

# First National Bank of Botswana Limited

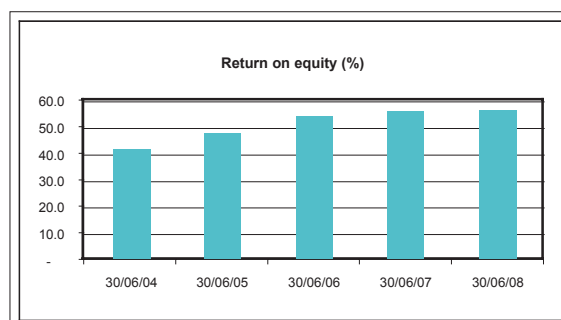
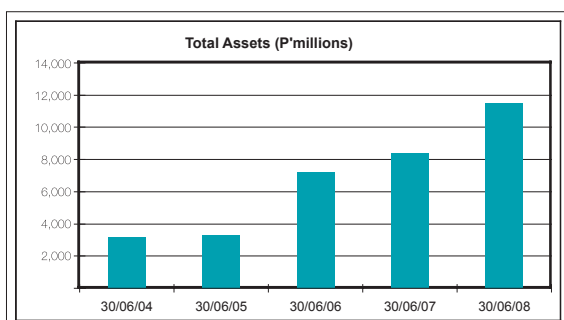
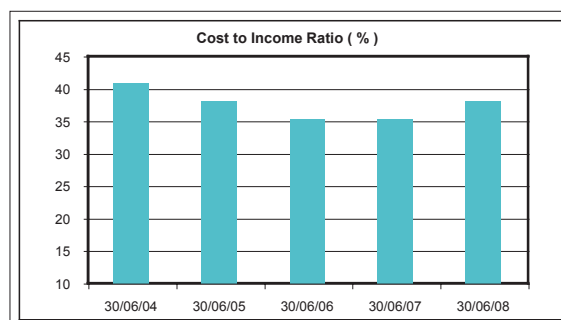
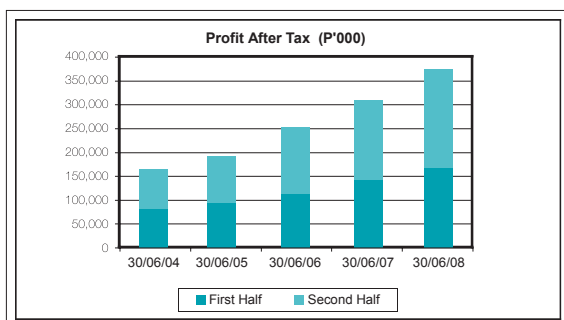
(Incorporated in the Republic of Botswana)

## AUDITED YEAR END RESULTS AND DIVIDEND ANNOUNCEMENT

The Directors have pleasure in announcing the audited financial results of the Bank and its subsidiaries for year ended 30 June 2008.

### Financial Highlights

- Income before direct taxation up 23% on corresponding period
- Earnings per share up 21% on corresponding period
- Cost to income ratio 38%
- Return on shareholders' funds 56%
- Total assets increased by 37%
- Proposed final dividend per share of 3.5 thebe



**FNB**  
First National Bank  
Botswana

*How can we help you?*

## FIRST NATIONAL BANK OF BOTSWANA LIMITED

(Incorporated in the Republic of Botswana)

The Directors have pleasure in announcing the audited financial results of First National Bank of Botswana Limited (the Bank) and its subsidiaries for the year ended 30 June 2008.

### BASIS OF PREPARATION AND ACCOUNTING POLICIES

- The financial results have been prepared in accordance with International Accounting Standards (IAS) 34, Interim Financial Reporting and the Botswana Companies Act 2003.
- All International Financial Reporting Standards and International Financial Reporting Interpretations Committee interpretations issued and effective at 30 June 2008 have been applied.
- All new accounting pronouncements, effective for the year, have been adopted by the Bank in the current year, but did not have material impact on the Bank, either in the current year or the prior year, therefore no restatements have been made.
- The accounting policies applied and method of computation are consistent with those applied in the annual financial statements for the year ended 30 June 2007.

