

UNAUDITED SUMMARISED

FINANCIAL RESULTS AND
DIVIDEND ANNOUNCEMENT

for the half year ended 31 December 2013



FNB
First National Bank

how can we help you?

Key performance indicators

for the half year ended 31 December 2013

The Directors have pleasure in announcing the unaudited financial results of First National Bank of Botswana Limited (the Company) and its subsidiaries (the Group) for the half year ended 31 December 2013.

FINANCIAL HIGHLIGHTS

	Six Months period ended 31 December 2013 Unaudited	Six Months period ended 31 December 2012 Unaudited	% change
Advances (P'000)	10 922 758	9 221 892	18
Non-interest income (P'000)	377 878	364 803	3.6
Profit before direct tax (P'000)	464 380	440 935	5
Ratios			change
Cost to income ratio (%)	39.9	37.3	(2.6)
Return on average assets (%)	4.6	4.7	(0.1)
Dividend	5t	5t	-

Profit before tax

+5%

Non-interest income

+4%

Advances

+18%

Cost to income ratio

39.9%

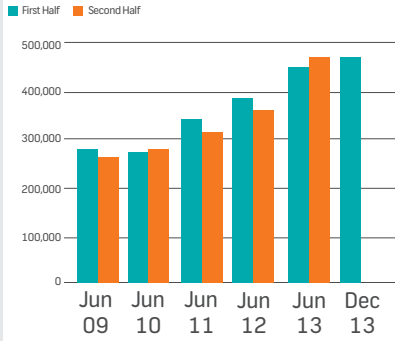
Return on average assets

4.6%

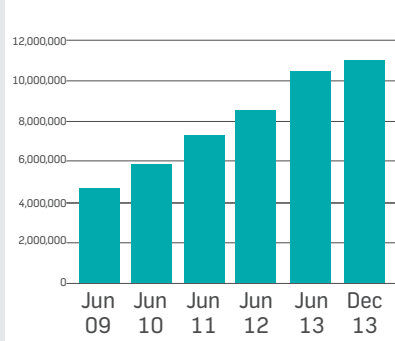
Dividend (thebe)

5t

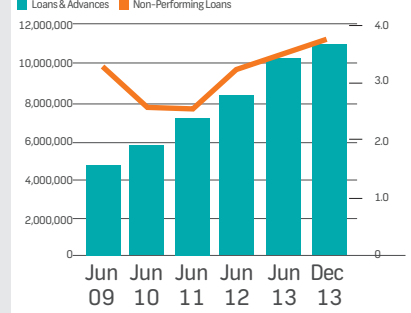
Profit Before Tax (P'000)



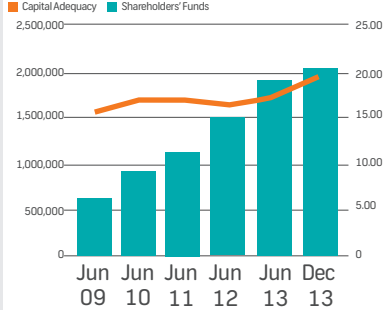
Loans & Advances (P'000)



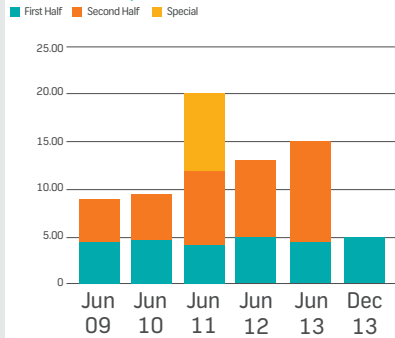
Advances (P'000) vs Non-Performing Loans (%)



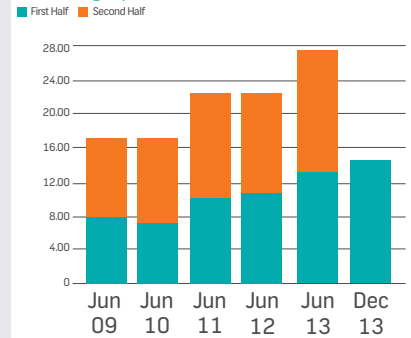
Shareholders Funds (P'000) vs Capital Adequacy Ratio (%)



