



**FNB**  
First National Bank  
Botswana

*How can we help you?*

## HALF-YEAR INTERIM REPORT AND DIVIDEND ANNOUNCEMENT

The Directors have pleasure in announcing the unaudited financial results of the Bank and its subsidiaries for six month period ended 31 December 2007.

### Financial highlights

- Income before direct taxation up 17.0% on corresponding period
- Cost to income ratio 36.3%, reflecting the investment costs in the expansion of the business
- Return on equity has improved from 50.5% to 58.5% as at 31 December 2007
- Total assets increased by 28.2%
- Interim dividend increased by 20.0%

### Financial review - overview

Costs, as a result of continued investment in the expansion of the business and process improvements, rose by 29.4%. This ongoing investment is starting to produce strong growth in non-interest income (25.2%), as a result, income before taxation increased by 17.0% for the six month period ended 31 December 2007.

Net interest income shows strong growth, despite the interest margin compression brought about by the lending rate cut in June 2007 and reducing yields on Bank of Botswana Certificates ("BoBCs"). The control over bad debts also had a positive effect. Non-interest revenue which grew by 25.2% on the corresponding period was driven, largely, by strong growth in new customer accounts and increased transaction volumes through increased utilisation by customers of the Bank's superior delivery channels, particularly our electronic delivery channels. A new platform for card acquiring was successfully implemented, which has significantly enhanced service delivery and product offering to customers, resulting in strong growth in this business. Treasury trading operations also continued to perform well.

During the period under review, the Bank has continued its expansion programme, with the opening of two branches in Selibe Phikwe and Serowe. This expansion together with the introduction of a new treasury system has impacted on costs resulting in a 29.4% increase in operating expenses during the period. However, this growth in operating expenses is in line with management expectations and it gives access to new revenue streams and improved processes. The cost to income ratio remains well within international norms at 36.3%.

The impairment charge for advances of P12.5 million has reduced by 18% compared to the charge for the corresponding period. This is mainly as a result of continued improvements in the Bank's collections and other credit management processes. The reduction in the lending rate has also brought some relief in the economy.

### Balance Sheet

Total assets increased by 28.2% driven by an increase in advances and investment securities, mainly Bank of Botswana Certificates (BoBCs) holdings which increased by 30.6%. Advances increased by 19.0% overall on the back of slower growth in the previous period. The growth in advances continues to be driven by WesBank and Retail Banking division, through various business promotion programmes.

The deposit book grew by 30.8% as we continue to attract more of both local and foreign currency deposits through our wide range of savings and term deposit products. The return on shareholders funds, based on average balances including the dividend reserve, has improved from 50.5% in 2006 to 58.5%. However, the increase in total assets of 28.4% has diluted the return on assets (ROA), from 3.8% in the corresponding period to 3.6% in the current period. The Directors recommend an interim dividend of 4.50 thebe per share (2006: 3.75 thebe), an increase of 20%.

### CONDENSED INCOME STATEMENT

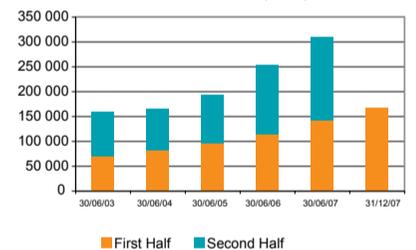
	Unaudited six months ended December-07 P'000	Unaudited six months ended December-06 P'000	% Change	Audited Year ended June-07 P'000
Interest income and similar charges	537,931	495,664	8.5	1,005,074
Interest expense and similar charges	(342,286)	(326,012)	5.0	(657,297)
Net interest income before impairment for advances	195,645	169,652	15.3	347,777
Impairment of advances	(12,463)	(15,199)	(18.0)	(22,012)
Net interest income after impairment of advances	183,182	154,453	18.6	325,765
Non interest revenue	145,898	116,513	25.2	243,659
Income from operations	329,080	270,966	21.4	569,424
Operating expenditure	(120,708)	(93,276)	29.4	(205,052)
Depreciation	(3,811)	(2,825)	(6,151)	(6,151)
Other operating expenditure	(116,897)	(90,451)	(198,901)	(198,901)
Net income from operations	208,372	177,690		364,372
Share of associate company profit before tax	-	-		1,272
Income before indirect tax	208,372	177,690	17.3	365,644
Indirect tax	(3,265)	(2,404)	35.8	(4,968)
Income before direct tax	205,107	175,286	17.0	360,676
Taxation	(37,752)	(32,263)	17.0	(50,829)
Profit for the period	167,355	143,023	17.0	309,847
Average number of shares in issue during the period ('000)	2,563,700	2,563,700		2,563,700
Earnings per share (thebe) ( based on average number of shares outstanding)	6.6	5.6	17.0	12.2
Diluted earnings per share (thebe) ( based on average number of shares in issue)	6.5	5.6	17.0	12.1
* The average number of shares outstanding takes into account 20 million shares held by FNBB Employees Share Participation Trust				
<b>RATIOS</b>				
Dividends per share (thebe)	4.50	3.75	20.0	7.5
Dividend cover (times)	1.5	1.5		1.6
* Cost to income ratio (%)	36.3	33.4		35.4
** Return on average shareholders' funds (%)	58.5	50.5		55.4
*** Return on average assets (%)	3.6	3.8		5.9
Capital adequacy ratio (%)	17.5	16.7		15.35
Closing share price (thebe)	270	214		139

