

AFRICAN BANKING CORPORATION OF BOTSWANA LIMITED

CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 30 JUNE 2019



Global and Domestic Economic developments

The general economy showed signs of improvement, having recorded a 4.4% growth year on year in the first quarter of 2019 compared to the prior year. The main drivers for the growth were Trade, Hotels and Restaurants (5.7%) and Transport and Communications (5.9%) as well as a recovery in mining, although global trade wars may impact the recovery of this sector as world economic growth slows. Standard & Poors expects Botswana to experience modest growth in the current financial year, with higher Government spending helping the economy expand by at least 4.2%. The International Monetary Fund expects 3.9% while the African Development Bank projected 3.8%.

Looking ahead into 2019, economic growth is expected to be anchored by lower inflationary pressures, accommodative monetary policy stance, increases in Government spending and the recent civil service salary increments. Whilst overall growth is expected, economic output is projected to still remain below forecast potential. Inflation averaged 2.6% in the first quarter of 2019 – a significant decline from 3.3% average in Q1 2018 suggesting a continuance of accommodative and easing conditions by the Bank of Botswana. In August 2019 the Bank of Botswana reduced the bank rate by 25% to 4.75%.

Strategic Execution

The Bank made significant strides in its transformation strategy in the first half of 2019. The Bank completed migration of key service platforms to new IT infrastructure: Cards and ATMs, following on the migration of the Core Banking platform in the previous year. We completed and started operations in four new Sales and Service centres in Kanye, Letlhakane, Ghantsi and Molepolole which have begun to bear fruit. Additional work was undertaken on crucial transactional banking platforms for both the Retail and Commercial Banking businesses. The Commercial Banking Platform – BancOnline was launched in July. Further improvements to the product complement including introduction of credit cards has just been completed. These enhancements have improved customer sentiment and experience with our services. The Bank's risk appetite was reaffirmed during the year and a lot of effort went into strengthening the Bank's risk governance structures so as to protect the bottom line. Significant building blocks have been put in place to prepare the Bank for the future. The Bank launched its brand campaign – Changing For You – in order to keep customer and stakeholder faith in the transformation journey.

Financial Performance

Trading conditions in the first half of the year were challenging, with a stagnant first quarter in loan volumes and pickup in activity only seen at the tail end of the second quarter. Overall profitability declined when compared to the same period in 2018, attributable mainly to a rising cost of funds against late asset growth which came after civil servant salary increases in April – not sufficient to materially impact the first half income statement. The later asset growth consequently impacted non funded income through lower arrangement fees. The rise in cost of funding resulted in margin compression, although there have been signs of abatement at the end of the half. Operationally the Bank made a net profit after tax of P51 million which was significantly below H1 2018, although better than H2 2018. Customer deposits closed the year at P6.2 billion which was 2% below prior year, while loans and advances grew 3%. The Bank has a healthy balance sheet with total assets growing from P8.4 billion to P 8.5 billion primarily as a result of the loan book growth.

Total Income

Net interest income at P192 million was 11% below prior year driven by a 15% increase in interest expense when compared to 2018. Customer deposit interest rates only softened late in the second quarter of the year. The Bank has just recently launched its BancOnline Corporate Transactional Banking Platform with a view to controlling cost of funding and improving its deposit mix which is crucial for success going forward. Included in the interest expense is an amount relating to the implementation on 1 January 2019 of IFRS 16 Leases, an accounting standard that became effective beginning of the year.

Non funded income at P52 million is 28% below prior year - foreign exchange trading income reduced substantially as a result of reduction in volumes and margins as we rebuild the Bank's proprietary trading business.

Impairments and Changes in Expected Credit Losses

The Bank adopted the IFRS 9 impairment calculation methodology at the beginning of 2018. During the period, the Bank had a net impairment release of P13 million on stage 1 impairment and an additional ECL charge of P10 million on stage 3 impairment. The expected credit loss ratios for all financials assets considered for impairments improved to 4.84% as at 30 June 2019 from 5.61% as at 30 June 2018. Generally all lending products experienced improvements in coverage ratios. The improvements were generally as a result of continued efforts during the year to improve quality of model inputs as well improved credit quality of the Bank's loan book. The improvement in quality of inputs is expected to enable a move to a less penal IFRS9 methodology in the near future.