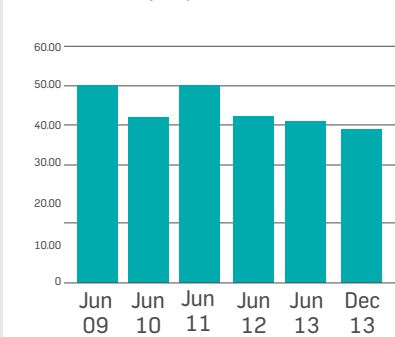
Dividends per Share (Thebe)



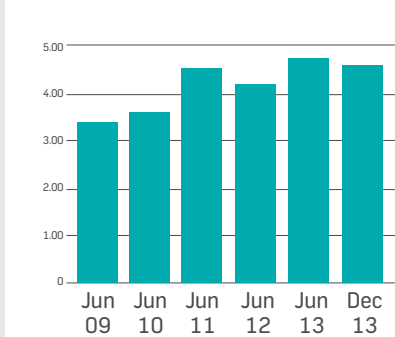
Earnings per Share (Thebe)



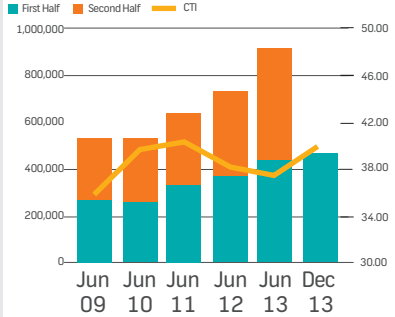
Return on Equity (%)



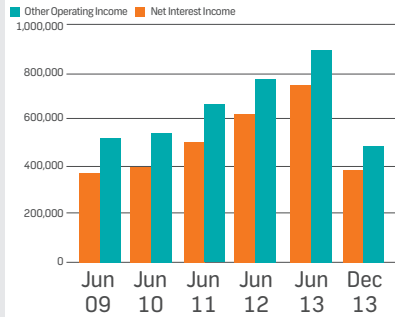
Return on Assets (%)



Profit Before Tax (P'000) vs Cost to Income Ratio (%)



Other Operating Income vs Net Interest Income (P'000)



BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The summarised financial results have been prepared applying the recognition and measurement criteria in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC').

In preparing the underlying consolidated financial statements from which these summarised financial results were extracted, all International Financial Reporting Standards and International Reporting Interpretations Committee interpretations issued and effective for annual periods beginning on or after 1 July 2013 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 respects with those adopted in the previous year, except for the adoption of the revisions in the standards which have not had a material impact on the financial statements.

In the preparation of the summarised consolidated financial results, the Group has applied key assumptions concerning the future and other inherent uncertainties in recording various assets and liabilities.

These assumptions were applied consistently to the financial results for the half year ended 31 December 2013. These assumptions are subject to ongoing review and possible amendments.

SUMMARISED CONSOLIDATED INCOME STATEMENT

	Unaudited Six months ended 31 December 2013 P'000	Unaudited Six months ended 31 December 2012 P'000	% Change	Audited Year ended 30 June 2013 P'000
Interest and similar income	641,545	602,527	6	1,210,031
Interest expense and similar charges	(152,890)	(159,564)	(4)	(312,629)
Net interest income before impairment of advances	488,655	442,963	10	897,402
Impairment of advances	(56,732)	(65,585)	(13)	(120,673)
Net interest income after impairment of advances	431,923	377,378	14	776,729
Non-interest income	377,878	364,803	4	743,042
Income from operations	809,801	742,181	9	1,519,771
Operating expenses	(166,853)	(147,673)	13	(304,143)
Employee benefits costs	(175,224)	(148,472)	18	(300,918)
Profit before indirect taxation	467,724	446,036	5	914,710
Indirect taxation	(3,344)	(5,101)	(34)	(9,312)
Profit before direct taxation	464,380	440,935	5	905,398
Direct taxation	(101,505)	(96,556)	5	(204,446)
Profit for the period	362,875	344,379	5	700,952
Average number of shares in issue during the period (thousands)	2,563,700	2,563,700		2,563,700
Earnings per share (thebe) (based on weighted average number of shares outstanding)	14.27	13.54	5	27.56
Diluted earnings per share (thebe) (based on weighted average number of shares in issue)	14.15	13.43	5	27.54

