



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements

1. ACCOUNTING POLICIES

The accounting policies of the Group are set out on pages 35 to 49

2. INTEREST AND SIMILAR INCOME

Advances to customers - loans and receivables
Investment securities
- held for trading
- available- for- sale
Accrued on impaired advances
Cash and short term funds

3. INTEREST EXPENSE AND SIMILAR CHARGES

Deposit accounts - banks
- customers
Savings accounts
Long term loans

4. NON-INTEREST INCOME

Transactional income

Card commissions
Cash deposit fees
Commissions - bills, drafts and cheques
Service fees
Insurance commissions
Commitment fees
Other

Trading income

Profits/ (losses) on bond trading
Foreign exchange trading income (domestic)

Investment income

(Loss)/ profit on sale of property and equipment
Dividends received -unlisted

Other non-interest income

Total non-interest income

	Group		Company	
	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
	497,907	423,161	497,907	423,161
	466,187	133,585	466,187	133,585
	1,800	4,951	1,800	4,951
	464,387	128,634	464,387	128,634
	5,219	6,502	5,219	6,502
	35,761	20,675	35,761	20,675
	1,005,074	583,923	1,005,074	583,923
	6,827	7,523	6,827	7,523
	573,984	225,930	573,984	225,930
	30,399	28,107	30,399	28,107
	46,087	34,094	46,087	34,094
	657,297	295,654	657,297	295,654
	37,499	22,521	37,499	22,521
	11,234	9,851	11,234	9,851
	23,606	21,955	23,606	21,955
	45,029	37,374	45,029	37,374
	11,113	8,575	7,292	5,986
	10,843	7,794	10,843	7,794
	18,189	15,772	18,190	15,772
	157,513	123,842	153,693	121,253
	146	(2,261)	146	(2,261)
	69,004	63,819	69,004	63,819
	69,150	61,558	69,150	61,558
	(2)	9	(2)	9
	-	-	1,073	15,469
	(2)	9	1,071	15,478
	16,998	10,794	13,401	10,722
	243,659	196,203	237,315	209,011

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5. OPERATING EXPENSES

Auditors' remuneration

Audit fees - current year	1,050	860	1,050	860
- prior years	177	56	177	56
Other services	186	-	186	-

Depreciation

Land and buildings	1,905	1,584	1,456	1,135
Motor vehicles	451	190	451	190
Furniture, computers and office equipment	3,795	3,401	3,795	3,401

Directors' remuneration

For services as directors	1,140	646	1,140	646
For other services	2,763	2,692	2,763	2,692

Exchange (gains) losses

Operating lease charges

Premises	10,596	9,190	11,399	9,163
Equipment	3,493	2,687	3,493	2,687

Other operating expenses

Professional fees

Staff expenses

Salaries, wages and allowances	86,636	68,652	86,177	68,652
Contributions to pension, medical and other staff funds	7,252	5,988	7,213	5,988
Share participation scheme cost	2,313	1,210	2,313	1,210
Leave pay provision	2,660	1,652	2,660	1,652
Other	6,894	5,897	7,039	5,897

Total operating expenses

	Group 30 June 2007 P'000	Group 30 June 2006 P'000	Company 30 June 2007 P'000	Company 30 June 2006 P'000
	1,413	916	1,413	916
	6,151	5,175	5,702	4,726
	3,903	3,338	3,903	3,338
	(875)	574	(875)	574
	14,089	11,877	14,892	11,850
	70,453	60,139	70,090	59,974
	4,163	1,766	4,132	1,754
	105,755	83,399	105,402	83,399
	205,052	167,184	204,659	166,531



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Notes to the Annual Financial Statements (continued)

6. TAXATION

Indirect taxation

Direct taxation

Income taxation

Current Taxation

Basic taxation at 15%

Additional company taxation at 10%

Underprovision in prior years

Withholding tax on dividends

Withholding tax on subsidiaries and associates dividends

Share of associate company's tax

Total current taxation

Deferred taxation

Charge to income statement - current year

- prior year

Total deferred taxation

Total tax charge per income statement

Additional company tax

Additional company tax available for set-off
against withholding tax on future dividends payable.

Reconciliation of tax charge

Profit for the year

Taxation at current rate on profit for the year

Capital and other allowances

Dividends received

Approved training allowance

Depreciation and lease repayments

Withholding tax on dividends

Withholding tax on subsidiaries and associates dividends

Prior year tax adjustments

Share of associate company's tax

Other

Total current taxation

Deferred taxation

Balance at the beginning of the year

Temporary differences for the year

Prior year overprovision

Transfer to revaluation reserve

Transfer from revaluation reserve

Balance at the end of the year

	Group		Company	
	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Indirect taxation	4,968	4,722	4,963	4,716
Direct taxation				
Income taxation				
Current Taxation				
Basic taxation at 15%	51,079	41,462	49,985	41,161
Additional company taxation at 10%	34,052	27,641	33,324	27,441
Underprovision in prior years	-	132	-	-
Withholding tax on dividends	(33,649)	(26,150)	(33,649)	(26,150)
Withholding tax on subsidiaries and associates dividends	161	136	161	136
Share of associate company's tax	277	192	-	-
Total current taxation	51,920	43,413	49,821	42,588
Deferred taxation				
Charge to income statement - current year	2,514	2,599	2,518	2,559
- prior year	(3,605)	(4,814)	(3,604)	(4,814)
Total deferred taxation	(1,091)	(2,215)	(1,086)	(2,255)
Total tax charge per income statement	50,829	41,198	48,735	40,333
Additional company tax				
Additional company tax available for set-off against withholding tax on future dividends payable.	10,058	9,655	7,997	8,657
Reconciliation of tax charge				
Profit for the year	360,676	294,441	353,458	306,640
Taxation at current rate on profit for the year	90,169	73,610	88,365	76,660
Capital and other allowances	(97,496)	(85,968)	(97,459)	(85,930)
Dividends received	-	-	(269)	(3,867)
Approved training allowance	(1,192)	(938)	(1,192)	(938)
Depreciation and lease repayments	91,243	87,924	91,131	87,812
Withholding tax on dividends	(33,649)	(26,150)	(33,649)	(26,150)
Withholding tax on subsidiaries and associates dividends	161	136	161	136
Prior year tax adjustments	-	132	-	-
Share of associate company's tax	277	192	-	-
Other	2,407	(5,525)	2,733	(5,135)
Total current taxation	51,920	43,413	49,821	42,588
Deferred taxation				
Balance at the beginning of the year	34,532	36,761	33,543	35,800
Temporary differences for the year	2,514	2,599	2,518	2,559
Prior year overprovision	(3,605)	(4,814)	(3,604)	(4,814)
Transfer to revaluation reserve	(14)	(14)	(2)	(2)
Transfer from revaluation reserve	1,349	-	627	-
Balance at the end of the year	34,776	34,532	33,082	33,543



Notes to the Annual Financial Statements (continued)

6. TAXATION (continued)

Deferred taxation (continued)

The balance comprises:

Accelerated capital allowances

Revaluation surplus

Other temporary differences

	Group		Company	
	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Accelerated capital allowances	34,780	34,632	34,365	34,212
Revaluation surplus	1,986	651	707	82
Other temporary differences	(1,990)	(751)	(1,990)	(751)
	34,776	34,532	33,082	33,543

7. EARNINGS PER SHARE

Earnings per share is calculated by dividing the net 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 and previous year, in the number of shares in issue and as well as the number of ordinary shares held by the Employees Share Option Scheme - treasury shares.