### INDEPENDENT AUDITOR'S REPORT

The financial results have been audited by First National Bank of Botswana Limited's auditors, Deloitte & Touche. Their unqualified audit opinion is available for inspection at the Bank's registered office.

### CONDENSED CONSOLIDATED INCOME STATEMENT

	<b>Audited Year ended 30 June 2008 P'000</b>	<b>Audited Year ended 30 June 2007 P'000</b>	<b>% Change</b>
Interest income and similar income	1,168,337	1,005,074	16
Interest expense and similar charges	(768,085)	(657,297)	17
Net interest income before impairment of advances	400,252	347,777	15
Impairment losses on loans and advances	(20,804)	(22,012)	(5)
Net interest income after impairment of advances	379,448	325,765	16
Non interest revenue	347,666	243,659	43
Income from operations	727,114	569,424	28
Operating expenses	(279,148)	(205,052)	36
Depreciation	(8,081)	(6,151)	
Other operating expenses	(271,067)	(198,901)	
Net income from operations	447,966	364,372	
Share of profit of associate company	1,314	1,272	
Profit before indirect taxation	449,280	365,644	23
Indirect taxation	(6,414)	(4,968)	29
Profit before direct taxation	442,866	360,676	23
Direct taxation	(68,839)	(50,829)	35
Profit for the year	<b>374,027</b>	<b>309,847</b>	<b>21</b>
Average number of shares in issue during the year ('000)	2,563,700	2,563,700	
* Earnings per share (thebe) ( based on weighted average number of shares outstanding)	14.70	12.18	21
Diluted earnings per share (thebe) ( based on weighted average number of shares in issue)	14.59	12.09	21
* Average number of shares outstanding takes into account 20 million shares held by the FNBB Employees Share Participation Trust			
<b>RATIOS AND MARKET INFORMATION</b>			
Dividend per share (thebe)	8.00	9.85	(19)
Dividend cover (times)	1.8	1.2	
* Cost to income ratio (%)	38	35	
** Return on equity (%)	56	45	
Return on average assets (%)	4	4	
Capital adequacy ratio (%)	15.1	15.4	
Closing share price (thebe)	240	375	(36)
Dividend yield - ordinary shares (%)	3.3	2.6	
Price earnings ratio	16.3	31.0	

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

\*\* Return on shareholders' funds includes proposed dividend (dividend reserve).

## CONDENSED CONSOLIDATED BALANCE SHEET

### ASSETS

Cash and short-term funds
Derivative financial instruments
Investment securities and other investments
Advances
Investment in associate company
Due to related companies
Accounts receivable
Current taxation
Property and equipment
Intangible asset
<b>Total assets</b>

### LIABILITIES AND SHAREHOLDERS' EQUITY

#### Liabilities

Amounts due to other banks
Deposits and current accounts - armotised cost
Derivative financial instruments
Long-term loans
Accrued interest
Balances due to Group companies
Subordinated unsecured registered bonds
Current taxation
Creditors and accruals
Deferred taxation
<b>Total liabilities</b>

#### Shareholders' equity

Stated capital
Reserves
Dividend reserve
<b>Total shareholders' equity</b>

#### Total liabilities and shareholders' funds

### CONTINGENCIES AND COMMITMENTS

Guarantees
Letters of credit

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

### Cash flows from operating activities

Cash generated by operations
Taxation paid

Net increase in assets

Net increase in liabilities

#### Net cashflows from operating activities

Dividends paid
Long term loans repaid

#### Net cashflows to financing activities

#### Net cash to Investing activities

Net increase in cash and cash equivalents
Cash and cash equivalents at the beginning of the year
Cash and cash equivalents at the end of the year

#### Cash and short-term funds at the end of the year

Cash and short-term funds
Investment in Bank of Botswana Certificates

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Balance at the beginning of the year