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

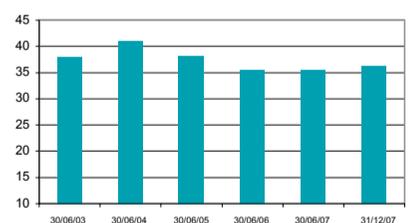
\*\* Return on shareholders' funds is annualised and includes proposed dividend.

\*\*\* Return on period end assets is annualised.

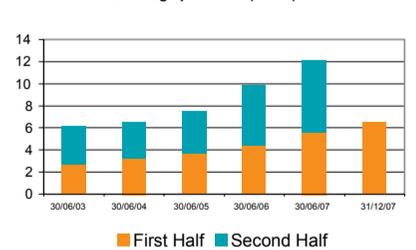
Profit After Tax (P'000)



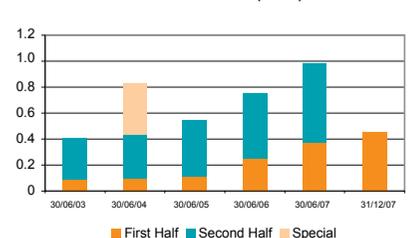
Cost to Income Ratio (%)



Earnings per share (thebe)

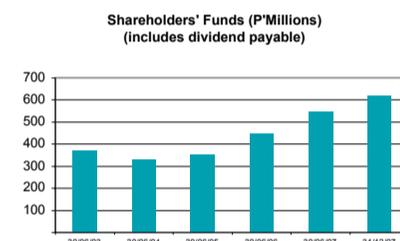
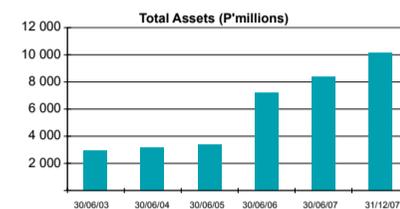
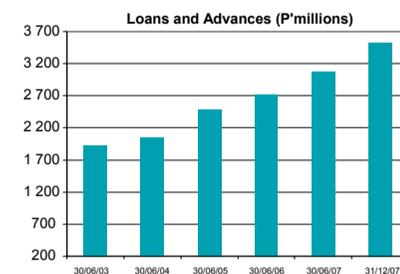


Dividends Per Share (thebe)