Profit attributable to equity holders

Number of ordinary shares in issue at beginning

and end of the year (000)

Less treasury shares

Weighted average number of ordinary shares in issue (000)

Basic earnings per share (thebe)

Profit attributable to equity holders	309,847	253,243
Number of ordinary shares in issue at beginning and end of the year (000)	2,563,700	2,563,700
Less treasury shares	(20,000)	(20,000)
Weighted average number of ordinary shares in issue (000)	2,543,700	2,543,700
Basic earnings per share (thebe)	12.18	9.96

Diluted earnings per share

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

Profit attributable to equity holders

Weighted average number of ordinary shares in issue (000)

Basic diluted earnings per share (thebe)

Profit attributable to equity holders	309,847	253,243
Weighted average number of ordinary shares in issue (000)	2,563,700	2,563,700
Basic diluted earnings per share (thebe)	12.09	9.88

At an Extraordinary General Meeting held on 13 June 2007, a special resolution was passed in terms of which the authorised and issued ordinary share capital of the Company was subdivided by a factor of 10, from ordinary shares with a par value of 10 thebe each to ordinary shares with a par value of 1 thebe each.



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

7. EARNINGS PER SHARE (continued)

Consequently, the authorised share capital now consists of 3,000,000,000 ordinary shares with a par value of 1 thebe each, and the issued share capital consists of 2,563,700,000 ordinary shares.

8. CASH AND SHORT-TERM FUNDS

Coins and bank notes
Money at call and short notice
- related companies (note 13)
Balances with Bank of Botswana
Balances with other banks

The carrying value approximates the fair value

Amounts denominated in foreign currencies
included in above balances

Mandatory reserve balances included in above:

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.

9. DERIVATIVE FINANCIAL INSTRUMENTS

Group and company

The Group uses the following financial instruments for hedging purposes:

Forward rate agreements

Forward rate agreements are negotiated interest rate futures 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 and interest rate swaps

Currency and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate). No exchange of principal takes place.

Group		Company	
30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
56,036	54,831	56,036	54,831
354,639	183,225	354,639	183,225
336,475	175,754	336,475	175,754
157,791	156,435	157,791	156,512
904,941	570,245	904,941	570,322
466,930	335,227	466,930	335,227
247,979	175,754	247,979	175,754



Notes to the Annual Financial Statements (continued)

9. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Strategy in using hedging instruments

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 cash flow 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 cash flow hedges of future interest receipts.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not present the Group's exposure to credit or pricing risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly, over time.

Further information pertaining to the risk management of the Group is set out in note 35 below.

In the current year, the bank 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 bank 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 other assets and liabilities in the balance sheet. The fair value adjustments arising from valuation of both options are recognised in the profit or loss as part of other gains and losses where they essentially net off. The premium on inception of the option is immediately recognised in the profit or loss.

2007

Currency derivatives
- Options
Total fair value hedges

Assets		Liabilities	
Notional	Fair value	Notional	Fair value
P'000	P'000	P'000	P'000
16,843	18,476	16,843	18,476
16,843	18,476	16,843	18,476

2006

There were no options contracts entered into or outstanding at the end of 2006



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10. ADVANCES TO CUSTOMERS - LOANS AND RECEIVABLES

Sector analysis

	Group		Company	
	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Agriculture	34,261	28,419	34,261	28,419
Building and property development	51,076	37,476	51,076	37,476
Business and trade	1,798,759	1,601,513	1,805,759	1,608,513
Government and public authorities	16	18	16	18
Individuals	1,042,384	825,801	1,042,384	825,801
Manufacturing	173,406	251,766	173,406	251,766
Mining and quarrying	10,789	8,697	10,789	8,697
Transport and communications	57,674	58,704	57,674	58,704
Notional value of advances	3,168,365	2,812,394	3,175,365	2,819,394
Interest suspended on impaired advances	(25,432)	(17,355)	(25,432)	(17,355)
Gross advances	3,142,933	2,795,039	3,149,933	2,802,039
Less : impairment of advances (Note 11)	(69,724)	(78,635)	(69,724)	(78,635)
Net advances	3,073,209	2,716,404	3,080,209	2,723,404

Category analysis

Overdrafts and managed accounts debtors	693,707	787,804	700,707	794,804
Personal loans	338,862	228,662	338,862	228,662
Lease payments receivable	283,249	238,418	283,249	238,418
Suspensive sale debtors	547,661	454,948	547,661	454,948
Property loans	1,180,769	1,009,844	1,180,769	1,009,844
Other loans and advances	124,117	92,718	124,117	92,718
Notional value of advances	3,168,365	2,812,394	3,175,365	2,819,394
Interest suspended on impaired advances	(25,432)	(17,355)	(25,432)	(17,355)
Gross advances	3,142,933	2,795,039	3,149,933	2,802,039
Less: impairment of advances (Note 11)	(69,724)	(78,635)	(69,724)	(78,635)
Net advances	3,073,209	2,716,404	3,080,209	2,723,404

Maturity analysis

Maturity within 1 year	887,745	1,209,908	894,745	1,216,908
Maturity between 1 and 5 years	1,244,370	984,230	1,244,370	984,230
Maturity more than 5 years	1,036,250	618,256	1,036,250	618,256
	3,168,365	2,812,394	3,175,365	2,819,394

Included in above are advances to:

- Directors
- Companies in which directors have substantial interest

	1,727	1,347	1,727	1,347
	42	5,553	42	5,553
	1,769	6,900	1,769	6,900

The above loans have been made under normal commercial terms and conditions.

Included in above advances are instalment loans repayable within:

- 1 year
- 1 to 5 years
- More than 5 years

	52,375	94,698	52,375	94,698
	777,357	595,872	777,357	595,872
	1,178	2,796	1,178	2,796
	830,910	693,366	830,910	693,366



Notes to the Annual Financial Statements (continued)

11. IMPAIRMENT OF ADVANCES

Analysis of movement in impairment of advances

Specific impairment

At the beginning of the year

Amounts written off

Unwinding of the discount of security

Charge to income statement

- new provisions

- recoveries during the year

- Impairment adjustments

At the end of the year

Portfolio impairment

Balance at the beginning of the year

(Credit) to income statement

Balance at the end of the year

IBNR impairment

Balance at the beginning of the year

Charge/ (credit) to income statement

Balance at the end of the year

Total charge to income statement

Total impairment as at end of the year

	Group		Company	
	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
At the beginning of the year	54,046	53,074	54,046	53,074
Amounts written off	(25,704)	(17,222)	(25,704)	(17,222)
Unwinding of the discount of security	(5,219)	(3,849)	(5,219)	(3,849)
	23,123	32,003	23,123	32,003
Charge to income statement				
- new provisions	27,430	27,986	27,430	27,986
- recoveries during the year	(3,065)	(11,101)	(3,065)	(11,101)
- Impairment adjustments	3,006	5,158	3,006	5,158
	27,371	22,043	27,371	22,043
At the end of the year	50,494	54,046	50,494	54,046
Balance at the beginning of the year	19,523	21,627	19,523	21,627
(Credit) to income statement	(5,640)	(2,104)	(5,640)	(2,104)
Balance at the end of the year	13,883	19,523	13,883	19,523
Balance at the beginning of the year	5,066	5,612	5,066	5,612
Charge/ (credit) to income statement	281	(546)	281	(546)
Balance at the end of the year	5,347	5,066	5,347	5,066
Total charge to income statement	22,012	19,393	22,012	19,393
Total impairment as at end of the year	69,724	78,635	69,724	78,635