Dividend proposed

Dividends paid to ordinary shareholders

Movement in share based payments reserve

Increase in other reserves

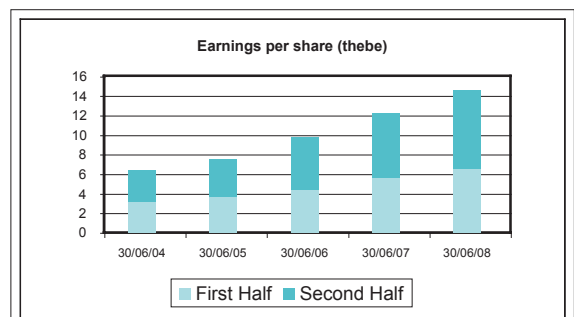
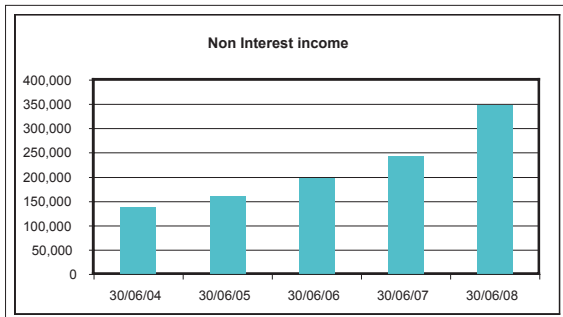
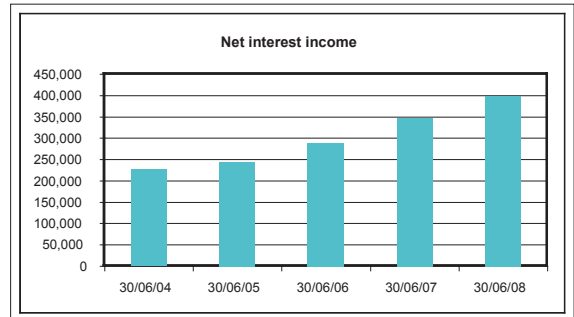
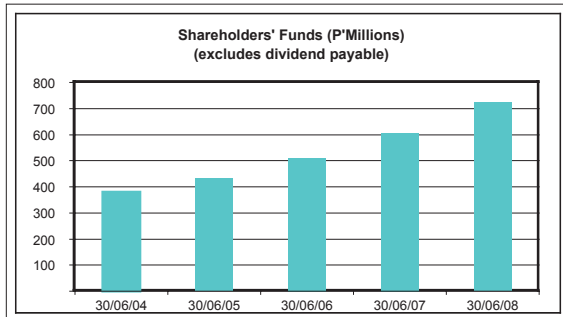
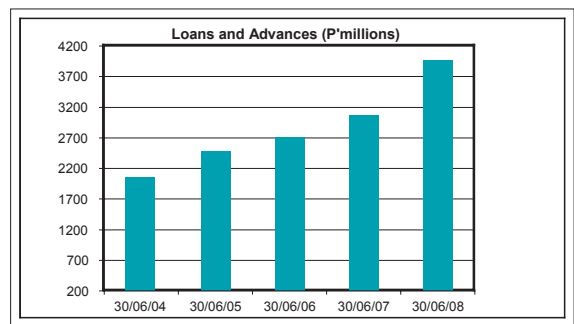
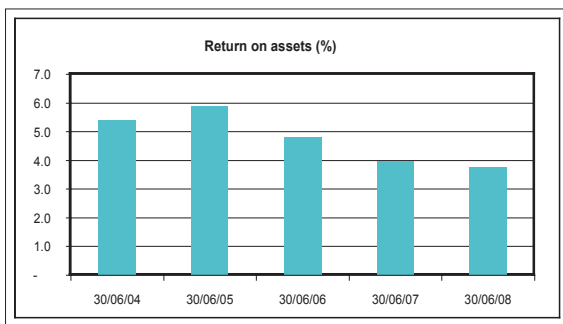
Earnings attributable to shareholders - net of transfer to dividend reserve

