Economic review

Global and sub saharan africa

Global output is forecast to increase by 3.5% in 2017 and by 3.6% in 2018, higher than the growth of 3.2% in 2016. Stronger business and consumer confidence, rising industrial production and recovering employment and trade flows will all contribute to the improvement in global Gross Domestic Product (GDP). downside risks to global economic activity include the prevailing policy uncertainty in the United States (US), as well as the emerging tendency towards protectionism, geopolitical tensions and persistence of tight financing conditions in some key markets. In Sub-Saharan Africa, recovery is supported by modestly rising commodity prices, strengthening external demand, and the end of drought in a number of countries. In South Africa, GDP is forecast to grow by 1% in 2017 compared to 0.3% in 2016. The South African economic prospects continue to be constrained by structural challenges, uncertainties and weak business sentiments.

Domestic economic outlook

The domestic economy recovered by 0.6% in the first quarter of 2017 compared to an increase of 2.3% recorded in the same period of 2016. The growth was driven by increases in agriculture, manufacturing, trade, hotels and restaurants and financial and business services which increased by 18.7% and 5.4% respectively. All other industries recorded positive growth of more than 1.2% with the exception of water and electricity, mining and manufacturing which decreased by 32.2, -2.8 and 0.3 percent respectively. Growth prospects remain favourable but crucially depend on continued rebound in the global diamond market, improved reliability in electricity and water supply.

Inflation

Inflation remained low and stable in the first six months of 2017, albeit with a moderate increase from 3% in December 2016 to 3.5% in June 2017, while remaining within the central bank objective range. The modest increase in inflation is expected to be short-lived adjustment of fuel prices and water electricity and transport tariffs that occurred in the first half of 2017. Moderate increase in economic activity, alongside slow growth in personal incomes (and the associated weak demand pressures) resulted in benign inflationary pressures in the first half of 2017.

Interest rates

On account of the positive medium-term outlook for inflation, the bank rate was maintained at 5.5% in the first half of 2017. The prevailing policy stance is consistent with obtaining inflation objectives while supporting economic growth. Crown growth concerns and weaker credit growth, we expect policy rates to remain on hold for the rest of the year.

Exchange rates

Foreign exchange rates were reasonably stable during the second quarter of 2017. The Pula US Dollar exchange rate was 10.21 in June 2017, up from 10.53 in March, an appreciation of 3.1%. The Pula depreciated marginally against the Rand, by 0.3%, ending the quarter at ZAR0.234.

Financial performance

Statement of comprehensive income

The first half of 2017 persisted with a subdued economic environment characterized by declining credit growth and a low interest rate environment. Performance for the first half of the year has mainly been driven by muted revenue growth across segments saw segments for the Business Banking segment that registered a 5% growth year-on-year. Costs and impairments remained stable in relation to the previous year.

Net interest income remained relatively flat year-on-year driven partly as a result of the interest rate cut applied in August 2016, as well as competitive pricing to attract both deposits and assets.

Net fee and commission income increased year-on-year by 7%. This growth was driven mostly by our Retail and Business Banking (RBB) segment where we had an increase in transactional and activity fees from our various digital channels such as Point of Sale (POS) machines that continued to propel issuance and acquiring income upwards.

Our fee income emanates from the continued drive of transactional volumes through cross sell and the expansion of our diversified product sets and services. In 2017, in line with the bank’s strategy to focus on a few strong digital strings on our Hello Money platform, ‘Veriﬁed by Visa’ which is a security enhancement for online credit card transactions and also the launch of Cheque Unben Pay International to enable cards issued by this scheme to be accepted at Barclays Point of Sale (POS) machines and ATMs. We also launched a Prepared Card, which is a cash management solution for businesses seeking to improve disbursements.

The RBB strategy continues to be centered on an enhanced customer experience and deepening customer relationships. We are constantly exploring new ways of improving our customer experience and satisfaction, which we see as a pillar for sustainable business growth.