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11. IMPAIRMENT OF ADVANCES (continued)

Non-performing advances - loans and receivables

<u>Group and company</u>	Credit risk including interest suspended P'000	Security held P'000	Contractual Interest suspended P'000	Impairment provision P'000
Sector analysis - 2007				
Agriculture	167	63	35	69
Building and property development	62,973	23,793	13,124	26,056
Individuals	13,798	5,213	2,875	5,710
Manufacturing and commerce	15,946	6,025	3,323	6,598
Transport and communication	6,794	2,567	1,416	2,811
Other advances	22,356	8,447	4,659	9,250
Total non-performing advances - 30 June 2007	122,034	46,108	25,432	50,494
Sector analysis - 2006				
Agriculture	1,191	943	69	179
Building and property development	30,908	18,559	1,426	10,923
Individuals	28,674	7,820	3,787	17,067
Manufacturing and commerce	27,066	2,436	8,362	16,268
Transport and communication	15,051	4,837	2,835	7,379
Other advances	3,111	5	876	2,230
Total non-performing advances - 30 June 2006	106,001	34,600	17,355	54,046
Category analysis - 2007				
Overdrafts and managed accounts	39,958	1,588	12,463	25,907
Personal loans	2,145	181	396	1,568
Suspensive sale debtors	12,459	788	1,133	10,538
Lease instalments receivable	4,743	625	739	3,379
Property loans	60,967	42,924	10,258	7,785
Other advances	1,762	2	443	1,317
Total non-performing advances - 30 June 2007	122,034	46,108	25,432	50,494
Category analysis - 2006				
Overdrafts and managed accounts	32,891	4,808	9,280	18,803
Personal loans	3,401	-	371	3,030
Suspensive sale debtors	12,333	1,216	1,484	9,633
Lease instalments receivable	8,417	854	1,312	6,251
Property loans	42,905	27,722	4,121	11,062
Other advances	6,054	-	787	5,267
Total non-performing advances - 30 June 2006	106,001	34,600	17,355	54,046



Notes to the Annual Financial Statements (continued)

Contractual interest suspended

	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
At the beginning of the year	17,355	12,857	17,355	12,857
Written off during the year	(5,889)	(2,738)	(5,889)	(2,738)
Suspended during the year	14,862	7,306	14,862	7,306
Released during the year	(896)	(70)	(896)	(70)
At the end of the year	25,432	17,355	25,432	17,355

12. INVESTMENT SECURITIES

Bank of Botswana Certificates - available-for-sale
Government and parastatal bonds
- held for trading

	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Bank of Botswana Certificates - available-for-sale	4,043,897	3,744,408	4,043,897	3,744,408
Government and parastatal bonds - held for trading	16,164	15,986	16,164	15,986
	4,060,061	3,760,394	4,060,061	3,760,394
Maturity analysis				
Maturing within 3 months	3,843,897	3,744,408	3,843,897	3,744,408
Maturing 3 to 12 months	200,000	-	200,000	-
Maturing 1 to 5 years	-	-	-	-
Maturing after 5 years	16,164	15,986	16,164	15,986
	4,060,061	3,760,394	4,060,061	3,760,394

P301,457,000 (2006: P262,515,000) of the Bank of Botswana certificates form part of the Group's liquid assets portfolio in terms of the Botswana Banking Act No. 13 of 1995.

Fair value of investment securities is based on the ruling market prices as at the balance sheet date.



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Notes to the Annual Financial Statements (continued)

13. RELATED PARTIES BALANCES AND TRANSACTIONS

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

- directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the entity (this includes parent companies, subsidiaries and fellow subsidiaries);
- has an interest in the entity that gives it significant influence over the entity;
- has control over the entity; or
- is an associate company, joint venture, or is jointly controlled;
- is a member of a 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 and the Treasurer.

Related party balances

Related company balances arise from ordinary banking business under normal commercial terms and conditions.

Related company balances at end of the year were:

Due from related parties

Rand Merchant Bank Limited - Ireland
Rand Merchant Bank Limited - South Africa
First National Bank, a division of FirstRand Bank Limited - SA
First National Bank Holdings (Botswana) Limited
Plot 4972 (Pty) Limited

Less money at call and short notice
- related companies (note 8)

Included in advances:
Finance House (Pty) Limited
Entities under control of key Management personnel:
- Queensway Trustees

Group		Company	
30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
327,983	172,595	327,983	172,595
26,656	-	26,656	-
-	10,630	-	10,630
1,151	-	1,151	-
-	-	38	-
355,790	183,225	355,828	183,225
(354,639)	(183,225)	(354,639)	(183,225)
1,151	-	1,189	-
2,461	3,037	2,461	3,037
42	59	42	59
2,503	3,096	2,503	3,096

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13. RELATED PARTIES BALANCES AND TRANSACTIONS (continued)	Group		Company	
	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Due to related companies- Current liabilities				
First National Bank Holdings (Botswana) Limited	67,202	48,834	67,202	48,834
Rand Merchant Bank Limited Ireland	55,458	-	55,458	-
Rand Merchant Bank South Africa	44,425	-	44,425	-
Financial Services Company of Botswana Limited	-	-	1,436	1,074
Financial Services Properties (Pty) Limited	-	-	871	749
First National Insurance Agency (Pty) Limited	-	-	7,612	2,768
First Funding (Pty) Limited	-	-	1,000	1,000
Premium Credit Botswana (Pty) Limited	-	-	10	-
First National Bank, a division of FirstRand Bank Limited - SA	46,397	-	46,397	-
	213,482	48,834	224,411	54,425
The balance due to First National Bank Holdings (Botswana) Limited represents funds due on the call deposit account.				
Due to related companies- Long term liability				
FirstRand Banking Group (note 19)	250,000	250,000	250,000	250,000
<u>Related company transactions</u>				
Transactions were carried out in the ordinary course of banking business and were made on an arm's length basis as detailed below:				
<i>Interest income:</i>				
Related company balances	15,689	7,510	15,689	7,510
<i>Interest expenditure</i>				
First National Bank Holdings (Botswana) Limited	5,859	4,048	5,859	4,048
Rand Merchant Bank Limited - Ireland	8,500	-	8,500	-
Rand Merchant Bank Limited - South Africa	931	-	931	-
Rand Merchant Bank South Africa -long term loan	26,250	-	26,250	14,815
First National Bank, a division of FirstRand Bank Limited - South Africa	521	29	521	29
<i>Non-interest income:</i>				
Dividend income - Finance House	-	878	1,073	878
Dividend income - Subsidiaries	-	-	-	14,591
<i>Non-interest expenditure:</i>				
Rent paid - Subsidiary companies	-	-	809	923
Rent paid - Finance House	3,412	3,337	3,412	3,337
Service level Agreement costs	15,925	12,486	15,925	12,486



