

# AUDITED SUMMARISED FINANCIAL Results and Dividend Announcement

for the year ended 30 June 2011

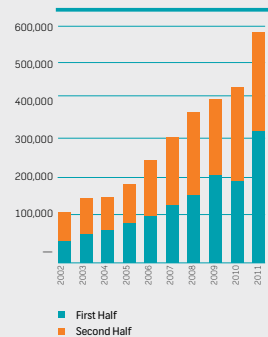
*The Directors have pleasure in announcing the audited financial results of the Bank and its subsidiaries (the Group) for the year ended 30 June 2011.*

## HIGHLIGHTS

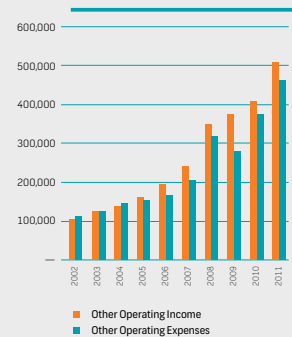


- Profit after taxation increased by 32%
- Non-interest income increased by 24%
- Cost to income ratio at 40%
- Advances growth of 24%
- Return on average assets increased to 4.5% from 3.5% in the previous financial year
- Return on average equity increased to 50% from 41% in the previous financial year
- Total dividend per share of 20.00 thebe per share, an improvement from prior year dividend per share of 9.50 thebe per share due to special dividend
- Proposed final dividend per share of 2.0 thebe

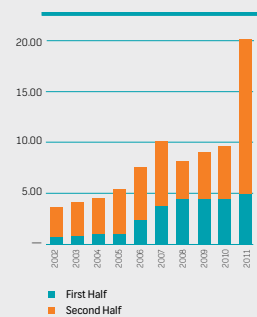
Profit After Tax (P'000)



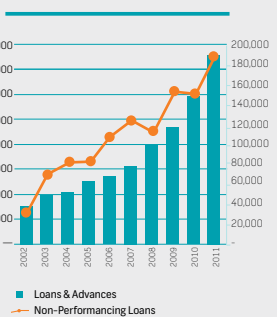
Other Operating income vs Other Operating expenses (P'000)



Dividends Per Share (thebe)



Advances vs Non-performing loans (P'000)



**FNB**  
First National Bank

how can we help you?

# AUDITED SUMMARISED FINANCIAL RESULTS AND DIVIDEND ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2011

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 2011.

uncertainties in recording various assets and liabilities. These assumptions were applied consistently to the financial results for the year ended 30 June 2011. These assumptions are subject to ongoing review and possible amendments.

## Basis of Presentation and Accounting Policies

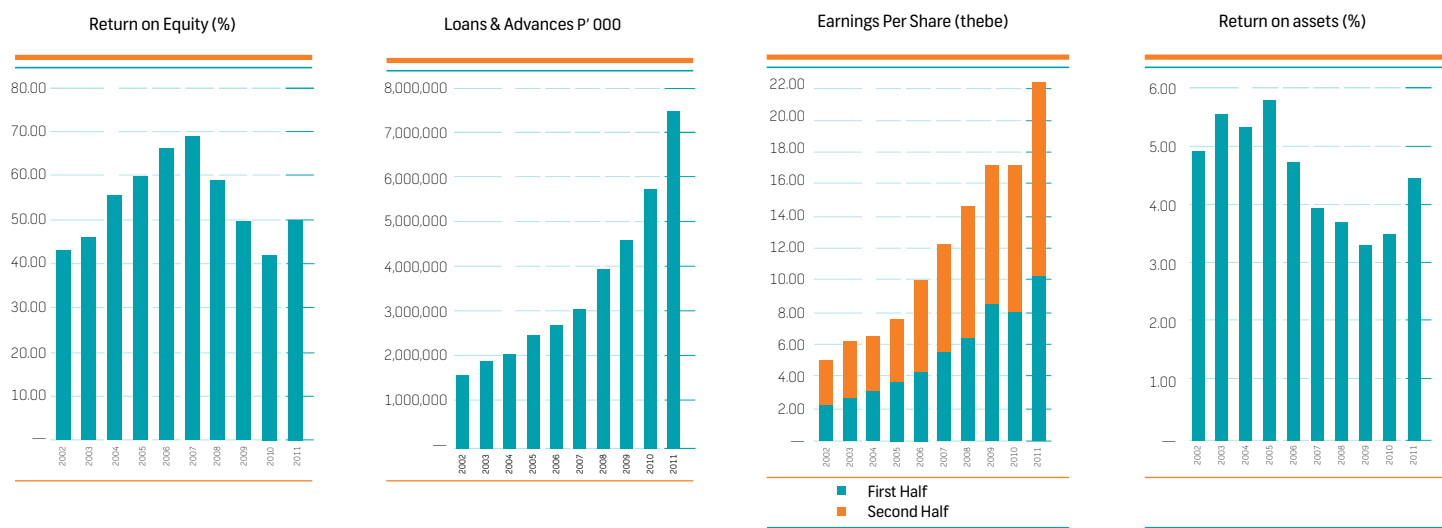
- The summarised financial results have been prepared applying the recognition and measurement criteria in accordance with International Financial Reporting Standards ("IFRS"), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), and in the manner required by the Companies Act of Botswana (Companies Act, 2003) and the Botswana Banking Act (Cap 46:04).
- 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 2011 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