Average number of shares outstanding takes into account 20 million shares held by the FNBB Employees Share Participation Trust

SUMMARISED CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

	Unaudited Six months ended 31 December 2013 P'000	Unaudited Six months ended 31 December 2012 P'000	% Change	Audited Year ended 30 June 2013 P'000
Profit for the period	362,875	344,379	5	700,952
Items that may not be reclassified to profit or loss:				
Gains on revaluation of property	-	-		33,994
Deferred income tax relating to items that may not be reclassified	-	-		(7,479)
	-	-		26,515
Total comprehensive income attributable to equity holders of the parent	362,875	344,379	5	727,467

RATIOS AND MARKET INFORMATION

	Unaudited Six months ended 31 December 2013	Unaudited Six months ended 31 December 2012	% Change	Audited Year ended 30 June 2013
	P'000	P'000		P'000
Dividend per share (thebe)	5.00	5.00	-	15.00
Dividend cover (times)	2.8	2.7	4	1.8
Cost to income ratio (percent)	39.9	37.3	(2.6)	37.45
Return on equity (percent)	39	45	(6)	41
Return on average assets (percent)	4.6	4.7	(0.1)	4.7
Capital adequacy ratio (percent)	19.6	17.2	2.4	17.4
Closing share price (thebe)	400	280	43	365
Dividend yield - ordinary shares (percent)	2.5	3.5	(1)	4.1
Price earnings ratio	14.1	10.4	36	13.2

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

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited At 31 December 2013	Unaudited At 31 December 2012	% Change	Audited At 30 June 2013
	P'000	P'000		P'000
ASSETS				
Cash and short-term funds	2,844,679	2,903,467	(2)	2,288,285
Derivative financial instruments	24,607	1,132	>100	10,138
Advances to banks	-	-	-	51,975
Advances to customers	10,922,758	9,221,892	18	10,369,937
Investment securities and other investments	1,517,669	2,387,227	(36)	2,290,494
Current taxation	13,282	-	100	2,117
Due from related companies	13,555	8,025	70	6,138
Accounts receivable	322,643	278,495	16	251,474
Non-current assets held for sale	3,773	5,511	(32)	7,101
Property and equipment	493,802	399,813	24	502,086
Goodwill	26,963	26,963	-	26,963
Total assets	16,183,731	15,232,525	6	15,806,708
LIABILITIES AND SHAREHOLDERS' FUNDS				
Liabilities				
Deposits from banks	158,800	162,000	(2)	53,903
Deposits from customers	13,104,210	12,249,118	7	12,932,767
Accrued interest payable	36,543	33,575	9	34,767
Derivative financial instruments	20,703	20,116	3	16,964
Current taxation	-	1,500	100	-
Due to related companies	20,756	209,131	(90)	19,597
Creditors and accruals	234,309	239,557	(2)	225,215
Provisions	59,343	45,009	32	62,076
Borrowings	404,485	517,183	(22)	422,791
Deferred taxation	109,225	81,848	33	110,360
Total liabilities	14,148,374	13,559,037	4	13,878,440
Capital and reserve attributable to ordinary equity holders				
Stated capital	51,088	51,088	-	51,088
Reserves	1,856,084	1,494,215	24	1,620,810
Dividend reserve	128,185	128,185	-	256,370
Total ordinary equity holders funds	2,035,357	1,673,488	22	1,928,268
Total liabilities and shareholders' funds	16,183,731	15,232,525	6	15,806,708
CONTINGENCIES AND COMMITMENTS (OFF BALANCE SHEET ITEMS)				
Undrawn commitments to customers	1,312,747	1,061,332	24	1,417,137
Guarantees and letters of credit	1,184,656	1,375,942	(14)	1,059,452
Total contingencies and commitments	2,497,403	2,437,274	2	2,476,589

SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(UNAUDITED)