Operating Expenses

Operating expenses at P183 million increased by 1% when compared to prior year. The increase in operating expenses of P2 million from prior year was a result of an increase in staff costs (P15 million), depreciation and amortisation (P6 million). General and administrative costs declined by P20 million reflecting better cost management. Increase in staff costs was influenced by salary adjustments, once off transition costs and increase in headcount in line with the Bank's thrust to build capacity across all business segments.

Financial Position

The marginal decline in customer deposits in the last quarter of the period under review was due to careful management of excess liquidity and cost of funding. The Bank has been focussed on building transactional capability in order to bring its interest expense in line with market peers. The customer deposit balance at P 6.2 billion was 2% below prior year. Despite a decline in Corporate deposits by 3%, Retail deposits marginally increased by 4% to close the period at P1 billion for the first time.

The net loan book at P5.9 billion is better than the P5.7 billion from prior year, with the Retail loan book growing by 10% compared to prior year. Lending was constrained in the first quarter of the year but picked up in the second quarter on the back of Government employee salary adjustment. Commercial loan book at P570 million was 36% below prior year. Lending to corporates will continue to be reviewed in line with improvements in the cost of funding to maintain profitability.

Capital Adequacy

The Bank's unimpaired capital and risk weighted assets stood at P1.3 billion and P 6.8 billion respectively resulting in a capital adequacy ratio of 18.8%. The current capital base and forecast profits are sufficient to meet the 2019 bank's growth prospects as well as dividend commitments.

Outlook

The Bank achieved a performance in first half 2019 which was significantly lower than prior year, although an improvement in H2 2018 performance. The Bank's earnings have been variable for the past few years owing to the Bank's funding structure. Efforts are already underway to address this as a key strategic imperative through a number of initiatives which include enhancing the customer value proposition by introducing more channels, products and ensuring high system availability.

Dividend

Notice is hereby given that an interim dividend of 2.8 thebe per share for the period ended 30 June 2019 was declared on 25 September 2019 and will be payable on 22 November to those shareholders registered at close of business on 12 November 2019 with an ex-dividend date of 8 November 2019. This dividend will attract withholding tax in accordance with the Republic of Botswana Income Tax (Cap 52:01). The dividend represents 40% of profit after tax for the period ended 30 June 2019.

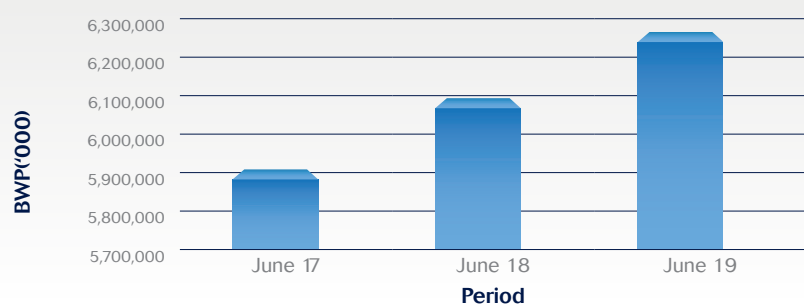
Acknowledgement

We extend our sincere gratitude to our customers, the board, management and the entire BancABC team for all the support during the period.

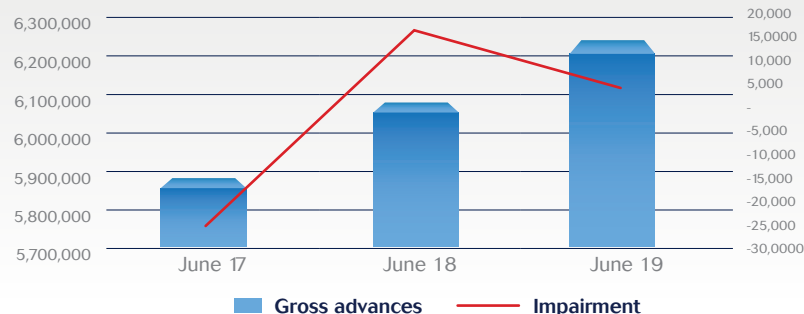
Mrs. Lorato Nthando Mosetlhanyane
Chairperson