Balance at the end of the year

## CONDENSED SEGMENTAL REPORTING

	Retail P'000	Property Division P'000	WesBank P'000	Corporate P'000	Treasury & International Trade P'000	Support P'000	Total P'000
Interest income	202,502	181,280	148,354	38,046	597,204	951	1,168,337
Net income from operations	173,417	83,726	56,706	10,667	117,338	1,012	442,866
Total Assets	4,681,618	183,280	131,708	1,606,202	4,505,181	374,173	11,482,162
Total Liabilities	3,090,292	17,342	12,082	1,721,780	5,009,663	900,385	10,751,544

	Audited At 30 June 2008 P'000	Audited At 30 June 2007 P'000	% Change
<b>Total assets</b>	<b>11,482,162</b>	<b>8,353,070</b>	<b>37</b>
<b>Total liabilities</b>	<b>10,757,544</b>	<b>7,745,445</b>	
<b>Total shareholders' equity</b>	<b>724,618</b>	<b>607,625</b>	<b>19</b>
<b>Total liabilities and shareholders' funds</b>	<b>11,482,162</b>	<b>8,353,070</b>	<b>37</b>
<b>Guarantees</b>	<b>379,742</b>	<b>377,380</b>	
<b>Letters of credit</b>	<b>289,911</b>	<b>33,556</b>	<b>63</b>
<b>Year ended 30 June 2008 P'000</b>	<b>437,299</b>	<b>390,159</b>	<b>12</b>
<b>Taxation paid</b>	<b>(50,226)</b>	<b>(55,942)</b>	
<b>Net cashflows from operating activities</b>	<b>387,073</b>	<b>334,217</b>	
<b>Net cashflows to financing activities</b>	<b>(278,513)</b>	<b>(230,610)</b>	
<b>Net cash to Investing activities</b>	<b>(4,573)</b>	<b>(18,658)</b>	
<b>Cash and cash equivalents at the beginning of the year</b>	<b>4,948,838</b>	<b>4,314,653</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>7,053,088</b>	<b>4,948,838</b>	<b>43</b>
<b>Cash and short-term funds at the end of the year</b>	<b>7,053,088</b>	<b>4,948,838</b>	
<b>Balance at the beginning of the year</b>	<b>607,625</b>	<b>510,872</b>	
<b>Dividend proposed</b>	<b>89,730</b>	<b>156,386</b>	
<b>Dividends paid to ordinary shareholders</b>	<b>(271,753)</b>	<b>(224,324)</b>	
<b>Movement in share based payments reserve</b>	<b>910</b>	<b>2,313</b>	
<b>Increase in other reserves</b>	<b>13,809</b>	<b>8,917</b>	
<b>Earnings attributable to shareholders - net of transfer to dividend reserve</b>	<b>284,297</b>	<b>153,461</b>	
<b>Balance at the end of the year</b>	<b>724,618</b>	<b>607,625</b>	<b>19</b>



## Commentary

### Income statement performance

Earnings attributable to ordinary shareholders increased by 21% for the year ended 30 June 2008, on the back of strong performance in net interest income and non-interest revenue.

Net interest income increased by 16% compared to the corresponding period, largely as a result of the growth in the core lending business. Advances increased by 29%. The impact of this growth was not fully felt as the drawdowns took place in the latter part of the year. Margin squeeze was experienced as a result of competition as well as the lower returns received on Bank of Botswana Certificates (BoBCs), which grew by 30%. The growth in interest expense and similar charges of 17% is reflective of the growth of deposits which were predominantly raised from the wholesale market.

Non-interest revenue grew by 43% on the corresponding period, as a result of buoyant foreign exchange trading profits, and banking commission income. This is in line with management's planned expansion initiatives. This growth is largely attributable to increased transaction volumes resulting from growth in new customer accounts and increased product offerings. Service delivery channels, particularly electronic banking point of sale, card and acquiring and breakthrough channels such as CellPhone Banking, are performing well above expectations. The Bank also received shares in VISA Incorporated (a company listed on the New York Stock Exchange) in respect of its existing membership in Visa Association. The shares worth P35 million were received at no consideration and were recognised in non-interest income.