## Audited Results – 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 consolidated statement of financial position at 30 June 2011, consolidated income statement, 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.



## CONSOLIDATED INCOME STATEMENT

	Year ended 30 June 2011 P'000	Year ended 30 June 2010 P'000	% Change
Interest income and similar income	1,094,078	1,062,618	3
Interest expense and similar charges	(432,327)	(518,978)	(17)
<b>Net interest income before impairment of advances</b>	<b>661,751</b>	<b>543,640</b>	<b>22</b>
Impairment of advances	(59,211)	(43,420)	36
<b>Net interest income after impairment of advances</b>	<b>602,540</b>	<b>500,220</b>	<b>20</b>
Non-interest income	504,520	408,312	24
<b>Income from operations</b>	<b>1,107,060</b>	<b>908,532</b>	<b>22</b>
Operating expenses	(237,638)	(192,380)	24
Employee benefits costs	(226,114)	(180,464)	25
<b>Net income from operations</b>	<b>643,308</b>	<b>535,688</b>	<b>20</b>
Share of profits from associate company	1,273	2,298	(45)
<b>Profit before indirect taxation</b>	<b>644,581</b>	<b>537,986</b>	<b>20</b>
Indirect taxation	(6,844)	(6,014)	14
<b>Profit before direct taxation</b>	<b>637,737</b>	<b>531,972</b>	<b>20</b>
Direct taxation	(63,897)	(95,922)	(33)
<b>Profit for the year</b>	<b>573,840</b>	<b>436,050</b>	<b>32</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)	22.56	17.14	32
Diluted earnings per share (thebe) (based on weighted average number of shares in issue)	22.55	17.11	32
Average number of shares outstanding takes into account 20 million shares held by the FNBB Employees Share Participation Trust			

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Year ended 30 June 2011 P'000	Year ended 30 June 2010 P'000	% Change
Profit for the year	573,840	436,050	32
Other comprehensive income			
Available-for-sale financial assets	2,825	4,183	
Gains on property revaluation	—	33,601	
Other comprehensive income for the year before taxation	2,825	37,784	
Income tax relating to components of other comprehensive income	1,278	(9,295)	
Other comprehensive income for the year	4,103	28,489	
Total comprehensive income attributable to equity holders of the parent	577,943	464,539	24

## RATIOS AND MARKET INFORMATION

	Year ended 30 June 2011 P'000	Year ended 30 June 2010 P'000	% Change
Dividend per share (thebe)	20.00	9.50	111
Dividend cover (times)	1.1	1.8	37
Cost to income ratio (percent)	40.35	39.80	
Return on equity (percent)	50	41	
Return on average assets (percent)	4.5	3.5	
Capital adequacy ratio (percent)	15.7	17.4	
Closing share price (thebe)	272	266	2
Dividend yield - ordinary shares (percent)	7.4	3.6	
Price earnings ratio	12.1	15.5	(22)
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.			