	Stated capital P'000	Other non- distributable reserves P'000	Equity settled employee benefits reserve P'000	Retained earnings P'000	Dividend reserve P'000	Total P'000
Balance at 1 July 2013	51,088	61,971	18,300	1,540,539	256,370	1,928,268
Profit for the period				362,875		362,875
Dividends paid - 2013 final					(256,370)	(256,370)
Dividends proposed - 2013 interim				(128,185)	128,185	-
Recognition of share based payments			584			584
Balance at 31 December 2013	51,088	61,971	18,884	1,775,229	128,185	2,035,357

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

	Uaudited Six months ended 31 December 2013 P'000	Uaudited Six months ended 31 December 2012 P'000	% Change	Audited Year ended 30 June 2013 P'000
Cash flows from operating activities				
Cash generated by operations	536,839	516,523	4	1,038,141
Taxation paid	(111,910)	(98,517)		(186,439)
	424,929	418,006		851,702
Change in funds from operating activities	(1,091,236)	730,154		(1,025,590)
Net cash (utilized in) / from operating activities	(666,307)	1,148,160		(173,888)
Net cash used in investing activities	(497,253)	(101,045)		(175,787)
Net cash from/(used) in financing activities	895	(19,407)		(429,624)
Net (decrease)/increase in cash and cash equivalents	(1,162,665)	1,027,708		(779,299)
Cash and cash equivalents at the beginning of the period	5,126,833	4,099,125		5,185,454
Cash and cash equivalents at the end of the period	3,964,168	5,126,833	(23)	4,406,155
Cash and short-term funds at the end of the period				
Cash and short-term funds	2,844,679	2,903,467		2,288,285
Investment in Bank of Botswana Certificates	1,119,489	2,223,366		2,117,870
	3,964,168	5,126,833		4,406,155

SUMMARISED SEGMENTAL REPORTING

SIX MONTHS ENDED 31 DECEMBER 2013 (UNAUDITED)	Retail Banking P'000	Property Division P'000	WesBank P'000	Corporate P'000	Treasury P'000	Total P'000
Income Statement						
Net interest income before impairment of advances	212,763	91,071	54,290	58,354	72,177	488,655
Impairment of advances	(52,216)	(730)	(4,391)	618	(13)	(56,732)
Net interest income after impairment of advances	160,547	90,342	49,898	58,972	72,164	431,923
Non-interest income	254,483	519	4,864	3,538	114,473	377,878
Income from operations	415,030	90,861	54,763	62,510	186,637	809,801
Operating expenses	(134,037)	(2,341)	(435)	(8,627)	(21,414)	(166,853)
Employee benefits costs	(118,277)	(8,701)	(17,209)	(10,539)	(20,497)	(175,224)
Profit before indirect taxation	162,716	79,819	37,118	43,344	144,727	467,724
Indirect taxation	(1,021)	(88)	(708)	(85)	(1,442)	(3,344)
Profit before direct taxation	161,695	79,731	36,411	43,260	143,284	464,380
Direct taxation						(101,505)
Profit for the period						362,875
Statement of financial position:						
Total assets	4,454,561	3,923,793	1,806,851	1,300,773	4,697,754	16,183,731
Advances (included in assets above)	3,852,600	3,923,806	1,783,863	1,271,944	90,545	10,922,758
Total liabilities	3,348,078	(13)	22,988	1,300,665	9,476,655	14,148,374
Deposits (included in liabilities above)	5,435,868	-	-	4,511,175	3,352,510	13,299,553

Note: In the current period, the Group continued to refine its business unit performance measurements. As a result, the measurement basis of segment results differs from that of prior period.