The reduction in Net trading income was driven mainly by depressed corporate margins in Forex sales as a result of the competitive environment. In addition to this, our Market risk exposure was greatly impacted by the closures of some key mining companies in our economy both from an upstream and downstream client loss of business, but we have remained resilient in defending our market share.

Operating costs were well contained and came in flat in comparison to the same period last year. Our cost efficiencies resulted in an overall cost to income ratio of 52% for the period to 30 June 2017, which is below the market average of 60%. Prudence in incurring operating expenditure continues to be at the heart of our strategic focus to improve the bottom line. As a result, we have been able to reinvest surpluses in our branch network, which we see as a key milestone and locomotive in the Mahalapye and Mochudi branches for the first part of the year.

Impairments increased marginally by 1.5% in comparison to prior period ended 30 June 2016. This stable performance is attributable to our enhanced collection capability and conservative credit extension. Our Loan loss rate averaged 1.84% over the period in comparison to the banking industry average of 7.5%.

We achieved an overall Profit Before Tax of P249m for the period ended 30 June 2017. It is however, gratifying to note that in comparison to the second half of 2016 our profits have grown by P25m or 11%. We anticipate to post a stronger second half of the year profitability as momentum in our key business segments starts to pick up in earnest. Despite the challenging start to the year we achieved a Return on Equity of 22%, which is above banking industry average of 11% for the first part of the year. We further recorded profitability across all our business segments.

Statement of financial position

The year 2017 started on a challenging but positive note, and has continued to show signs of growth as we progress to the second half of the year.

Our overall balance sheet registered a 4% growth in comparison to the previous review period ended 30 June 2016. This is testament of our drive to continue executing on our strategy. Our focus in the short and medium term is to optimise our balance sheet whilst exploring revenue-generating opportunities.

In the year 2017 we took a more cautious view with respect to lending and this has resulted in an overall almost flat growth in customer loans and advances on an aggregate level. On a segment level we still continue to realise exponential growth in our business banking segment, which continues to outperform expectations on an annual basis.

Our Retail segment has remained generally unchanged due to the caution in lending. However, we have begun to see a steady build up momentum for our Corporate business, as we are converting new business opportunities in the third quarter of the year, in various key sectors of our operations. Despite the early settlement of a significant corporate loan towards the end of 2016, we have managed to rehaul our balance sheet position through the execution of key transactions, and as such maintained our asset position year-on-year.

Looking forward, in light of continued modest growth in household incomes as well as restrained economic expansion, we remain mindful of the challenges, which call for continued caution whilst exploring opportunities within our chosen segments.

On an overall basis the quality of our book has remained strong with loan loss rates remaining stable in comparison to the previous year.

Customer liabilities

As we focus on driving efficient balance sheet utilisation we have been able to register a growth of 9% year-on-year on our customer liabilities. The growth is achieved across the market average growth which increased by 1% as at 1 June 2017. The growth in deposits was mainly driven by growth in short term funding through current and savings accounts. Managing funding risk continues to remain at the core of our business. The strategy is focussed on optimising cost of funding by ensuring a reasonable mix between short term and long term funding.

Citizenship

Barclays Bank of Botswana continues to demonstrate its commitment to the Shared Growth Strategy which was launched in 2016. Education and Skills, Enterprise Development and Financial Inclusion remain key focus areas. Our activities reflect our determination to make an impact in the communities in which we operate.

We launched the third season of Mokga Masano – the radio drama on financial literacy in February at Mabulong Theatre. The drama played on three radio stations and the theatrical performance went on tour to eleven villages including Dukor, Tshaneo, Rankiti, Kangwe, Tswane to name a few. The drama was received with enthusiasm by the community and provided an opportunity for us to engage with an active and receptive audience. As part of the drama, participants were provided a Business Education Toolkit in commemoration of The Day of the African Child. They visited primary and Junior Secondary schools and NGOs across Botswana to teach approximately 3000 children the importance of saving.