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

13. RELATED PARTIES BALANCES AND TRANSACTIONS (continued)

Key Management personnel

Compensation paid to key management personnel

Salaries and allowances

Other employee benefits

Total

Pension contribution

Share based payment

Advances

Personal loans

Overdrafts

Credit card

Instalment finance

Property loans

Total advances

	30 June 2007 Pula	30 June 2006 Pula	30 June 2007 Pula	30 June 2006 Pula
Salaries and allowances	5,331,258	3,806,803	5,331,258	3,806,803
Other employee benefits	681,229	837,865	681,229	837,865
Total	6,012,487	3,734,662	6,012,487	3,734,662
Pension contribution	19,802	15,812	19,802	15,812
Share based payment	-	184,009	-	184,009
<i>Advances</i>				
Personal loans	210,582	177,360	210,582	177,360
Overdrafts	241,386	18,204	241,386	18,204
Credit card	223,489	39,516	223,489	39,516
Instalment finance	1,107,037	914,080	1,107,037	914,080
Property loans	1,900,941	1,020,086	1,900,941	1,020,086
Total advances	3,683,435	2,169,246	3,683,435	2,169,246

No impairments have been recognised in respect of the above advances (2006: nil). Interest rates are in line with normal rates charged to customers or staff rates in line with Company policy.

Personal loans are repayable over 3 years. Property loans and instalment finance loans are repayable monthly over 15 years, and 5 years respectively. Property loans are collateralised by properties with a total fair value of P2,300,000 (2006: P2,050,000). Instalment finance loans are collateralised by motor vehicles with a total fair value of P1,300,000 (2006: P950,000)

Personal loans, overdrafts and credit card balances are unsecured.

Holding company

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



Notes to the Annual Financial Statements (continued)

14. ACCOUNTS RECEIVABLE

	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Items in transit	159,717	65,820	159,717	65,820
Accounts receivable and other sundry debtors	37,444	30,065	36,340	30,065
School debentures	286	286	286	286
	197,447	96,171	196,343	96,171

The above carrying values of accounts receivables approximate their fair value.

15. INVESTMENT IN ASSOCIATE COMPANY

Unlisted

Finance House (Pty) Limited

Shares at cost	955	955	955	955
Share of post-acquisition revenue reserves	1,466	1,544	-	-
	2,421	2,499	955	955

Income before tax for the year	2,499	2,598
--------------------------------	-------	-------

Share of profit before tax	1,272	1,268
Taxation for the year	(277)	(193)
Dividends received for the year	(1,073)	(878)
Retained income for the year	(78)	197
Share of retained income at the beginning of the year	1,544	1,347
Total retained income	1,466	1,544
Shares at cost	955	955
Total carrying value	2,421	2,499

Proportionate share of the summary balance sheet

Investment property	3,427	3,595
Long-term loan	(1,016)	(1,285)
Other assets (liabilities) - Net	10	189
	2,421	2,499

Fair value of the investment in the associate company at Directors' valuation	15,714	10,248
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Finance House (Pty) Limited is a property owning company. The bank's proportionate shareholding in the associate at the balance sheet date amounted to 48.8% (2006:48.8%).



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

15. INVESTMENT IN ASSOCIATE COMPANY (continued)

The most recent audited annual financial statements of associates are used by the Group in applying the equity method of accounting for associates. The audited annual financial statements of Finance House (Pty) Limited are prepared as at 30 September each year. The most recent audited financial statements of the company are therefore more than six months before the financial statement date of the Group, hence management accounts as at 31 March are used instead. In instances where significant events occurred between the last financial statement date of the associate and the financial statements date of the Group, the effects of such events are adjusted for.

16. INVESTMENT IN SUBSIDIARY COMPANIES

Company

Nature of business

2007
30 June
P'000

2006
30 June
P'000

Financial Services Company of Botswana Limited
Financial Services Properties (Pty) Limited
Plot Four Nine Seven Two (Pty) Limited
First Funding (Pty) Limited
Premium Credit Botswana (Pty) Limited
First National Insurance Agency (Pty) Limited

Property owning company
Property owning company
Property owning company
Group loan scheme
Insurance premium finance
Insurance agency

12,500	12,500
351	351
690	690
34,704	34,704
10	10
30	30
48,285	48,285

All subsidiary companies are wholly owned and are incorporated in Botswana. Premium Credit Botswana (Pty) 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 (Pty) Limited ceased to operate as a separate company and is also awaiting de-registration. Micro lending financing is carried out through a division of the bank.

With effect from 1 July 2007, the properties of Financial Properties (Pty) Limited and Plot Four Nine Seven Two (Pty) limited will be transferred to the Holding company and the two subsidiaries will remain dormant whilst awaiting de-registration.



Notes to the Annual Financial Statements (continued)

17. PROPERTY AND EQUIPMENT

<u>Group</u>	Freehold and leasehold land and buildings P'000	Leasehold improvements P'000	Motor vehicles P'000	Furniture and equipment P'000	Total P'000
<u>2007</u>					
Cost or valuation					
Balance at 1 July 2006	21,043	15,445	1,827	23,758	62,073
Additions	3,150	6,676	573	9,386	19,785
Revaluation	7,727	-	-	-	7,727
Disposals	-	(365)	(94)	(2,523)	(2,982)
Balance at 30 June 2007	31,920	21,756	2,306	30,621	86,603
Accumulated depreciation					
Balance at 1 July 2006	2,229	8,247	849	11,394	22,719
Charge for the year	514	1,391	451	3,795	6,151
Revaluation	(2,525)	-	-	-	(2,525)
Disposals	-	(364)	(94)	(2,468)	(2,926)
Balance at 30 June 2007	218	9,274	1,206	12,721	23,419
Net book value as at 30 June 2007	31,702	12,482	1,100	17,900	63,184
<u>2006</u>					
Cost or valuation					
Balance at 1 July 2005	21,043	14,071	1,326	32,847	69,287
Additions	-	1,914	856	4,203	6,973
Disposals	-	(540)	(355)	(13,292)	(14,187)
Balance at 30 June 2006	21,043	15,445	1,827	23,758	62,073
Accumulated depreciation					
Balance at 1 July 2005	1,808	7,623	1,014	21,241	31,686
Charge for the year	421	1,163	190	3,401	5,175
Disposals	-	(539)	(355)	(13,248)	(14,142)
Balance at 30 June 2006	2,229	8,247	849	11,394	22,719
Net book value as at 30 June 2006	18,814	7,198	978	12,364	39,354
Cost or valuation consists of:					
Freehold land and buildings	- cost				
	- added through revaluation				
Leasehold land and buildings	- cost				
	- added through revaluation				
Leasehold land improvements	- cost				
Motor vehicles	- cost				
Equipment	- cost				
Total cost or valuation					
				30 June 2007 P'000	30 June 2006 P'000
				18,371	15,221
				9,619	3,507
				1,105	1,105
				2,825	1,210
				21,756	15,445
				2,306	1,827
				30,621	23,758
				86,603	62,073



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

17. PROPERTY AND EQUIPMENT (continued)

Freehold land and buildings consist of a commercial property and four residential properties. The properties were valued by a professional property valuer in May 2007 on the basis of open market value for existing use.