SIX MONTHS ENDED 31 DECEMBER 2012 (UNAUDITED)	Retail Banking P'000	Property Division P'000	WesBank P'000	Corporate P'000	Treasury P'000	Total P'000
Income Statement						
Net interest income before impairment of advances	173,579	81,008	48,809	75,513	64,054	442,963
Impairment of advances	(48,505)	(1,861)	(15,219)	-	-	(65,585)
Net interest income after impairment of advances	125,074	79,147	33,590	75,513	64,054	377,378
Non-interest income	244,539	(164)	2,864	10,336	107,228	364,803
Income from operations	369,613	78,983	36,454	85,849	171,282	742,181
Operating expenses	(106,106)	(5,965)	(13,575)	(6,906)	(15,121)	(147,673)
Employee benefits costs	(102,881)	(7,044)	(14,079)	(8,321)	(16,147)	(148,472)
Profit before indirect taxation	160,626	65,974	8,800	70,622	140,014	446,036
Indirect taxation	(3,257)	(99)	(589)	(56)	(1,100)	(5,101)
Profit before direct taxation	157,369	65,875	8,211	70,566	138,914	440,935
Direct taxation						(96,556)
Profit for the period						344,379
Statement of financial position:						
Total assets	3,073,175	3,504,575	1,684,734	1,486,862	5,483,179	15,232,525
Advances (included in assets above)	2,397,250	3,494,871	1,652,340	1,486,859	190,572	9,221,892
Total liabilities	3,326,571	232,203	50,231	4,159,797	5,790,235	13,559,037
Deposits (included in liabilities above)	3,140,077	-	-	4,235,870	4,873,171	12,249,118

Commentary on unaudited summarised financial results and dividend announcement

for the half year ended 31 December 2013

Capital Adequacy Ratio

19.6%

The Group's capital adequacy ratio, which excludes the dividend reserve, has been maintained at 19.6% as at 31 December 2013, and is above the Group's internal limit as well as the required ratio by Bank of Botswana of 15%.

Bank rate

-200 points

Bank of Botswana (BoB) cut the bank rate by a total of 200 basis points in year 2013, causing the lowest interest rate environment seen in 20 years thereby making loans more affordable for the consumer.

Growth in advances

+18%

Despite market credit growth having slowed, the Bank registered an impressive advances growth of 18%. This growth was achieved through group scheme lendings as well as term loan lending to the Public Sector.

OVERVIEW OF RESULTS

ECONOMIC REVIEW

After five years of significant macroeconomic volatility, the global environment seems to have stabilised in 2013 and is poised to lift off over the next two years. The prospects for developed economies in particular have therefore improved, with the USA leading the pack. However, macroeconomic risks have not disappeared. It simply means that policymakers have managed to buy enough time to implement much needed structural changes to ensure the current stability remains sustainable and eventually turns into a more virtuous macroeconomic growth cycle.

This rebound in the global environment has manifested itself in a recovery in the diamond sector, hence buoyancy in Botswana's GDP growth from 3.2% in the first quarter of 2013 to 7.4% in the second quarter and 5.9% by third quarter of 2013. In December 2013 inflation slowed to 4.1% from 5.8% registered in June 2013, thus remaining within the Bank of Botswana target range of 3%-6%.

In the year 2013, Bank of Botswana cut the bank rate by a total of 200 basis points, causing the lowest interest rate environment seen in 20 years, thereby making loans more affordable for the consumer. This reprieve in interest rates led to an expansion in credit growth driven by the Consumer segment. Annual credit growth in this segment remained high at 26.7% compared to total credit growth of 18.2%. Credit extension to businesses grew at a lackluster growth rate of only 7.3%.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Tight liquidity conditions in the market led to total market deposits held by commercial banks increasing modestly by 2.8%. Despite this, the Bank has been able to achieve a 7% growth in deposits from customers thereby achieving a growth rate that is faster than the market. This growth was driven mainly by transactional accounts in the Corporate segment, in line with the Bank's funding strategy.

With credit growth showing a declining trend, the Bank registered an impressive advances growth rate of 18%. This growth was achieved through Group Scheme Lending (Consumer segment) as well as term loans to the Public sector segment. Both these books exhibit lower credit risk and hence this area of growth is aligned with the Bank's conservative approach with respect to unsecured lending particularly to the Consumer segment.

With the loan-to-deposit ratio being maintained at more than acceptable levels and focus being placed on higher yielding assets, the level of investment in Bank of Botswana Certificates over the period has declined by 50%.

In a period where liquidity conditions are tight and credit growth is on a downward path, the Bank has managed to achieve a 6% growth in total balance sheet.