**CONDENSED BALANCE SHEET**

	Unaudited six months ended December-07 P'000	Unaudited six months ended December-06 P'000	% Change	Audited Year ended June-07 P'000
<b>ASSETS</b>				
Cash and short-term funds	1,296,383	874,867		904,941
Derivative financial instruments	30,221	-		18,476
Investment securities and other investments	5,130,536	3,928,299	30.6	4,060,061
Advances	3,531,699	2,969,038	19.0	3,073,209
Investment in associate company	2,421	2,499		2,421
Balances due from Group Companies	-	-		1,151
Accounts receivable	68,611	79,846		197,447
Tax asset	-	-		5,217
Property and equipment	74,434	44,229		63,184
Intangible asset	26,963	26,963		26,963
<b>Total assets</b>	<b>10,161,268</b>	<b>7,925,741</b>	<b>28.2</b>	<b>8,353,070</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Liabilities</b>				
Deposits and current accounts	8,952,095	6,841,673	30.8	7,101,483
Derivative financial instruments	30,221	-		18,476
Balance due to Group companies	-	8,466	(100.0)	67,202
Long-term loans	335,511	335,511	-	330,907
Subordinated unsecured registered bonds	100,000	100,000		100,000
Tax liability	12,949	7,451		308
Deferred tax	34,776	35,429		34,776
Creditors and accruals	77,122	71,501		92,293
<b>Total liabilities</b>	<b>9,542,674</b>	<b>7,400,031</b>		<b>7,745,445</b>
<b>Share capital and reserves</b>	<b>618,594</b>	<b>525,710</b>	<b>17.7</b>	<b>607,625</b>
<b>Total liabilities and shareholders' funds</b>	<b>10,161,268</b>	<b>7,925,741</b>	<b>28.2</b>	<b>8,353,070</b>
<b>CONTINGENCIES AND COMMITMENTS</b>				
Guarantees	421,583	283,469		377,380
Letters of credit	51,777	32,499		33,556
	473,360	315,968	49.8	410,936
<b>CONDENSED CASH FLOW STATEMENT</b>				
	Unaudited six months ended December-07 P'000	Unaudited six months ended December-06 P'000		Audited Year ended June-07 P'000
<b>Cash flows from operating activities</b>				
Cash generated by operations	221,381	193,310	14.5	390,159
Taxation paid	(19,894)	(23,028)		(55,942)
	201,487	170,282		334,217
Net decrease / (increase) in assets	(352,751)	(251,909)		(478,902)
Net increase / (decrease) in liabilities	1,784,588	689,638		1,021,852
	1,633,324	608,011		877,167
Dividends paid	(156,386)	(128,185)		(224,324)
Net cash flows to investing activities	(15,061)	(7,700)		(18,658)
Net increase / (decrease) in cash and short term funds	1,461,877	472,126		634,185
Cash and short-term funds at the beginning of the period	4,948,838	4,314,653		4,314,653
Cash and short-term funds at the end of the period	6,410,715	4,786,779	33.9	4,948,838
<b>Cash and short-term funds at the end of the period</b>				
Cash and short-term funds	1,296,383	874,867		904,941
Investment in Bank of Botswana Certificates	5,114,332	3,911,912		4,043,897
	6,410,715	4,786,779		4,948,838
<b>CONDENSED STATEMENT OF CHANGES IN EQUITY</b>				
	Unaudited six months ended December-07 P'000	Unaudited six months ended December-06 P'000		Audited Year ended June-07 P'000
Balance at the beginning of the period	607,625	510,872		510,872
Dividend proposed	115,367	96,139	20.0	156,386
Dividends paid to equity holders	(156,386)	(128,185)		(224,324)
Decrease in associate company reserves/other	-	-		8,917
Increase in other reserves	-	-		2,313
Earnings attributable to equity holders	51,989	46,884		153,461
Balance at the end of the period	618,594	525,710	17.7	607,625


**Capital Management**

The Bank continues to manage its capital in line with the Board approved capital management framework for the Bank. The purpose of the framework is to create objectives, policies and principles relating to the capital optimization 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's capital adequacy ratio, increased to 17.46% at 31 December 2007 from 16.7% as at 31 December 2006, and is in line with the bank's capital management framework. The ratio is well above accepted international norms, and Bank of Botswana requirement of 15%.

**Off Balance Sheet**

Contingencies grew by 49.8%, driven mainly by guarantees.

**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 interim results announcement.

**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 & Corporate Governance, Audit, Credit and Remuneration committees.

**Social Responsibility**

The FNBB Foundation, was established by the Bank for the purpose of aiding educational, arts & 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 P11.4 million to the Foundation, which together with interest earned on these funds have enabled the Foundation to disburse donations and pledges amounting to more than P12.4 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 an interim dividend of 4.50 thebe per share has been declared for the six months ended 31 December 2007. The dividend will be paid on or about 21 March 2008 to shareholders registered at the close of business on 7 March 2008. The transfer registers will be closed from 10 March to 14 March 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 **14 March 2008**.

For and on behalf of the Board.

HCL Hermans  
Chairman

DH Zandamela  
Chief Executive Officer

GABORONE, 30 January 2008

TRANSFER SECRETARIES  
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