Leasehold land and buildings consist of four residential properties and include the costs of improvements to bank premises. The residential properties were valued by a professional property valuer in May 2007 on the basis of open market value for existing use. The unexpired portion of all the leases is in excess of 50 years.

<u>Company</u>	Freehold and leasehold land and buildings P'000	Leasehold improvements P'000	Motor vehicles P'000	Furniture and equipment P'000	Total P'000
<u>2007</u>					
Cost or valuation					
Balance at 1 July 2006	3,228	14,203	1,827	23,758	43,016
Additions	3,150	6,676	573	9,386	19,785
Revaluation	3,422	-	-	-	3,422
Disposals	-	(365)	(94)	(2,523)	(2,982)
Balance at 30 June 2007	9,800	20,514	2,306	30,621	63,241
Accumulated depreciation					
Balance at 1 July 2006	324	7,844	849	11,394	20,411
Charge for the year	65	1,391	451	3,795	5,702
Revaluation	(387)	-	-	-	(387)
Disposals	-	(364)	(94)	(2,468)	(2,926)
Balance at 30 June 2007	2	8,871	1,206	12,721	22,800
Net book value as at 30 June 2007	9,798	11,643	1,100	17,900	40,441
<u>2006</u>					
Cost or valuation					
Balance at 1 July 2005	3,228	12,832	1,326	32,847	50,233
Additions	-	1,911	856	4,203	6,970
Disposals	-	(540)	(355)	(13,292)	(14,187)
Balance at 30 June 2006	3,228	14,203	1,827	23,758	43,016
Accumulated depreciation					
Balance at 1 July 2005	259	7,313	1,014	21,241	29,827
Charge for the year	65	1,070	190	3,401	4,726
Disposals	-	(539)	(355)	(13,248)	(14,142)
Balance at 30 June 2006	324	7,844	849	11,394	20,411
Net book value as at 30 June 2006	2,904	6,359	978	12,364	22,605

Group Annual Financial Statements for the year ended 30 June 2007

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Notes to the Annual Financial Statements (continued)

	Group	Company
	30 June 2007 P'000	30 June 2006 P'000
Cost or valuation consists of:		
Freehold land and buildings	- cost	5,872
	- added through valuation	2,721
Leasehold improvements	- cost	3,928
Motor vehicles	- cost	20,514
Equipment	- cost	14,203
		1,827
Total cost or valuation		23,758
	63,241	43,016

Freehold land and buildings of the Company consist of four residential properties. The properties were valued by a professional property valuer in May 2007 on the basis of open market value for existing use. The unexpired portion of all the leases is in excess of 50 years.

18. INTANGIBLE ASSETS

Goodwill

Goodwill at carrying value

Group	30 June 2007 P'000	30 June 2006 P'000
	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 year.

An annual impairment test of the above goodwill was carried out as at 30 June 2007 using the following assumptions:

Immediate forecast growth rates - Projected cash flows based on the cash generating unit's (CGU) budget

Perpetual growth rate - The forecast GDP growth rate

Discount rate - The weighted average cost of capital for the various CGUs

19. DEPOSIT AND CURRENT ACCOUNTS - amortised cost

Current and managed accounts
- financial institutions and other customers
Savings accounts
Call and term deposits

Group	30 June 2007 P'000	30 June 2006 P'000	Company	30 June 2007 P'000	30 June 2006 P'000
	1,919,284	1,428,489		1,919,284	1,428,489
	425,527	351,300		425,527	351,300
	4,399,829	4,102,038		4,399,829	4,102,038
	6,744,640	5,881,827		6,744,640	5,881,827
Maturity analysis					
Withdrawal on demand	3,695,987	2,651,299		3,695,987	2,651,299
Maturing 1 to 12 months	3,022,271	3,224,640		3,022,271	3,224,640
Maturing 1 to 5 years	26,382	5,888		26,382	5,888
	6,744,640	5,881,827		6,744,640	5,881,827

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



Notes to the Annual Financial Statements (continued)

22. PROVISIONS (continued)

Audit fees

Opening Balance

Charge to the income statement

Utilised

Closing Balance

Other

Opening Balance

Charge to the income statement

Utilised

Closing Balance

Total provisions

Other provisions consist mainly of staff bonus provisions.

All of the above amounts are expected to be settled within the next twelve months.

23. SHARE CAPITAL AND SHARE PREMIUM

Authorised

3,000,000,000 ordinary shares of 1t each

(2006: 300 000 000 ordinary shares of 10t each)

Issued and fully paid

2,563,700,000 ordinary shares of 1t each

(2006: 256,370,000 ordinary shares of 10t each)

Less: 20,000,000 (2006: 2,000,000) shares owned by the company's employee share participation scheme

Share premium

Arising on issued ordinary shares

Less: Employee share participation scheme portion

Balance at end of the year

Share option scheme

Details of the First National Bank of Botswana Limited share option scheme are set out in note 37.

	Group		Company	
	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Audit fees				
Opening Balance	496	366	496	366
Charge to the income statement	1,413	916	1,413	916
Utilised	(1,209)	(786)	(1,209)	(786)
Closing Balance	700	496	700	496
Other				
Opening Balance	8,666	7,620	8,666	7,620
Charge to the income statement	10,441	7,143	10,441	7,143
Utilised	(9,298)	(6,097)	(9,298)	(6,097)
Closing Balance	9,809	8,666	9,809	8,666
Total provisions	15,459	12,938	15,459	12,938
Other provisions consist mainly of staff bonus provisions.				
All of the above amounts are expected to be settled within the next twelve months.				
23. SHARE CAPITAL AND SHARE PREMIUM				
Authorised				
3,000,000,000 ordinary shares of 1t each	30,000	30,000	30,000	30,000
(2006: 300 000 000 ordinary shares of 10t each)				
Issued and fully paid				
2,563,700,000 ordinary shares of 1t each	25,637	25,637	25,637	25,637
(2006: 256,370,000 ordinary shares of 10t each)				
Less: 20,000,000 (2006: 2,000,000) shares owned by the company's employee share participation scheme	(200)	(200)	-	-
	25,437	25,437	25,637	25,637
Share premium				
Arising on issued ordinary shares	32,451	32,451	32,451	32,451
Less: Employee share participation scheme portion	(6,800)	(6,800)	-	-
Balance at end of the year	25,651	25,651	32,451	32,451
Share option scheme				
Details of the First National Bank of Botswana Limited share option scheme are set out in note 37.				