Mr. Kgotso Bannalotlhe
Managing Director

GROWTH IN GROSS LOANS AND ADVANCES



GROSS ADVANCES VS IMPAIRMENT TO GROSS ADVANCES

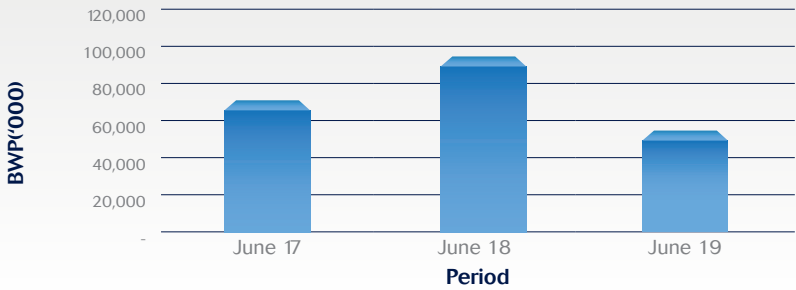


CONDENSED CONSOLIDATED
UNAUDITED FINANCIAL
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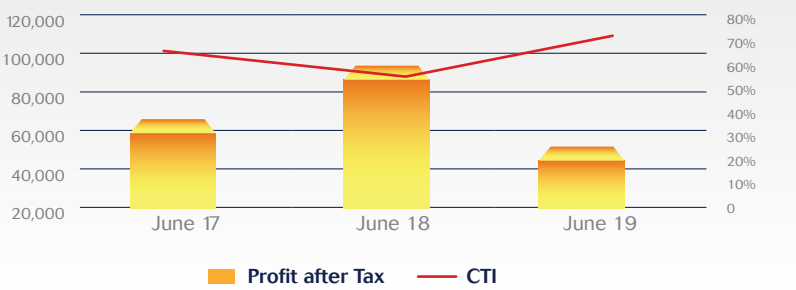
FOR THE PERIOD ENDED 30 JUNE 2019