Part of the on-going expansion programme is to increase the branch network and to introduce new businesses to service specific customers' needs, as well as to position staff to offer superior service in the market place through up-skilling. The Bank opened two new branches in Selibe Phikwe and Serowe, launched Private Clients and Business Banking. This expansion programme, together with the full impact of planned prior year expansion initiatives and continued rise in costs as a result of inflation resulted in a 36% increase in operating expenses during the period. However, this growth in operating expenses is in line with management's

expectations, as it provides access to new revenue streams. Despite the increase in expenses the Bank has maintained its cost to income ratio as the lowest in the industry at 38%.

Despite the strain of high interest rates in the economy after two consecutive 0.5% increases respectively in May and June, credit quality has been maintained, additionally focus has been placed on collection processes and the continuously monitoring of non-performing loans. This has maintained the impairment charge at a low and acceptable level of P21million (0.52% of advances).

### Balance Sheet

Total assets have increased by 37% mainly as a result of a 29% increase in advances, 30% increase in BoBCs, and 98% increase in cash and short term funds. The growth in advances has been driven by the Retail network, WesBank and Card divisions, which have performed exceptionally well as a result of various initiatives to improve processes and service to customers.

The deposit book grew by 45%, reflecting good growth in all categories of current, savings and time deposit accounts from the branch network, as well as wholesale deposits directly linked to BoBC holdings. Additionally, the balance reflects a large increase in foreign currency which significantly increased cash and short term funds.

The Return on Equity, based on average year balances, (including the dividend reserve) increased to 56% from 45%. The average return on assets declined marginally to 3.8%, reflective of the substantial asset growth.

The Directors recommend a final dividend of 3.5 thebe per share (2007: 6.1 thebe). Refer to Table 1 below for historical growth of assets and capital.

TABLE 1

	2008 Pm	2007 Pm	%
TOTAL ASSETS (TA)	11,482	8,353	37
LOANS & ADVANCES	3,969	3,073	29
RISK WEIGHTED ASSETS (RWA)	4,630	3,486	33
QUALIFYING CAPITAL	699	535	31
CAPITAL ADEQUACY RATIO (%)	15.1	15.35	15 (Bank of Botswana required rate)

### Capital management

The impact of the growth above on risk weighted assets ("RWA") is shown below in table 2.

TABLE 2

	2007	2008	IMPACT ON RWA
FCY PLACEMENTS	0.4bn	1.4bn	200m
LOANS & ADVANCES	3bn	4bn	817m
OFF BALANCE SHEET ITEMS	1.1bn	1.3bn	112m
<b>TOTAL RWA IMPACT</b>			<b>1129m</b>

**KEY**  
RWA – Risk weighted assets  
FCY – Foreign currency

The Bank continues to manage its capital in line with the Board approved capital management framework. The purpose of the framework is to create objectives, policies and principles relating to the capital optimisation process of book capital (shareholders funds or accounting capital – Net Asset Value), regulatory capital and economic capital.

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

The Bank has experienced phenomenal increase in Risk Weighted Assets as a result of growth in assets during the period under review. This increase is continuously being reviewed by management as part of the Bank's capital management framework to ensure that it does not significantly impact on dividends.

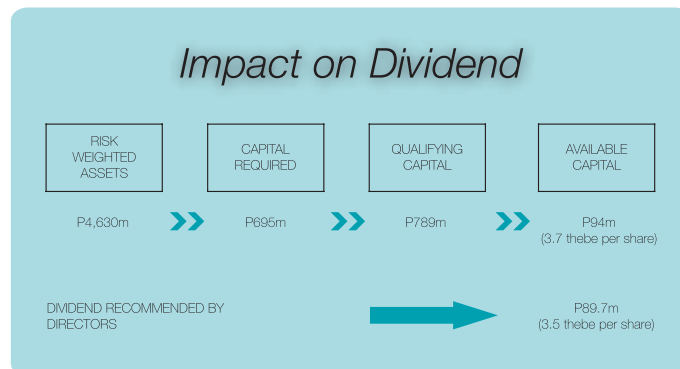
The Bank's capital adequacy ratio, which excludes the dividend reserve has been maintained at 15.1% at 30 June 2008, and is in line with the bank's capital management framework and the required ratio by Bank of Botswana of 15%.