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

24. RESERVES

Non-distributable reserves

Surplus on revaluation of properties

	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Balance at the beginning of the year	3,596	3,676	375	383
Transfer to retained income	(94)	(94)	(10)	(10)
Transfer from deferred taxation	14	14	2	2
Arising on revaluation of properties during the year	10,252	-	3,809	-
Deferred tax on revaluation of properties during the year	(1,349)	-	(627)	-
Balance at the end of the year	12,419	3,596	3,549	375

Retained earnings in associate company

	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Balance at the beginning of the year	1,544	1,347	-	-
Transfer (to)/ from retained income	(78)	197	-	-
Balance at the end of the year	1,466	1,544	-	-

Share-based payment reserve

	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Charged to income statement during the year	2,313	-	2,313	-

Total non-distributable reserves

	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Total non-distributable reserves	16,198	5,140	5,862	375

Retained earnings

	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Balance at the beginning of the year	326,459	265,597	331,118	257,079
Transfer from associate company's reserves	78	(197)	-	-
Transfer from revaluation reserve	94	94	10	10
Retained for the year	57,322	60,965	52,198	74,029
Balance at the end of the year	383,953	326,459	383,326	331,118

Total reserves

	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Total reserves	400,151	331,599	389,188	331,493

25. CAPITAL ADEQUACY

	30 June 2007 P'000	30 June 2006 P'000
Core capital		
Share capital	25,437	25,437
Share premium	25,651	25,651
Retained earnings - Group and associate company	385,419	328,003

Less: Goodwill

	30 June 2007 P'000	30 June 2006 P'000
Less: Goodwill	(26,963)	(26,963)
	409,544	352,128



Notes to the Annual Financial Statements (continued)

25. CAPITAL ADEQUACY (continued)

Supplementary capital

Revaluation reserves subject to 50% risk adjustment
Portfolio and IBNR provisions
Subordinated Unsecured Registered Bonds

Total qualifying capital

Risk adjusted assets - balance sheet items
- off-balance sheet items

Capital adequacy ratios (%)

Core capital (%)

Supplementary capital (%)

Total (%)

Group	
30 June 2007 P'000	30 June 2006 P'000
6,210	1,798
19,230	24,590
100,000	100,000
125,440	126,388
534,984	478,516
3,145,195	2,837,547
340,988	279,910
3,486,183	3,117,457
15.35	15.35
11.75	11.30
3.60	4.05
15.35	15.35

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 terms of the Banking Act No. 13 of 1995 in terms of which the Group must maintain a minimum level of capital based on its risk weighted assets and off-balance sheet exposures.

26. POST- RETIREMENT FUND LIABILITIES

26.1 Post retirement liability

The Group had no post retirement liability as at the balance sheet date (2006: 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 company, and the Pension Funds Act (CAP 27:03) governs its administration. The liability of the Group is limited to the contributions made during the employment of the employee. The contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

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



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

27. CASH GENERATED BY OPERATIONS

	Group		Company	
	30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
Profit before direct taxation	360,676	294,441	353,458	306,640
Adjusted for:				
- depreciation	6,151	5,175	5,702	4,726
- share of profit of associate company - net of tax	(995)	(1,075)	-	-
- dividends from associate company	-	-	(1,073)	(878)
- dividends from subsidiaries	-	-	-	(14,591)
- impairment charges	22,012	19,393	22,012	19,393
- Loss/ (Profit) on sale of property and equipment	2	(9)	2	(9)
- Share based scheme reserve	2,313	-	2,313	-
	390,159	317,925	382,414	315,281

28. TAXATION PAID

Amounts (overpaid)/ unpaid at the beginning of the year	(887)	811	(1,025)	1,063
Charged to the income statement - current taxation	51,920	43,413	49,821	42,588
Amounts overpaid/ (unpaid) at the end of the year	4,909	887	5,217	1,025
Cash amounts paid	55,942	45,111	54,013	44,676

29. INCREASE IN DEPOSIT AND CURRENT ACCOUNTS - Amortised cost

Increase in current and managed account deposits	490,795	294,663	490,795	294,663
Increase/ (decrease) in savings deposits	74,227	(36,348)	74,227	(36,348)
Increase in call and term deposits	297,791	3,193,272	297,791	3,193,272
	862,813	3,451,587	862,813	3,451,587

30. INCREASE IN ADVANCES TO CUSTOMERS - ORIGINATED

Net amount outstanding at the beginning of the year	2,716,404	2,482,422	2,723,404	2,489,422
Impairment of advances	(22,012)	(19,393)	(22,012)	(19,393)
Net amount outstanding at the end of the year	(3,073,209)	(2,716,404)	(3,080,209)	(2,723,404)
	(378,817)	(253,375)	(378,817)	(253,375)

31. DIVIDENDS PAID

Previous year's final dividend paid during the year - October 2006	128,185	110,239	128,185	110,239
Interim dividend paid - March 2007	96,139	64,093	96,139	64,093
Total dividends paid to shareholders	224,324	174,332	224,324	174,332



Notes to the Annual Financial Statements (continued)

32. CASH AND CASH EQUIVALENTS

Cash and short-term funds - Denominated in Pula
- Denominated in other currencies
Bank of Botswana Certificates

Group		Company	
30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
438,011	235,018	438,011	235,095
466,930	335,227	466,930	335,227
4,043,897	3,744,408	4,043,897	3,744,408
4,948,838	4,314,653	4,948,838	4,314,730

33. CONTINGENCIES AND COMMITMENTS

Contingencies

Guarantees and indemnities
Letters of credit

377,380	354,148	377,380	354,148
33,556	21,148	33,556	21,148
410,936	375,296	410,936	375,296

Commitments

Undrawn commitments to customers

689,611	643,988	689,611	643,988
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Capital commitments

Capital expenditure approved by the Directors
- not contracted for

88,386	39,000	88,386	39,000
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The above commitments are wholly in respect, property and equipment, and funds to meet these commitments will be provided from the bank's internal resources.

Operating lease commitments

Next year
Two to 5 years

9,491	10,822	9,491	10,822
17,310	15,764	17,310	15,764
26,801	26,586	26,801	26,586

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 gets 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 balance sheet date.

There were no significant contingent liabilities in respect of the above as at the balance sheet date (2006:nil).

34. TRUST ACTIVITIES

The bank acts as a trustee and in other fiduciary capacities that result in holding or placing of assets on behalf of customers.



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

34. TRUST ACTIVITIES (continued)

At 30 June 2007 the bank acted as a trustee in respect of Botswana Government bonds amounting to P5,500,000 (2006 :P5,500,000). These bonds were held in a trust or fiduciary capacity and were not treated as assets of the bank. Accordingly, they have not been included in the balance sheet.

35. RISK MANAGEMENT

A report dealing with risk management of the Group is contained in the risk management section of the annual report ("The Risk Report"). The report sets out in detail the various risks the Group is exposed to, as well as the strategy, methodology and instruments used to manage and mitigate these risks.

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.

The Group is principally exposed to credit risk, market risk, currency risk and interest rate risk. The exposures to these risks as at 30 June 2007 are set out below:

35.1 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 detail on credit risk management is contained in the of the Risk Management report.

Significant credit exposures at 30 the year-end were:

Geographical distribution

Botswana
Southern Africa
Rest of the world

Distribution by sector

Banks including Bank of Botswana
Government and Parastatal organisations
Individuals
Business/Trading
Others

Assets		Liabilities	
30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
7,886,629	6,838,801	8,130,373	6,828,006
17,746	35,501	108,300	253,879
448,695	338,753	114,397	131,170
8,353,070	7,213,055	8,353,070	7,213,055
4,911,278	4,314,653	357,421	388,420
22,532	15,986	895,911	1,595,042
1,113,148	825,801	1,132,433	634,777
2,186,233	1,941,464	4,762,528	3,309,040
119,879	115,151	1,204,777	1,285,776
8,353,070	7,213,055	8,353,070	7,213,055

Economic sector risk concentrations in respect of advances are set out in note 10.