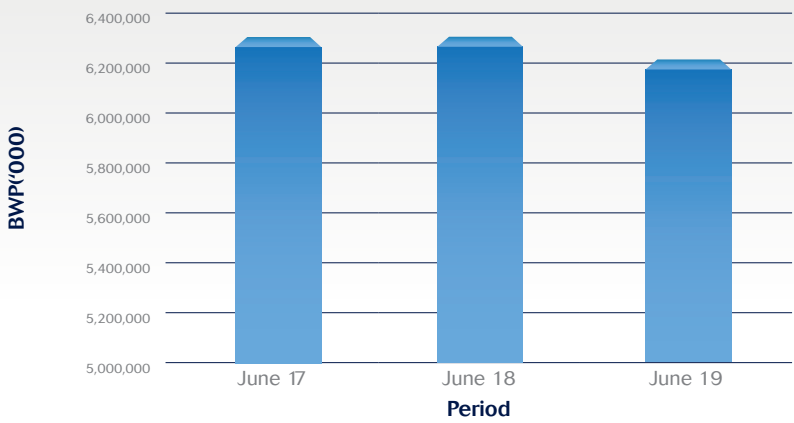
PROFIT AFTER TAX



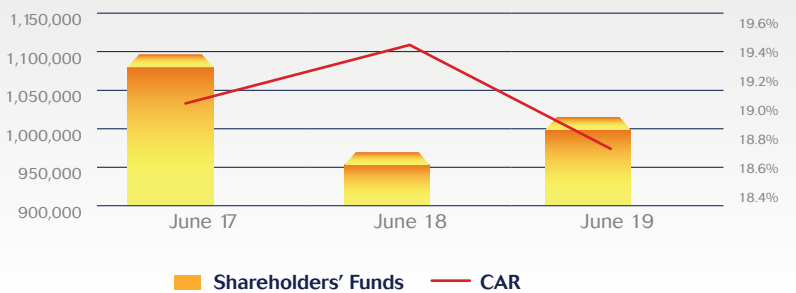
PROFIT AFTER TAX VS COST TO INCOME



DEPOSITS



SHAREHOLDER FUNDS VS CAPITAL ADEQUACY RATIO



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2019

	Unaudited Half Year		Audited Full Year
	30 June 2019	30 June 2018	31 December 2018
	P'000	P'000	P'000
ASSETS			
Cash and balances with the central bank	488,275	527,680	424,734
Balances with other banks	550,247	406,591	845,788
Balances due from related parties	542,285	689,284	528,780
Derivative financial assets	64,991	67,517	62,755
Financial assets held at amortised cost	564,120	682,713	1,162,700
Loans and advances to customers	5,947,483	5,757,152	5,809,123
Other assets	59,624	71,643	53,100
Current tax assets	18,389	15,340	12,544
Deferred tax asset	46,013	39,599	50,553
Intangible assets	105,524	98,953	110,833
Property and equipment	132,246	65,938	69,705
Total assets	8,519,197	8,422,410	9,130,615
LIABILITIES			
Deposits from banks	217,192	240,684	16,321
Deposits from customers	6,211,160	6,317,226	7,192,452
Derivative financial liabilities	61,940	61,407	59,173
Balances due to related parties	19,436	41,392	54,201
Other liabilities	140,982	81,253	92,787
Borrowed funds	842,930	711,068	742,880
Total liabilities	7,493,640	7,453,030	8,157,814
EQUITY			
Stated capital	222,479	222,479	222,479
Retained earnings	788,542	735,828	735,786
Revaluation reserve	8,445	4,982	8,445
Other reserves	6,091	6,091	6,091
Total equity	1,025,557	969,380	972,801
Total equity and liabilities	8,519,197	8,422,410	9,130,615

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2019

	Unaudited Half Year		
	30 June 2019	30 June 2018	% Change
	P'000	P'000	
Effective interest and similar income	366,671	368,132	(0%)
Effective interest expense and similar charges	(174,265)	(151,039)	(15%)
Net interest income	192,406	217,093	(11%)
Changes in expected credit losses and other credit impairment	4,798	16,686	(71%)
Net interest income after loan impairment charges	197,204	233,779	(16%)
Net trading income	2,321	12,000	(81%)
Net fee and commission income	49,467	60,019	(18%)
Total net revenue	248,992	305,798	(19%)
Personnel expenses	(80,096)	(64,438)	(24%)
General and administrative expenses	(51,171)	(71,890)	29%
Depreciation and amortisation expenses	(18,837)	(13,194)	(43%)
Other operating expenses	(32,636)	(31,053)	(5%)
Total operating expenses	(182,740)	(180,575)	(1%)
Profit before tax	66,252	125,223	(47%)
Tax expense	(14,936)	(27,644)	46%
Profit for the period	51,316	97,579	(47%)
Other comprehensive income for the period	-	-	-
Total comprehensive income for the period	51,316	97,579	(47%)

Earnings per share

Basic and diluted earnings per share (thebe) 7.08 336.48

Headline earnings per share

Basic and diluted headline earnings per share (thebe) 7.08 336.48

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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2019

	Stated capital	Other reserves	Revaluation reserve	Retained earnings	Total
	P'000	P'000	P'000	P'000	P'000
At December 2017	222,479	6,091	4,982	831,753	1,065,305
Expected credit loss (ECL) adjustment on initial application of IFRS 9 at 1 January 2018	-	-	-	*(288,515)	*(288,515)
Deferred tax on ECL adjustment on initial application of IFRS 9 at January 2018	-	-	-	63,473	63,473
Net impact on IFRS 9 application at 1 January 2018	-	-	-	(225,042)	(225,042)
Re-measurement of financial instruments from fair value to amortised cost	-	-	-	893	893
At 1 January 2018	222,479	6,091	4,982	607,604	841,156
Comprehensive income					
Profit for the period	-	-	-	97,579	97,579
Total comprehensive income	-	-	-	97,579	97,579
At 30 June 2018	222,479	6,091	4,982	705,183	938,735
At 1 July 2018	222,479	6,091	4,982	705,183	938,735
Comprehensive income					
Profit for the period	-	-	-	30,603	30,603
Transactions with owners					
Revaluation of land and buildings	-	-	4,440	-	4,440
Deferred tax on revaluation	-	-	(977)	-	(977)
Total comprehensive income	-	-	3,463	30,603	34,066
At 31 December 2018	222,479	6,091	8,445	735,786	972,801
At 1 January 2019	222,479	6,091	8,445	735,786	972,801
IFRS 16 transitional adjustment	-	-	-	1,440	1,440
Comprehensive income					
Profit for the period	-	-	-	51,316	51,316
Transactions with owners	-	-	-	-	-
Total comprehensive income	-	-	-	51,316	51,316
At 30 June 2019	222,479	6,091	8,445	788,542	1,025,557

*The adoption of IFRS 9 resulted in an increase in impairments of P289 million which was adjusted against retained earnings net of tax. At the time of publishing the half year results the impact of adoption of IFRS 9 was assessed net of tax as P194 million. Subsequent review of the model resulted in an increase of the day 1 adjustment net of tax to P225 million.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE2019