As a result of the impact of Basel II, the Bank is currently reviewing its capital management framework.

In line with the substantial growth in assets and the planned impact of the introduction of Basel II, and the effect that these factors will have on the capital adequacy ratio, the directors believe it appropriate to adopt a prudent approach to capital management.

The increase in risk weighted assets has the following impact on dividend distribution, reflected in Table 3.

TABLE 3



Under the circumstances the directors recommend a final dividend of 3.5 thebe per (2007:6.1 thebe) share payable to shareholders at 30 June 2008. This dividend reflects an increased cover of 1.8 times (2007:1.3 times).

While total dividend declined by 18% for the year to 8.0 thebe (2007:9.8 thebe), dividend cover changed to 1.8 times from 1.2 times. Directors are comfortable that this places the Bank in a sound position for the future.

### Contingencies and commitments

Contingencies grew by 63%, driven mainly by growth in letters of credit.

### Subsequent events

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

### Corporate Governance

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

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

The Board comprises a majority of independent, non-executive Directors and meets regularly, overviews executive management performance and retains effective control over the Bank. The Board is assisted by committees, which are responsible for different aspects of governance. The main committees are the Directors Affairs and Governance, Audit, Credit and Remuneration committees.

### Social Responsibility

The Bank established the FNBB Foundation for the purpose of aiding educational, arts and culture, and social welfare development in Botswana by identifying beneficiaries who are in need and deserving of assistance. The Bank has committed to contributing up to 1% of its profit after tax to the Foundation.

Since the inception of the Foundation in 2001, the Bank has made grants in excess of P12.4 million to the Foundation, and in turn, the Foundation has approved donations and pledges amounting to more than P12.3 million to qualifying beneficiaries. Details of the foundation and criteria for eligibility can be found at the bank's website: [www.fnbbotswana.co.bw](http://www.fnbbotswana.co.bw).

#### Declaration of dividend

Notice is hereby given that a final dividend of 3.5 thebe per share has been declared for the year ended 30 June 2008. The dividend will be paid on or about 26 September 2008. The dividend will be paid to shareholders registered at the close of business on 12th September 2008. The transfer registers will be closed from 15 September to 19 September 2008, both dates inclusive.

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

If a change of address or dividend instructions is to apply to this dividend, notification should reach the Transfer Secretaries by 19 September 2008.

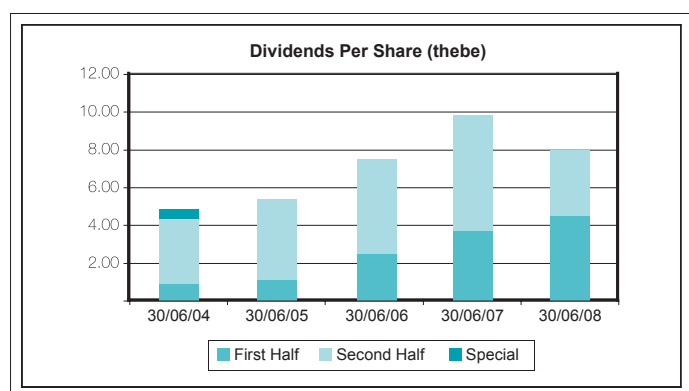
For and on behalf of the Board.

HCL Hermans  
Chairman

DH Zandamela  
Chief Executive Officer

GABORONE, 6 August 2008

TRANSFER SECRETARIES  
PriceWaterhouseCoopers (Pty) Limited  
Plot 50371, Fairground Office Park  
PO Box 294  
GABORONE



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 & Communications Department,  
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**Director:** H.C.L. Hermans Chairman, D.H. Zandamela (Chief Executive Officer) (S.A.),  
J.R. Khethe (S.A.), J.K. Macaskill (S.A.), A.L. Monchusi, J.T. Mynhardt, M.T. Sekgororoane,  
P.D. Shah (Kenya), P.D. Stevenson, S. Thapelo, D.E. Wright (Deputy CEO, alternate to D.H. Zandamela) (S.A.)