CONSOLIDATED INCOME STATEMENT PERFORMANCE

Notwithstanding the 18% growth in advances to customers, interest income registered a 6% growth. This less-than-proportional growth in interest income relative to advances is due to the impact of the rate cuts over the period as well as the conservative lending approach adopted by the Bank which has resulted in growth in the secured portfolios at lower yield levels. However, ongoing management of interest expense through lower cost of funding made further savings, thereby achieving net interest income growth of 10%.

The health of the advances book has been maintained over the period through sound credit risk approaches, reinforced by robust collection strategies. This culminated in a 13% decline in the impairments of advances, reflecting a good performance in the current environment.

Increased costs associated with the introduction of new electronic channels as well as efforts to move customers away from the more expensive traditional banking structures to cheaper electronic channels, has led to a modest growth in non-interest income of 4%. This is pleasing as the strategy of the Bank has, for the past few years, been to move customers to cheaper banking channels.

This drive to bring increased convenience to customers has resulted in the launch of a variety of new products during the half year under review. The period saw the launch of the prepaid electricity platform as well as the rolling out Rand dispensing ATMs and slim line mini ATMs. This has called for an investment in both infrastructure and people thereby leading to an increase in operating costs and employee benefit costs which increased by 13% and 18% respectively. The Bank's cost to income ratio remains at acceptable levels and well below the industry norm.

CAPITAL MANAGEMENT

The Group'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

Commentary on audited summarised financial results and dividend announcement (continued)

- To maintain a strong capital base to support the development of its business.

The Group 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 2015 with the parallel run being carried out from January 2014.

The purpose of the framework is to create objectives, policies and principles to ensure that book capital (shareholders funds or 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, to give comfort to stakeholders that it will be able to discharge its obligations to third parties and would continue to operate as a going concern in accordance with an indicated degree of certainty even under severe stress conditions.

Tests have been performed and will continue to be performed on a regular basis to assess if the Group is appropriately capitalised from an economic risk point of view. The regulatory capital requirements are strictly observed when managing economic capital.

The Group's capital adequacy ratio, which excludes the dividend reserve, has been maintained at 19.6% as at 31 December 2013, and is above the Group's internal limit as well as the 15% ratio required by Bank of Botswana.

In line with the growth in assets, the tough trading environment going forward, the 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.

The Directors propose an interim dividend of 5.0 thebe per share.

EVENTS AFTER THE REPORTING DATE

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.

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, overviews 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 Board committees include the Audit, Credit, Directors Affairs and Governance, Risk and Remuneration committees.

Increased costs associated with the introduction of new electronic channels as well as efforts to move customers away from the more expensive traditional banking structures to cheaper electronic channels, has led to a modest growth in non-interest income of 4%. This is pleasing as the strategy of the Bank has, for the past few years, been to move customers to cheaper banking channels.

The Bank continues to develop and improve its customer offerings and operating platform, which has led to growth in operating costs of 13%

SOCIAL RESPONSIBILITY

The Group recognises the importance of maintaining 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 responsibility 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 P34 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.

DECLARATION OF DIVIDEND

Notice is hereby given that an interim dividend of 5 thebe per share has been declared for the half year ended 31 December 2013. The dividend will be paid on or about 21 March 2014 to shareholders registered at the close of business on 7 March 2014. The transfer registers will be closed from 10 March 2014 to 14 March 2014, 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 14 March 2014.

For and on behalf of the Board.

PD Stevenson
Chairman

LE Boakgomo-Ntakhwana
Chief Executive Officer

Gaborone, 28 January 2014

TRANSFER SECRETARIES

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PO Box 294
GABORONE

DIRECTORS:

P.D. Stevenson (Chairman), L.E. Boakgomo-Ntakhwana (Chief Executive Officer), J.R. Khethe (S.A.),
D.H. Zandamela (S.A.), Dorcas Kgosietsile, S. Thapelo, M.W. Ward (U.K.),
J.K. Macaskill (alternate to J.R. Khethe)(S.A.), L. Haynes (alternate to D.H. Zandamela)(S.A.),
R.C. Wright (Deputy CEO, alternate to L.E. Boakgomo-Ntakhwana)



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MARKETING & COMMUNICATIONS

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