	Unaudited Half Year		Audited Full Year
	30June 2019	30June 2018	31 December 2018
	P'000	P'000	P'000
Cash flows from operating activities			
Profit before tax	66,252	125,223	165,416
Adjusted for:			
Depreciation	11,079	6,145	12,216
Amortisation of intangible assets	7,758	7,089	14,206
Expected credit losses	(4,798)	(16,686)	(18,906)
Fair value adjustment on derivatives	-	-	(1,192)
Movement in deferred lease liability	-	425	451
Tax paid	(16,241)	(24,634)	(34,715)
Cash flows from operating activities before changes in operating assets and liabilities	64,050	97,562	137,476
Movement in operating assets / liabilities:			
Loans and advances to customers	(133,561)	(194,320)	(276,093)
Other assets	297,252	(133,922)	(16,570)
Deposits from customers and banks	(780,420)	367,272	1,018,135
Other liabilities	(66,307)	9,657	27,006
Net cash from operating activities	(618,986)	146,249	889,954
Cash flows from investing activities			
Disposal/(purchase) of property and equipment	10,323	(4,050)	(9,448)
Purchase of intangibles assets	(2,449)	(15,701)	(34,698)
Net cash (used in)/generated investing activities	7,874	(19,751)	(44,146)
Cash flows from financing activities			
Proceeds from borrowed funds	106,157	27,162	150,000
Repayments on borrowed funds	(6,107)	-	(91,026)
Net cash generated from financing activities	100,050	27,162	58,974
Net (decrease)/increase in cash and cash equivalents	(511,062)	153,660	904,782
Cash and cash equivalents at beginning of the period	1,778,817	874,035	874,035
Cash and cash equivalents for the period	1,267,755	1,027,695	1,778,817

Cash and cash equivalents comprised of:			
Balances with other banks	550,247	406,591	845,788
Financial assets	519,410	368,130	815,440
Cash and balances with the Central Bank	198,098	252,974	117,589
	1,267,755	1,027,695	1,778,817

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General information

African Banking Corporation of Botswana Limited trading as BancABC Botswana provides corporate banking, retail and investment banking services . The Bank is a limited liability company and is incorporated and domiciled in Botswana (registration number C086/384).

The summarised financial statements for the period ended 30 June 2019 have been approved for issue by the members of the Board on the 25th September 2019. Neither the members of the Board nor others have the power to amend financial statements after issue.

1. Basis of presentation

Accounting policies

The Group’s financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting. The financial statements have been prepared on the historical cost basis,except for revauation of property , plant and equipment and certain financial instruments which are disclosed at fair value. The bank has consistently applied the accounting policies, where necessary, the bank adjusts comparative figures to conform to changes in presentation in the current year.The principal accounting policies applied are disclosed in the annual financial statements.

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1. Basis of presentation (continued)

Accounting policies (continued)

The accounting policies adopted by the Group are consistent with the previous year except on the implementation of new International financial Reporting Standards (IFRS) being:

-IFRS 16 *Leases* (IFRS 16)--The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

All other ammendments to accounting standards effective for the current reporting period had no material impact on the Group’s reported results.

The financial statements comprise the statement of profit or loss and other comprehensive income showing as one statement, the statement of financial position, the statement of changes in equity, the statement of cash flows and the notes.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the bank’s accounting policies. The significant judgements made by management in applying their accounting policies and key sources of estimation, uncertainty are the same as those applied in the audited financial statements for the year ended 31 December 2018, except for IFRS 16 a new accounting standard adopted in the current year.

2. New and amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16 Leases.

IFRS 16 – Leases

IFRS 16, Leases, which replaced IAS 17, Leases, was applied effective from 1 January 2019. IFRS 16 applies to all leases with the exception of licenses of intellectual property, and rights held by licensing agreement within the scope of IAS 38, Intangible Assets, service concession arrangements, leases of biological assets within the scope of IAS 41, Agriculture, and leases of minerals, oil, natural gas and similar non-regenerative resources. IFRS 16 includes an accounting policy choice for a lessee to elect not to apply IFRS 16 to remaining assets within the scope of IAS 38, Intangible Assets, which the Group has decided to apply. IFRS 16 does not result in significant change to lessor accounting; however, for the lessee accounting there is no longer a distinction between operating and finance leases. Lessees will be required to recognise both:

- ▶ A lease liability, measured at the present value of remaining cash flows on the lease, and
- ▶ A right of use (ROU) asset, measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

Rights of use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment. When a right-of-use asset meets the definition of investment property, it is presented in investment property. No depreciation is recognised for right-of-use assets that meet the definition of investment property.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group’s incremental borrowing rate. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments.