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	At 30 June 2011 P'000	At 30 June 2010 P'000	% Change
<b>ASSETS</b>			
Cash and short-term funds	1,706,573	1,201,491	42
Derivative financial instruments	2,996	758	295
Advances to banks	361,178	—	100
Advances to customers	7,170,842	5,803,009	24
Investment securities	3,496,862	4,946,059	(29)
Current taxation	4,622	1,041	344
Due from related companies	13,133	5,075	159
Accounts receivable	170,502	57,719	195
Investment in associate company	3,058	3,151	(3)
Property and equipment	202,200	187,306	8
Goodwill	26,963	26,963	—
<b>Total assets</b>	<b>13,158,929</b>	<b>12,232,572</b>	<b>8</b>
<b>LIABILITIES AND SHAREHOLDERS FUNDS</b>			
<b>Liabilities</b>			
Deposits from banks	215,186	4,000	5,280
Deposits from customers	10,597,398	10,304,632	3
Accrued interest payable	36,696	45,661	(20)
Derivative financial instruments	18,794	559	3,262
Due to related companies	140,031	50,209	179
Creditors and accruals	616,691	336,647	83
Provisions	42,646	23,830	79
Long-term liabilities	244,971	207,827	18
Deferred taxation	98,350	100,648	(2)
<b>Total liabilities</b>	<b>12,010,763</b>	<b>11,074,013</b>	<b>8</b>
<b>Capital and reserve attributable to ordinary equity holders</b>			
Stated capital	51,088	51,088	—
Reserves	1,045,804	979,286	7
Dividend reserve	51,274	128,185	(60)
<b>Total ordinary equity holders funds</b>	<b>1,148,166</b>	<b>1,158,559</b>	<b>(1)</b>
<b>Total liabilities and shareholders' funds</b>	<b>13,158,929</b>	<b>12,232,572</b>	<b>8</b>
<b>CONTINGENCIES AND COMMITMENTS (OFF BALANCE SHEET ITEMS)</b>			
Undrawn commitments to customers	1,551,262	927,086	67
Guarantees and letters of credit	1,396,344	1,065,636	31
<b>Total contingencies and commitments</b>	<b>2,947,606</b>	<b>1,992,722</b>	<b>48</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Stated capital P'000	Other non- distributable reserves P'000	Equity settled employee benefit reserve P'000	Retained earnings P'000	Dividend reserve P'000	Total P'000
<b>Balance at 1 July 2009</b>	51,088	19,462	5,438	729,769	115,367	921,124
Profit for the year				436,050		436,050
Other comprehensive income for the year		28,489				28,489
Dividends paid - 2009 final					(115,367)	(115,367)
Dividends paid - 2010 interim				(115,367)		(115,367)
Dividends proposed - 2010 final				(128,185)	128,185	—
Recognition of share based payments			3,630			3,630
Decrease in associate company reserves - transfer		1,114		(1,114)		—
Transfer from revaluation reserve		(114)		114		—
<b>Balance at 30 June 2010</b>	51,088	48,951	9,068	921,267	128,185	<b>1,158,559</b>
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)
2011 special dividend paid				(333,281)	—	(333,281)
Dividends proposed - 2011 final				(51,274)	51,274	—
Recognition of share based payments			1,315			1,315
Increase in associate company reserves - transfer		(92)		92		—
Transfer from revaluation reserve		(2,819)		2,819		—
<b>Balance at 30 June 2011</b>	51,088	50,143	10,383	985,278	51,274	<b>1,148,166</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Year ended 30 June 2011 P'000	Year ended 30 June 2010 P'000	% Change
<b>Cash flows (used in)/from operating activities</b>			
Cash generated by operations	719,072	590,308	22
Taxation paid	(69,351)	(92,002)	
	<b>649,721</b>	498,306	
Change in funds from operating activities	(603,962)	(1,406,877)	
<b>Net cash (used in)/generated from operating activities</b>	45,759	(908,571)	
Net cash used in financing activities	(808,045)	(188,807)	
Net cash used in Investing activities	(30,169)	(49,304)	
Net decrease in cash and cash equivalents	(792,455)	(1,146,682)	
Cash and cash equivalents at the beginning of the year	5,948,755	7,095,437	
Cash and cash equivalents at the end of the year	5,156,300	5,948,755	(13)
<b>Cash and short-term funds at the end of the year</b>			
Cash and short-term funds	1,706,573	1,201,491	
Investment in Bank of Botswana Certificates	3,449,727	4,747,264	
	<b>5,156,300</b>	5,948,755	