Ready to Work remains a focus in 2017 with over 3000 youth having graduated from the program in the first six months. Our partners, Stepping Stones International and Project Concern International continue to play a major role in training youth in the villages of Mopeleke, Kangwe, Kagane, Bokstoni, Maun and Good Hope. Currently 48 youth owned businesses are being incubated in Maun by Project Concern International and in the past few months have been provided with mentors from the private sector.

Environmental conservation is an area of importance to Barclays and through our partnership with the Kalahari Conservation Society, we have been able to educate communities about the importance of conservation and its impact on their individual lives. As part of the program, a theatrical drama was produced and showcased in several villages in the northern and southern parts of Botswana in early 2017. The drama which was entitled “Tshukudu ya Elisha,” highlighted the challenges created by poaching and the responsibility that we all have to protect and preserve our environment.

In an effort to promote and embold our financial inclusion agenda, we have signed a Memorandum of Understanding (MOU) with the Citizenship Entrepreneurial Development Agency (CEDA). The MOU seeks to assist small and micro entrepreneurs to have access to much needed credit facilities that will help them build their businesses. The program, which is known as Mabuloshiko, uses the existing and new Barclays Motshelo accounts as collateral in order to extend the loans to the businesses. We are confident that this collaboration will allow us to reach a higher number of small and micro businesses.

Outlook

Barclays Bank of Botswana has a rich heritage and remains committed to Botswana and Batswana. As part of Barclays Africa Group Limited, we are excited about the journey that lies ahead, subsequent to a successful book build that led to the sell down of the majority stake of Barclays PLC (PLC) shares in Barclays Africa Group in June 2017.

Barclays Africa Group Limited now has a significant opportunity to determine its own destiny and accelerate its vision to become a proudly standalone pan African bank, with its destiny firmly in its hands. The substantial appetite for the Barclays PLC shares indicated investor confidence in the Barclays Africa Group business, of which we form part, and presents an opportunity for the group to think differently, making decisions on what is right on an African business, which will ultimately benefit our customers.

Barclays Africa Group remains one of the largest financial services groups in Africa, with close to 12 million customers. And in Botswana, our ambition remains to grow our position as a leading provider of financial services that is relevant, responsive and approachable. As we continue to engage with our stakeholders, we will continue executing our strategy flawlessly and cement our position as the Bank of Choice in Botswana. We remain determined to strengthen our position to face the future with an invigorated strength.

Dividend declaration

Notice is hereby given that an interim dividend of 1.1.735 per share for the period ended 30 June 2017 was declared on 7 September 2017 and subject to regulatory approval, will be payable on 20 October 2017 to those shareholders who were registered on the close of business on the Record Date (Cap S2 01), as amended, applicable withholding tax will be deducted by the Bank from the gross dividend.

Oudette Motshidisi
Chairman

Renette van der Merwe
Managing Director

Terms and conditions apply.
Financial highlights

Profit before tax 249m
Cost to income ratio 52%
Balance sheet growth 4%
Return on equity 22%
1. Basis of preparation

This is a summary of the Bank’s condensed consolidated interim financial statements which have been prepared in accordance with the recognition and measurement requirements of International Financial Reporting Standards (‘IFRS’) interpreted by the IFRS Interpretations Committee (‘IFRIC’). Financial reporting pronouncements as issued by the Financial Reporting Standards Council and the Botswana Stock Exchange’s listings requirements.

The condensed consolidated interim financial statement can be inspected at the Bank’s registered office, and have been prepared in accordance with (AS 34 – Interim Financial Reporting) (AS 34). The condensed interim financial statements should be read in conjunction with the group’s annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with IFRS. These condensed interim financial statements have been approved by the Board.

The principal accounting policies applied are set out in the most recent annual financial statements. The preparation of financial information requires the use of estimates and assumptions about future conditions. Use of available information and application of judgement are inherent in the formation of estimates.

The accounting policies that are deemed critical to the Bank’s results and financial position, in terms of the materiality of the items to which they apply and which involve a high degree of judgment including the use of assumptions and estimation, are impairment of loans and advances, fair value measurements, post-retirement benefits, provisions and income taxes.