Notes to the Annual Financial Statements

(continued)

35.2 Market risk

The Group takes on exposure 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 Group applies a "value at risk" methodology to estimate the market risk positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. 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 in the Risk Report.

35.3 Currency risk management

The Group takes on exposure to mitigate the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Group manages foreign currency exposures in terms of approved limits. The table below sets out the currency position at 30 year-end.

Distribution by currency:

Botswana Pula
South African Rand
United States Dollar
British Pound
Euro
Others

Assets		Liabilities	
30 June 2007 P'000	30 June 2006 P'000	30 June 2007 P'000	30 June 2006 P'000
7,741,168	6,853,726	7,549,492	6,737,986
51,443	66,538	109,144	69,587
421,004	196,230	558,873	311,420
46,004	40,065	43,620	40,034
91,636	54,750	91,941	54,028
1,815	1,746	-	-
8,353,070	7,213,055	8,353,070	7,213,05

35.4 Interest rate risk management

Interest sensitivity of assets, liabilities and off balance sheet items
- repricing analysis

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of repricing or maturity dates.



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

35.4 Interest rate risk management (continued)

Further details on the interest rate risk management are set out in the Risk Report

The table below summarises the Banking Group's exposure to interest rate risk, categorised by contractual repricing date.

	Carrying amount P'000	Term to repricing					Non-interest earning/ bearing 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	
2007							
Total assets	8,353,070	593,201	5,998,580	747,480	371,562	198,720	443,527
Total liabilities	8,353,070	2,269,615	4,533,433	66,055	704,959	-	779,008
Net interest sensitivity gap	-	(1,676,414)	1,465,147	681,425	(333,397)	198,720	(335,481)
2006							
Total assets	7,213,055	591,475	5,333,864	718,160	148,253	119,579	301,724
Total liabilities	7,213,055	1,699,387	4,279,357	63,236	4,014	-	1,167,061
Net interest sensitivity gap	-	(1,107,912)	1,054,507	654,924	144,239	119,579	(865,337)

35.5 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 does not maintain sufficient cash resources to meet all of these liquidity needs, as historical experience indicates a minimum level of re-investment of maturing funds with a high level of certainty.

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 position potentially enhances 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.

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

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



Notes to the Annual Financial Statements (continued)

35.5 Liquidity risk management (continued)

<u>2007</u>	Carrying amount P'000	Term to maturity			1-5 years P'000	Over 5 years P'000	Non sensitive P'000
		Demand P'000	1 - 3 months P'000	3-12 months P'000			
Total assets	8,353,070	593,201	3,952,312	741,213	2,461,961	1,122	603,261
Total liabilities	8,353,070	2,269,615	4,533,433	66,055	96,726	-	1,387,241
Net liquidity gap	-	(1,676,414)	(581,121)	675,158	2,365,235	1,122	(783,980)
<u>2006</u>							
Total assets	7,213,055	1,166,512	3,238,001	711,916	995,519	1,031,049	70,058
Total liabilities	7,213,055	3,261,721	3,282,696	63,236	4,014	-	601,388
Net liquidity gap	-	(2,095,209)	(44,695)	648,680	991,505	1,031,049	(531,330)

35.6 Fair value of financial instruments

<u>2007</u>	Carrying amount P'000	Fair value amount P'000	Unrecognised gain/(loss) P'000
Assets			
Advances			
- at amortised cost	3,073,209	3,073,209	-
Investment securities			
- Trading	16,164	16,164	-
- Available for sale	4,043,897	4,043,897	-
	7,133,270	7,133,270	-
Deposit and current accounts	6,744,640	6,744,640	-
Long-term liabilities	430,907	430,907	-
	7,175,547	7,175,547	-
<u>2006</u>			
Assets			
Advances			
- at amortised cost	2,716,404	2,716,404	-
Investment securities			
- Trading	15,986	15,986	-
- Available for sale	3,744,408	3,744,408	-
	6,476,798	6,476,798	-
Deposit and current accounts	5,881,827	5,881,827	-
Long-term liabilities	438,851	438,851	-
	6,320,678	6,320,678	-



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

35.6 Fair value of financial instruments (continued)

Fair value has been determined as follows:

- advances - based on the discounted value of estimated future cash flows, determined based on current market rates;

- held-to-maturity investment securities - market/dealer quotations, if available, or fair value estimations based on market prices for similar instruments with similar credit risks;

- deposits and current accounts - where there is no stated maturity, the amount repayable on demand - in respect of interest bearing liabilities with a fixed maturity, based on discounted cash flow value using market rates on new liabilities with a similar maturity;

- long-term liabilities - quoted market prices, if available, or based on the discounted cash flow values using market rates for similar instruments with a comparable term to maturity.

36. SEGMENTAL REPORTING

2007

	Retail banking P'000	Property division P'000	Wesbank P'000	Corporate P'000	Treasury and International Trade P'000	Support P'000	Total P'000
Income							
Interest income	168,540	163,116	121,458	37,845	510,910	3,205	1,005,074
Interest expenditure	(58,635)	(78,482)	(51,668)	(18,954)	(448,295)	(1,263)	(657,297)
Net interest income before impairment of advances	109,905	84,634	69,790	18,891	62,615	1,942	347,777
Impairment of advances	(9,479)	(1,556)	(9,063)	(1,914)	-	-	(22,012)
Net interest income after impairment of advances	100,426	83,078	60,727	16,977	62,615	1,942	325,765
Non-interest income	160,772	175	2,532	3,154	72,118	4,908	243,659
Net income from operations	261,198	83,253	63,259	20,131	134,733	6,850	569,424
Operating expenditure	(117,620)	(9,961)	(19,417)	(10,536)	(23,973)	(23,545)	(205,052)
Income from operations	143,578	73,292	43,842	9,595	110,760	(16,695)	364,372
Share of associate company income before taxation	-	-	-	-	-	1,272	1,272
Income before indirect taxation	143,578	73,292	43,842	9,595	110,760	(15,423)	365,644
Indirect taxation	(2,584)	(76)	(519)	(53)	(215)	(1,521)	(4,968)
Income before direct taxation	140,994	73,216	43,323	9,542	110,545	(16,944)	360,676
Direct taxation	(19,870)	(10,318)	(6,105)	(1,345)	(15,579)	2,388	(50,829)
Income after taxation	121,124	62,898	37,218	8,197	94,966	(14,556)	309,847



Notes to the Annual Financial Statements (continued)

36. SEGMENTAL REPORTING (continued)

<u>2007</u> (continued)	Retail banking P'000	Property division P'000	Wesbank P'000	Corporate P'000	Treasury and International Trade P'000	Support P'000	Total P'000
Balance sheet includes:							
Advances	788,191	1,196,027	779,822	198,209	88,891	22,069	3,073,209
Non-performing advances	37,651	60,845	17,202	6,336	-	-	122,034
Investment in associate	-	-	-	-	-	2,421	2,421
Total deposits	2,046,870	-	-	1,228,757	3,893,058	-	7,168,685
Key ratios							
Cost to income ratio	44.4	11.8	27.6	48.0	18.0	365.9	35.5
Bad debt charge as a % of advances	1.2	0.1	1.2	1.0	0.0	0.0	0.7
Non-performing loans as a % of advances	4.8	5.1	2.2	3.2	0.0	0.0	4.0

Note

There is no segmental reporting for the secondary segment (geographical) as no significant income is generated outside Botswana.