The impact of the adoption of IFRS 16 is disclosed as P62.8 million. The other standards did not have any impact on the Group’s accounting policies and did not require retrospective adjustments.

Adoption of IFRS 16

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated.

The Group has applied the following transition options available under the modified retrospective approach:

- ▶ To calculate the right of use asset equal to the lease liability.
- ▶ To apply the recognition exception for leases with a term not exceeding 12months.
- ▶ To use hindsight in determining the lease term if the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 determining whether an arrangement contains a Lease. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019.

The table below shows the impact resulting from IFRS 16 adoption:

	2019 BWP’000
Operating lease commitments disclosed as at 31 December 2018	27,437
Lease liability recognised as at 1 January 2019	62,855
Analysed into:	
Current lease liabilities	10,228
Non-current lease liabilities	52,627
Total	62,855

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability. The recognised right-of-use assets relate to the following types of assets:

	30-Jun-19 BWP’000	01-Jan-19 BWP’000
Land and buildings	57,651	62,855
Total right-of-use assets	57,651	62,855

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3. Consolidated Segmental Reporting

The Managing Director, supported by the rest of the Management Committee (MANCO), is considered the Chief Operating Decision Marker ('CODM') for the purposes of identifying the Group's reportable segments. The Group's business results are assessed by the CODM on the basis of adjusted performance that removes the effects of significant items from reported results. The Group has three reportable segments being Retail, Commercial Banking and Global Markets. All operating segments used by the group meet the definition of reportable segments and the results presented are in line with internal reports used internally to assess each reportable segment.

SEGMENTAL REPORTING JUNE 2019					SEGMENTAL REPORTING JUNE 2018				
	Retail Banking	Global Markets	Commercial Banking	Total		Retail Banking	Global Markets	Commercial Banking	Total
	P'000	P'000	P'000	P'000		P'000	P'000	P'000	P'000
Statement of comprehensive income					Statement of comprehensive income				
Net interest income	132,039	22,406	37,961	192,406	Net interest income	161,350	39,032	16,711	217,093
Non- interest income	45,357	2,145	4,286	51,788	Non- interest income	55,955	12,000	4,064	72,019
Total income	177,396	24,551	42,247	244,194	Total income	217,305	51,032	20,775	289,112
Movement in impairment	(689)	-	5,487	4,798	Movement in impairment	(928)	17,565	49	16,686
Net income	176,707	24,551	47,734	248,992	Net income	216,377	68,597	20,824	305,798
Operating expenditure	(144,187)	(15,801)	(22,752)	(182,740)	Operating expenditure	(144,640)	(14,604)	(21,331)	(180,575)
Profit before taxation	32,520	8,750	24,982	66,252	Profit before taxation	71,737	53,993	(507)	125,223
Taxation	-	-	-	(14,936)	Taxation	-	-	-	(27,644)
Profit after tax	32,520	8,750	24,982	51,316	Profit after tax	71,737	53,993	(507)	97,579
Statement of financial position					Statement of financial position				
Financial assets held at amortised cost	-	564,120	-	564,120	Financial assets held for trading	-	682,713	-	682,713
Loans and advances to customers	5,377,343	-	570,140	5,947,483	Loans and advances to customers	4,869,747	-	887,405	5,757,152
Total assets for reportable segments	5,377,343	564,120	570,140	6,511,603	Total assets for reportable segments	4,869,747	682,713	887,405	6,439,865
Deposits from customers	1,006,035	-	5,205,125	6,211,160	Deposits from customers	963,876	1,206,983	4,146,367	6,317,226
Deposits from banks	-	217,192	-	217,192	Deposits from banks	-	240,684	-	240,684
Total liabilities for reportable segments	1,006,035	217,192	5,205,125	6,428,352	Total liabilities for reportable segments	963,876	1,447,667	4,146,367	6,557,910

4. Events after reporting date

An interim dividend of P20.5 million for the period ended 30 June 2019 was declared on 25 September 2019, subject to regulatory approval, will be payable on 22 November to those shareholders registered at close of business on 12 November 2019 with an ex-dividend date of 8 November 2019. This dividend will attract withholding tax in accordance with the Republic of Botswana Income Tax (Cap 52:01), as amended. The dividend represents 40% of profit after tax for the period ended 30 June 2019.

There are no other material changes in the affairs of the entity post 30 June 2019 and the approval of the financial statements.

BancABC Credit Cards

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always knew you
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