UNAUDITED CONSOLIDATED SUMMARISED FINANCIAL RESULTS

AND DIVIDEND ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

FNB
First National Bank
how can we help you?

COMMENTARY ON UNAUDITED CONSOLIDATED SUMMARISED FINANCIAL RESULTS AND DIVIDEND ANNOUNCEMENT

For the six months ended 31 December 2017

The Directors have pleasure in announcing the unaudited summarised consolidated financial results and dividend of First National Bank of Botswana Limited (the Company or Bank) and its subsidiaries (the Group) for the six months ended 31 December 2017.

BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The summarised consolidated financial results have been prepared in terms of International Accounting Standard 34 ("IAS 34") – Interim Financial Reporting, and 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 consolidated financial results were extracted, all relevant and applicable International Financial Reporting Standards and International Reporting Interpretations Committee interpretations issued and effective for annual periods commencing 1 July 2017 have been applied.

The Group's underlying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), and in compliance with the Companies Act of Botswana (Companies Act, 2003) and the Banking Act (Cap 46:04). The principal accounting policies are consistent in all material aspects with those adopted in the previous years' consolidated financial statements. In the preparation of the summarised consolidated financial results, the Group has applied key assumptions concerning any inherent uncertainties in recording various assets and liabilities. These assumptions were applied consistently to the summarised consolidated financial results for the six months ended 31 December 2017. The assumptions and estimates are subject to ongoing review and possible amendments. The critical accounting estimates and areas of judgements are on the following elements of the consolidated financial statements:

- Credit impairment losses on loans and advances;
- Impairment of goodwill;
- Residual values and useful lives of property and equipment;
- Revenue recognition; and
- Fair valuation of financial instruments.

FINANCIAL **HIGHLIGHTS**

	Unaudited Six months ended 31 Dec 2017	Unaudited Six months ended 31 Dec 2016	% change
Profit before tax (P'000)	444,073	407,396	9
Profit after tax (P'000)	346,377	317,769	9
Non-interest income (P'000)	548,811	499,663	10
Advances to customers (P'000)	15,091,733	15,098,818	(0)
Deposits from customers (P'000)	17,818,762	17,077,199	4
Ratios			
Cost-to-income ratio (%)	50.0	48.4	3
Return on average equity (%)	24.3	24.0	1
Return on average assets (%)	3.0	2.9	3

+9%
PROFIT BEFORE TAX

+10%
NON-INTEREST INCOME

50.0%
COST-TO-INCOME RATIO

GLOBAL ECONOMY

Building Growth Momentum in a Fractured World

The global economic data for 2017 was generally strong, with most indicators beating market expectations. Above-trend growth in most of the developed world, especially in the USA, and a marked improvement in growth in emerging markets, combined to prompt upward revisions to global growth forecasts for 2018.

Against this backdrop, it is not surprising that unemployment rates in large developed economies continue to fall, with the USA now almost at full employment. The period was not, however, without its headwinds. Global trade policy debates remained fractured, and particularly in respect of the fall-out from Brexit and Trump administration and economic policies which shifted the focus away from the trend of global integration, and towards protectionism and greater use of country-specific trade agreements.

Despite the uncertainty surrounding the Brexit negotiations, the Eurozone economies strengthened. The UK, being a major trading partner with Southern Africa, posted growth rates which, though lower than the prior year, were higher than broadly expected in the second half of 2017. However, and despite recent signs of an increased political will on both sides of the negotiations to arrive at a workable future trade arrangement, the UK economy is expected to remain constrained by Brexit uncertainty, with businesses postponing investment decisions, and households being cautious on spending. Conversely, the FTSE 250 index, being a key indicator of UK business confidence, rose throughout 2017.