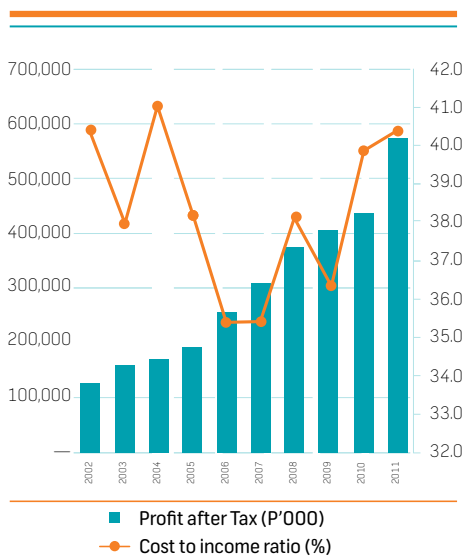
## CONDENSED SEGMENTAL REPORTING 2011

	Retail P'000	Property Division P'000	Wesbank P'000	Corporate P'000	Treasury P'000	Support P'000	Total P'000
<b>Net interest income before impairment of advances</b>	242,128	118,261	95,775	28,678	183,672	(6,763)	<b>661,751</b>
Impairment of advances	(48,623)	685	(7,733)	(3)	—	(3,537)	<b>(59,211)</b>
<b>Net interest income after impairment of advances</b>	193,505	118,946	88,042	28,675	183,672	(10,300)	<b>602,540</b>
Non-interest income	352,616	917	5,366	15,635	118,601	11,385	<b>504,520</b>
<b>Income from operations</b>	546,121	119,863	93,408	44,310	302,273	1,085	<b>1,107,060</b>
Operating expenses	(183,067)	(18,857)	(20,887)	(15,037)	(50,683)	50,893	<b>(237,638)</b>
Employee benefits costs	(91,005)	(6,221)	(14,075)	(6,629)	(14,188)	(93,996)	<b>(226,114)</b>
<b>Net income from operations</b>	272,049	94,785	58,446	22,644	237,402	(42,018)	<b>643,308</b>
Share of profits from associates							<b>1,273</b>
<b>Profit before indirect taxation</b>	272,049	94,785	58,446	22,644	237,402	(42,018)	<b>644,581</b>
Indirect taxation	(6,102)	(228)	(1,112)	(124)	(724)	1,446	<b>(6,844)</b>
<b>Profit before direct taxation</b>	265,947	94,557	57,334	22,520	236,678	(40,572)	<b>637,737</b>
Direct taxation							<b>(63,897)</b>
<b>Profit for the year</b>							<b>573,840</b>
Total assets	2,806,130	2,541,845	1,429,287	789,156	5,592,511	—	<b>13,158,929</b>
Advances to customers	2,242,844	2,542,302	1,365,225	791,041	229,430	—	<b>7,170,842</b>
Advances to banks	—	—	—	—	361,178	—	<b>361,178</b>
Total liabilities	5,791,469	182,953	20,274	1,543,904	4,472,163	—	<b>12,010,763</b>
Deposits	4,820,304	167,671	18,493	1,542,150	4,048,780	—	<b>10,597,398</b>

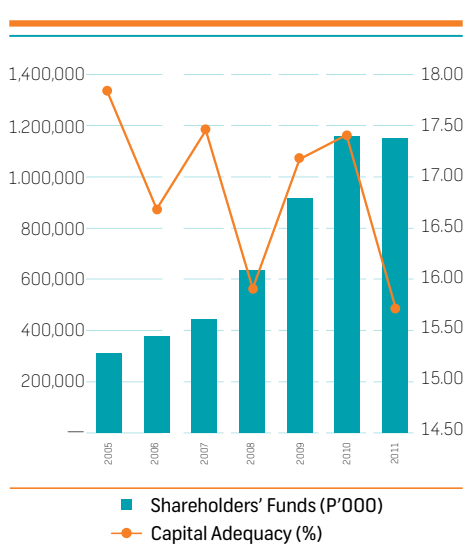
	Retail P'000	Property Division P'000	Wesbank P'000	Corporate P'000	Treasury P'000	Support P'000	Total P'000
Net interest income before impairment of advances	151,220	95,946	91,159	18,903	199,338	(12,926)	543,640
Impairment of advances	(32,724)	901	(6,135)	26	(47)	(5,441)	(43,420)
Net interest income after impairment of advances	118,496	96,847	85,024	18,929	199,291	(18,367)	500,220
Non-interest income	297,487	481	3,912	9,822	85,678	10,932	408,312
Income from operations	415,983	97,328	88,936	28,751	284,969	(7,435)	908,532
Operating expenses	(154,754)	(16,847)	(19,158)	(15,095)	(37,314)	50,788	(192,380)
Employee benefits costs	(87,854)	(4,740)	(11,945)	(6,029)	(9,342)	(60,554)	(180,464)
Net income from operations	173,375	75,741	57,833	7,627	238,313	(17,201)	535,688
Share of profits from associates							2,298
Profit before indirect taxation	173,375	75,741	57,833	7,627	238,313	(17,201)	537,986
Indirect taxation	(5,069)	(189)	(947)	(112)	(381)	684	(6,014)
Profit before direct taxation	168,306	75,552	56,886	7,515	237,932	(16,517)	531,972
Direct taxation							(95,922)
Profit for the year							436,050
Total assets	2,236,170	2,106,940	1,256,970	518,567	6,113,926	—	12,232,572
Advances to customers	1,678,101	2,109,857	1,253,373	517,565	244,113	—	5,803,009
Total liabilities	3,759,460	127,965	25,015	2,353,921	4,807,652	—	11,074,013
Deposits	4,011,948	115,460	18,489	2,351,557	3,807,178	—	10,304,632