2. Use of judgements and estimates

Management has made judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of the assets, liabilities, income and expenses. Actual amounts may differ from these estimates.

The significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were as follows.

3. Profit before income tax

No items of an unusual nature, size or incidence have been charged to operating profit during the review period.

4. Contingent liabilities and commitments

There has been no significant change in the nature of contingent liabilities and commitments with the exception of Offered shares which are reported in the consolidated financial statements for the year ended 31 December 2016.

Segment reporting

For the period ended 30 June 2017

Operating segments are reported in a manner consistent with the internal reporting provided to the Country Management Committee (“CNC”). The CNC, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the chief operating decision maker.

Business segments

The Bank comprises the following main business segments.

Corporate and Investment Banking

This segment includes the Retail Banking, Markets and Investment Banking. The Corporate Banking activities include loans, deposits and other transactions and balances with corporate customers. Market activities are to assist clients with access to foreign currencies and products that manage market risks.

Retail and business banking

This segment includes Retail Banking, Barclays and Card Business. The Retail and Business Banking activities include loans, deposits and any other transactions and balances with medium and retail customers.

Segment results

The measurement of segment results is in line with the basis of information presented to the chief operating decision maker for internal management reporting purposes.

Consolidated business segments

For the period ended 30 June 2017

The table below presents the results for the current period in both Botswana Pula (‘P’) and in the foreign currency of the Group’s reporting units (‘$’), including the cumulative effect of changes in foreign exchange rates.

Statement of comprehensive income

<table>
<thead>
<tr>
<th>Description</th>
<th>Retail and Business Banking</th>
<th>Corporate and Investment Banking</th>
<th>Consolidated Statement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net interest income</td>
<td>125,387</td>
<td>219,746</td>
<td>345,133</td>
</tr>
<tr>
<td>Net non-interest income</td>
<td>1,126,412</td>
<td>49,988</td>
<td>1,176,399</td>
</tr>
<tr>
<td>Total income</td>
<td>1,251,799</td>
<td>229,734</td>
<td>1,481,533</td>
</tr>
<tr>
<td>Net operating income</td>
<td>1,210,719</td>
<td>218,734</td>
<td>1,429,453</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>1,210,719</td>
<td>218,734</td>
<td>1,429,453</td>
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Statement of financial position

<table>
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</thead>
<tbody>
<tr>
<td>Loans and advances to banks</td>
<td>2,118,406</td>
<td>1,669,232</td>
<td>3,787,638</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>2,118,406</td>
<td>1,669,232</td>
<td>3,787,638</td>
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<tr>
<td>Liabilities</td>
<td>2,118,406</td>
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8. Events occurring after reporting date

An interim dividend of 11.73s per share total amounting to P100m was declared on 7 September 2017.

There were no other material changes in the affairs of the Bank between 30 June 2017 and the date of approval of these condensed interim financial statements.

Notes to the condensed consolidated audited financial statements

For the year ended 30 June 2017

Section 2

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<tr>
<td>Assets</td>
<td>1,701,374</td>
<td>1,886,076</td>
<td>3,587,450</td>
</tr>
<tr>
<td>Liabilities</td>
<td>1,701,374</td>
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<tr>
<td>Net interest income</td>
<td>575,920</td>
<td>124,250</td>
<td>700,170</td>
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<tr>
<td>Net non-interest income</td>
<td>491,776</td>
<td>34,562</td>
<td>526,338</td>
</tr>
<tr>
<td>Total income</td>
<td>1,067,696</td>
<td>158,812</td>
<td>1,226,508</td>
</tr>
<tr>
<td>Net operating income</td>
<td>1,067,696</td>
<td>158,812</td>
<td>1,226,508</td>
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<tr>
<td>Profit before tax</td>
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<td>Assets</td>
<td>1,719,742</td>
<td>1,874,560</td>
<td>3,594,302</td>
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<td>Liabilities</td>
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