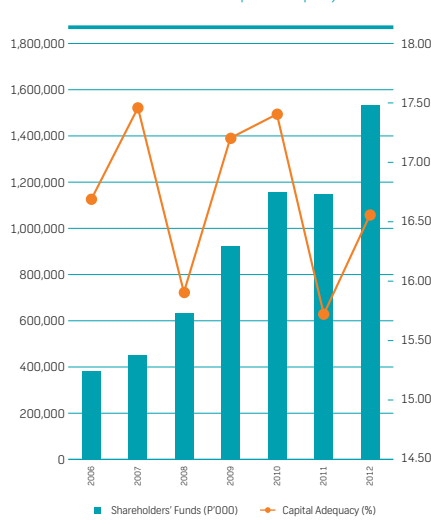
## COMMENTARY ON AUDITED SUMMARISED FINANCIAL RESULTS AND DIVIDEND ANNOUNCEMENT

for the year ended 30 June 2012

Profit After Tax vs Cost to Income Ratio



Shareholders' Funds vs Capital Adequacy



### Economic review

While there was evidence of a recovery in the diamond markets during the first half of the financial year, the second half was characterised by reduced sales volumes and declining prices.

The mounting risks posed by the international economies, in particular USA and Eurozone, continue to create uncertainty and risks for the local economy, which depends on these markets for diamond sales.

If this slowdown in diamond sales continues, it will have a negative impact on the government budget. This will in turn impact GDP growth, which has already been forecast to grow below 4% in 2012, lower than the 2011 rate of 5.7%.

Inflationary risks have subsided mainly as a result of, the effect of the slowing world economy on the price of commodities. Inflation fell to 7.3% in June 2012. Bank of Botswana expects that inflation will fall within its target range of 3-6% only in the second quarter of 2013, if food and energy prices remain moderated.

The business confidence expectation survey carried out by the Bank of Botswana, shows that only 51% of the companies surveyed were satisfied with prevailing economic conditions compared to 54% in 2011. Most companies expect the conditions to improve over the next 6-12 months.

### 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.

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. The impairment to gross advances ratio increased to 1.6%, but remains lower than the market average.

Non-interest income increased by 24% on the back of:

- 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 continues to focus on non-interest income in its endeavor to diversify revenue streams.

Staff expenses grew by 17%, 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. The increase in staff costs also reflects the investment in staff.

The Bank continues to invest in systems to effectively manage risks and improve management information for decision-making and regulatory reporting. Despite these projects, other operating expenses only increased by 9%.

The effective tax rate increased during the reporting period as a result of changes to tax legislation in 2011.

### 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 2 and also reflecting the impact of a special dividend paid in 2011.

Cash and short-term funds grew by 50% due to an increase in the reserving requirements from 6.5% to 10% effective July 2011.

The Directors have declared a final ordinary dividend of 8.0 thebe per share (2011: 2.0 thebe), giving a total ordinary dividend of 13.0 thebe per share (2011: 20.0 thebe).

### Capital management

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

- To comply with the capital requirements set by the regulators of the banking markets (the Central Bank);
- To safeguard the Group'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.

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

The Group's capital adequacy ratio, which excludes the dividend reserve, has been maintained at 16.56% as at 30 June 2012, and is in line with the Group's capital management framework and the required ratio by Bank of Botswana of 15%.

In line with the growth in assets, 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 that it is appropriate to continue with the prudent approach to capital management.

#### Contingencies and Commitments (Off Balance Sheet Items)

Contingencies and commitments increased by only 2%. However performance guarantees issued to support the current infrastructure expansion in Botswana grew by 18%, and undrawn commitments declined by 11% as a result of customers utilising their facilities to fund increasing working capital requirements.

#### Events after the reporting period

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

#### Corporate governance

The Group's operations are conducted in accordance with all applicable laws and regulations, and with particular reference to 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;
- Internal controls are maintained and material malfunctions are reported; and
- The Group continues to operate as a going concern.

The Board comprises a majority of independent, non-executive Directors and meets regularly. It oversees executive management performance. The Board is assisted by committees established to focus on different aspects of governance, including Audit, Credit, Risk, Remuneration, and Directors' Affairs and Governance.

#### Social responsibility

The Group recognises its responsibility to contribute to society as a whole and is committed to giving back to the community. The FNBB Foundation was established for the purpose of conducting the Bank's social welfare program.

The objective of the FNBB Foundation is to aid educational, arts, culture and social welfare development in Botswana by identifying beneficiaries who are in need and deserving of assistance. The Group has committed to contributing up to 1% of its profit after tax to the Foundation.

Since the inception of the Foundation in 2001, the Group has made grants in excess of P29 million to the Foundation, which in turn has approved donations and pledges to qualifying beneficiaries. Details of the foundation and criteria for eligibility can be found at the Group's website: [www.fnbbotswana.co.bw](http://www.fnbbotswana.co.bw).

#### Declaration of dividend

Notice is hereby given that a final dividend of 8.0 thebe per share has been declared for the year ended 30 June 2012. The dividend will be paid on or about 15 October 2012 to shareholders registered at the close of business on 5 October 2012. The transfer registers will be closed from 8 October to 12 October 2012, both dates inclusive.

In terms of the Income Tax Act (Cap 52:01) as amended, withholding tax at the rate of 7.5% will be deducted by the Group from gross dividends.

If a change of address or dividend instructions is to apply to this dividend, notification should reach the Transfer Secretaries by 8 October 2012.

For and on behalf of the Board.

**P D Stevenson**  
Chairman

**L E Boakgomo-Ntakhwana**  
Chief Executive Officer

GABORONE, 8 August 2012

#### TRANSFER SECRETARIES

PriceWaterhouseCoopers (Proprietary) Limited  
Plot 50371, Fairground Office Park  
PO Box 294  
GABORONE

#### Directors:

P D Stevenson (Chairman), L E Boakgomo-Ntakhwana (Chief Executive Officer), B M Bonyongo, J R Khethe (SA), D H Zandamela (SA)  
M T Sekgororoane, S Thapelo, M W Ward (UK), J K Macaskill (alternate to J R Khethe) (SA), L J Haynes (SA) (alternate to D H Zandamela) (SA)  
R C Wright (Deputy CEO, alternate to L E Boakgomo-Ntakhwana)

This information is also available on the internet.  
Visit: [www.fnbbotswana.co.bw](http://www.fnbbotswana.co.bw)

#### First National Bank of Botswana Limited

A Registered Bank, incorporated in Botswana, Reg No. 1119, Marketing and Communications Department,  
Finance House, Plot 8843, Khama Crescent, Gaborone, Botswana  
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