## COMMENTARY ON AUDITED SUMMARISED FINANCIAL RESULTS AND DIVIDEND ANNOUNCEMENT for the year ended 30 June 2011

### Profit After Tax vs Cost to income ratio



### Shareholders' Funds vs Capital Adequacy



### Economic Review

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

After the recession of 2008/2009, the local economy showed a strong improvement in the reporting financial year of June 2010/11 buoyed by the improved growth in the mining sector. The government employees' strike which took place in the month of April had a small impact on the quarterly Gross Domestic Product numbers, but impacted the credit quality of the advances in the financial service industry. Going forward, foot and mouth disease in livestock could lead to a slow down in growth in 2011 and beyond.

Inflationary pressures continued during the year under review and inflation stayed above the Bank of Botswana target range of 3-6% and is expected to fall within this range only in the second quarter of 2012. However, the Central Bank reduced the bank rate by 50 basis points in December 2010 to 9.50% thereby maintaining the interest rate at historically low levels.

Commercial banks credit extension has been declining on a year-on-year basis since the high levels of 30% recorded in January 2009 to the current levels of 9.68% recorded in March 2011.

With regards to business confidence, the Bank of Botswana confidence survey results show only 47% of the companies surveyed were satisfied with prevailing economic conditions whilst 64% expect favorable conditions only in the second half of 2011 and beyond.

### Income Statement Performance

On the back of improved economic landscape and bank strategy, the Group's profit before tax increased by 20%. Profit after tax increased by 32% compared to the previous year as a result of the reduction in effective tax rate.

The increase in advances by 24% led to a growth in net interest income before the impairment charge. However, the growth in net interest income which was impacted by a rate cut of 50 basis points, was only 22%.

In line with the Bank's strategy of growing both assets and liabilities in the retail space, impairments charges increased by 36% off a low base. The impairment to gross advances ratio at 0.8% is in line with management's expectations, and within the board approved impairment highway.

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

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

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

### Statement of Financial Position

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

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

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

### 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 2012.

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

Economic capital is defined as the capital which the 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.

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

In line with the substantial growth in assets, 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 grew by 48%, driven mainly by growth in performance guarantees issued to support the current infrastructure expansion in Botswana.

#### 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 Board and management are responsible for ensuring that the Group's operations are conducted in accordance with all applicable laws and regulations, including the responsibility for:

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

The Board comprises a majority of independent, non-executive Directors and meets regularly, oversees executive management performance and retains effective control over the Group. The Board is assisted by committees, which are responsible for different aspects of governance.

The main committees established by the Board are the Audit, Credit, Risk, Remuneration, Directors Affairs and Governance.

#### Social Responsibility

The Group is cognisant of the fact that it carries out its social responsibility function while conducting its business. To this end the Group is committed to giving back to the community. This is evident through its establishment of the FNBB Foundation, a vehicle the Group uses to conduct its social welfare programmes.

The Group established the FNBB Foundation for the purpose of aiding educational, arts and culture and social welfare

development in Botswana by identifying beneficiaries who are in need and deserving of assistance. The 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 P23.7 million to the Foundation, and in turn, the Foundation has approved donations and pledges to qualifying beneficiaries. Details of the foundation and criteria for eligibility can be found at the Group's website: [www.fnbbotswana.co.bw](http://www.fnbbotswana.co.bw).

#### Declaration of Dividend

Notice is hereby given that a final dividend of 2.0 thebe per share has been declared for the year ended 30 June 2011. The dividend will be paid on or about 17 October 2011 to shareholders registered at the close of business on 7 October 2011. The transfer registers will be closed from 10 October to 14 October 2011, 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 10 October 2011.

#### For and on behalf of the Board.

**P D Shah**  
**Chairman**

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

GABORONE, 10 August 2011

#### TRANSFER SECRETARIES

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

#### Directors:

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

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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