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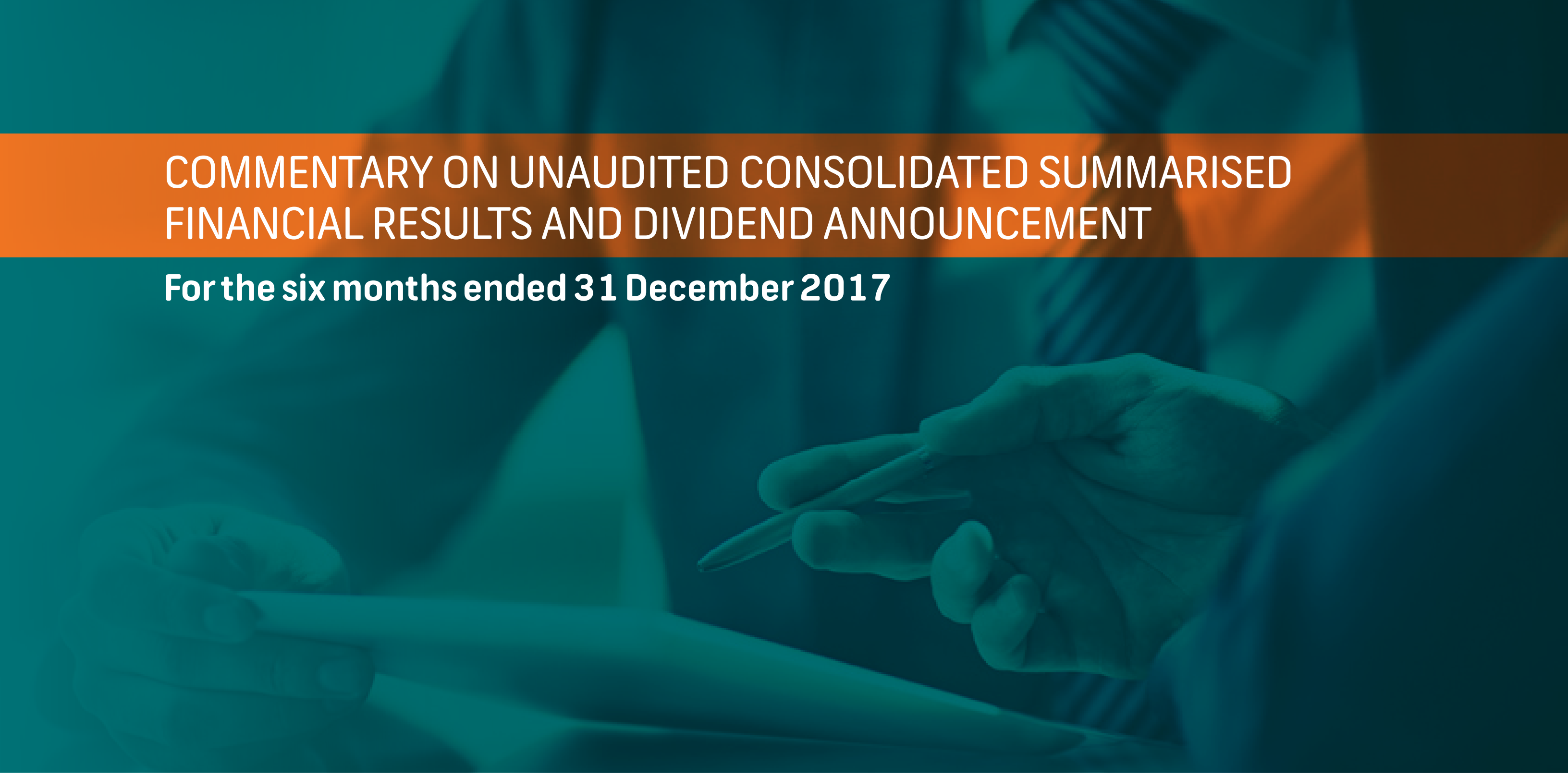
For the six months ended 31 December 2017



Another key feature of 2017 was the lack of inflationary pressures despite good global growth, although some increase in inflation is widely predicted for 2018 as labour markets tighten. Central banks are expected to start reducing quantitative easing. Amongst the G3 central banks, only the US Federal Reserve raised rates in December 2017, with further gradual increases expected in 2018. Healthy global growth and gradual monetary policy normalisation in the developed economies remains a constructive global backdrop for emerging markets, including South Africa. The real economic impact of policy tightening in China could, however, offset some of the positives related to the global economic expansion.

The world economy has increased in overall size by 38% since 2007, and the financial system has been shored up by higher levels of capitalisation in the global banking system. The fact that major stock market indices reached record levels and above average valuations will lead to volatility, but with positive market sentiments these volatile movements should normalise.

In 2017, the African region continued to benefit from the positive global backdrop. Firmer growth in global trade and higher commodity prices have also pulled exports higher for the region as well as strong foreign portfolio inflows for certain markets despite some credit downgrades. The exports have improved, partially due to stronger mining, agriculture and manufacturing output which has enhanced trade balance accounts. Recent political developments in South Africa and Zimbabwe appear to have improved sentiment within Southern Africa. Falling inflation in the region has been a positive development which has allowed some markets to ease their monetary conditions. However, we note that Africa has got to overhaul its current economic fundamentals by ushering in economic diversification in a timely manner. Some alarm bells were sounded over the last three years, especially in commodity-led economies as they underwent severe economic stress, partly as a result of both shortages of foreign currency and the twin deficits for trade and fiscal budget. It is our anticipation that the falling inflation in the region and more stable currency movements will allow the Bank of Botswana to continue on an expansionary monetary stance in 2018.