<u>2006</u>	Retail banking P'000	Property division P'000	Wesbank P'000	Corporate P'000	Treasury and International Trade P'000	Support P'000	Total P'000
Income							
Interest income	148,786	127,122	110,876	41,687	155,452	-	583,923
Interest expenditure	(58,300)	(62,133)	(52,170)	(24,564)	(98,487)	-	(295,654)
Net interest income before impairment of advances	90,486	64,989	58,706	17,123	56,965	-	288,269
Impairment of advances	(7,429)	(2,964)	(5,276)	(3,724)	-	-	(19,393)
Net interest income after impairment of advances	83,057	62,025	53,430	13,399	56,965	-	268,876
Non-interest income	121,370	219	3,120	3,068	64,338	4,088	196,203
Net income from operations	204,427	62,244	56,550	16,467	121,303	4,088	465,079
Operating expenditure	(87,394)	(9,103)	(21,189)	(8,984)	(20,777)	(19,737)	(167,184)
Income from operations	117,033	53,141	35,361	7,483	100,526	(15,649)	297,895
Share of associate company income before taxation	-	-	-	-	-	1,268	1,268
Income before indirect taxation	117,033	53,141	35,361	7,483	100,526	(14,381)	299,163



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

36. SEGMENTAL REPORTING (continued)

<u>2006 (continued)</u>	Retail banking P'000	Property division P'000	Wesbank P'000	Corporate P'000	International Trade P'000	Support P'000	Total P'000
Indirect taxation	(2,298)	(5)	(507)	(8)	(195)	(1,709)	(4,722)
Income before direct taxation	114,735	53,136	34,854	7,475	100,331	(16,090)	294,441
Direct taxation	(16,054)	(7,435)	(4,876)	(1,046)	(14,038)	2,251	(41,198)
Income after taxation	98,681	45,701	29,978	6,429	86,293	(13,839)	253,243
Balance sheet includes:							
Advances	730,763	947,480	660,032	285,838	92,291		2,716,404
Non-performing advances	32,555	42,906	20,750	9,790	-	-	106,001
Investment in associate	-	-	-	-	-	2,499	2,499
Total deposits	1,776,551	-	-	892,758	3,464,553		6,133,862
Key ratios							
Cost to income ratio	42.3	14.0	35.1	44.5	17.3	524.6	35.5
Bad debt charge as a % of advances	1.0	0.3	0.8	1.3	0.0		0.7
Non-performing loans as a % of advances	4.5	4.5	3.1	3.4	0.0		3.9

Note

There is no segmental reporting for the secondary segment (geographical) as no significant income is generated outside Botswana.



Notes to the Annual Financial Statements (continued)

37. SHARE OPTION SCHEME

First National Bank of Botswana Limited operates a cash based share option scheme. Details of the scheme are set out below:

Group and company

Number of options in force at beginning of the year

Granted at prices ranging between P3.50 to P9.85

Number of options granted during the year

Granted at a price of P15.10 (2006:P9.85) per share

Number of options exercised during the year

Market value ranged between P13.90 to P37.50 (2006: P9.85 to P13.10)

Number of options cancelled/ lapsed during the year

Granted at prices ranging between P3.50 to P15.10

Number of options in force at end of the year

Granted at prices ranging between P3.50 to P15.10

Number of options available for future allocation

Total number of options of the scheme

Number of participants

Options are exercisable over the following periods
(first date able to release)

Financial year 2005/2006

Financial year 2006/2007

Financial year 2007/2008

Financial year 2008/2009

Financial year 2009/2010

Financial year 2010/2011

Financial year 2010/2012

Total

Options outstanding
(by expiry date)

Financial year 2009/2010

Financial year 2010/2011

Financial year 2011/12

Total

	30 June 2007	30 June 2006
Number of options in force at beginning of the year	1,048,332	863,333
Number of options granted during the year	700,000	350,000
Number of options exercised during the year	(48,332)	(115,001)
Number of options cancelled/ lapsed during the year	(50,000)	(50,000)
Number of options in force at end of the year	1,650,000	1,048,332
Number of options available for future allocation	319,000	951,668
Total number of options of the scheme	1,969,000	2,000,000
Number of participants	53	46
Options are exercisable over the following periods (first date able to release)		
Financial year 2005/2006	50,000	64,998
Financial year 2006/2007	-	33,333
Financial year 2007/2008	203,320	203,320
Financial year 2008/2009	306,649	316,649
Financial year 2009/2010	533,337	316,689
Financial year 2010/2011	329,990	113,343
Financial year 2010/2012	226,704	-
Total	1,650,000	1,048,332
Options outstanding (by expiry date)		
Financial year 2009/2010	610,000	630,000
Financial year 2010/2011	310,000	345,000
Financial year 2011/12	730,000	73,332
Total	1,650,000	1,048,332



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

37. SHARE OPTION SCHEME

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

Weighted average share price (thebe)	105
Expected volatility %	33.45
Expected option life in years	4
Expected risk free rate	12.05
Expected dividend growth	17

38. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING ESTIMATES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. 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 balance sheet 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.



Notes to the Annual Financial Statements (continued)

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

- (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. A so-called 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.

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 11. for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

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

Share-based payments

Share-based payment costs arise from the issue of share options to employees. These share options are classified as equity-settled share-based payments and as such, the fair value cost is determined on date of grant on an actuarial basis using a number of assumptions. These assumptions used in determining the fair value cost include expected volatility, expected dividend yield, the discount rate and the expected forfeit of lapse 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.

Impairment of goodwill

As required by IFRS, the goodwill in respect of First Funding (Pty) Limited was evaluated for impairment taking into account:

- estimate of future cash flows;
- suitable discount rate; and
- expected growth rate.



Notes to the Annual Financial Statements (continued)

39. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE

Group will comply with the following new standards and interpretations applicable to its business from the stated effective date.

IFRS 7 Financial instruments: Disclosure (including amendments to IAS 1 - Presentation of financial statements: Capital disclosures) - effective for annual periods commencing on or after 1 January 2007.

This standard deals with the disclosure of financial instruments, as well as the disclosure of related qualitative and quantitative risks associated with financial instruments. As IFRS 7 will supersede the current disclosure required in IAS 30 and IAS 32, the standard will not impact the results of the Group, but will result in potentially more disclosure than that currently provided in the Group's financial statements.

The Group does not intend to adopt this standard early.

IFRIC 10 Interim Financial Reporting and Impairment - effective for annual periods commencing on or after 1 November 2006

This interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements.



Group Annual Financial Statements for the year ended 30 June 2007

Notes to the Annual Financial Statements (continued)

39. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT EFFECTIVE (continued)

The amendment will not have a significant impact on the Group's interim results.

IFRS 2 - Group and Treasury Share Transactions - effective for annual periods commencing on or after 1 March 2007

IFRIC 11 clarifies the application of IFRS 2 Share-Based Payment to certain share-based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent.

This interpretation is not expected to have a significant effect on the Group's results.

40. SUBSEQUENT EVENTS

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