It is worth noting that policy uncertainties and governance failures have weighed down on investment activities in the region, which if this continues, may restrict growth in employment and in real disposable income.

BOTSWANA ECONOMY

Botswana will need to differentiate itself as a destination for investments in capital and skills

The local growth slowed to 1.8% year-on-year in the third quarter of 2017, 0.5% lower than at the same time in 2016. Growth was led by the services sectors of transport, communications and financial services, whereas the trade sector has suffered from the downturn in the mainstream cutting and polishing diamond industry. The stability in the supply of water and electricity has continued to benefit the economic prospects and business confidence.

In the short term, our anticipation is for growth to reach 4% by 2019 with a medium-term average of 4.1%. This rate, which is in line with the country's long-term historical average, incorporates the expected contribution of Debswana's "Cut 9" diamond mining project. This project should extend the life of Jwaneng mine by yielding about 110 million carats between 2024 and 2033.

The new National Development Plan "NDP11" commenced in April 2017 and is expected to provide the country's economic development policy framework through to 2023, and during which an average growth rate of 4.4% is forecast. Policy implementation has, however, been a challenge for Botswana in the past, and the success of the country's public-private-partnerships and economic diversification drive will rely heavily on favourable regulation and effective implementation of development projects, specifically those aimed at maintaining water and electricity supply.

Good growth in the non-mining private sectors would have to be achieved before higher employment, wage increases and household spending are seen to improve. Although we expect fiscal revenue to be supported by small improvement in diamond sales, spending is likely to slightly exceed revenue, as the Government continues on Phase 2 of the Economic Stimulus Plan. Despite the pressure this will put on public finances, we are encouraged by the fact that much of this spending will be dedicated to developmental investments in education, health, water and power sectors.

Notwithstanding these potential tail winds, growth will continue to be constrained if unemployment is not addressed by job creation, and if wage increases remain low to further constrain household consumption.

Inflation

Following several fuel-price increases in 2017, average inflation for 2017 increased by 3.3%, being just below our forecast last year of 3.4%, and higher than 2.8% average rate of 2016. Although the weakness in the ZAR against the BWP cushioned consumers partially in respect of inflation, low wage increases and the residual effects on unemployment from the closure of BCL, restrained consumer spending. With little indication of significant job creation in the short-term, resulting in limited demand-pull effects on inflation, we forecast a marginal increase in the annual headline rate to 3.8% in 2018.

Implication on the interest rates

A benign outlook for inflation and a relatively stable real effective exchange rate led the Bank of Botswana to cut the benchmark rate by 50bps to 5.0% in October 2017, being slightly higher and earlier than we had predicted, being a 25bps cut in 1H18. There is still scope for the continuation of this expansionary policy given the accommodative real rate differential with trading partners as well as the continuous reduction in the core inflation. However, the Bank of Botswana has to be mindful of risks to outflows in a low interest rate environment as well as concerns over interest rate differentials - mostly with South Africa, whose repo rate is currently 6.75%.

We predict that overall credit extension will remain below 8% to 2019, allowing for a slight increase in business credit extension as business confidence returns, while household credit remains restricted by the current pressures on consumer incomes.

Pula exchange rate regime

In January 2018, Botswana announced that the Pula basket weightings will remain unchanged at 45% ZAR and 55% SDR, but adjusted the crawl to -0.3% p.a. (depreciation) from +0.3% (appreciation). This makes only a minor difference to the Pula outlook, as it will be only 0.6% weaker at year-end than it would otherwise have been. The crawl adjustment, however, pushes up our fair value estimates on yields by the same 0.6% across the curve and could add marginally to inflation.

The ZAR weight has been reduced steadily in the past few years, slowly making crosses such as BWP/USD and BWP/EUR less volatile. Since no change in the weightings was made for 2018, the Pula should continue to trade within the range witnessed in 2017.

FINANCIAL PERFORMANCE

The last 4 years have been a tough trading period for the banking industry with the fall-out of BCL and the generally sluggish economy. In response to this, we remained cautious on lending, and focused more on recoveries and operational efficiencies which are positively impacting the profitability growth and ensuring sustainability of our performance into the future.

Statement of Financial Position

Although advances growth fell slightly below the market rate, the Bank still holds the largest market share of advances of 30%. Growth of 10% was achieved in retail advances, mainly through employer schemes, while muted demand for business credit of the right risk profile subdued the overall advances growth. There have, however, been recent signs of improved business confidence for 2018.

Notwithstanding the reduced growth in advances, the Bank posted overall balance sheet growth of 6.7% from P22.4billion to P23.9billion on the back of growth in our retail and business deposit base, particularly in current accounts, which strengthens the Bank's customer base. Additionally, growth was posted in the term deposits, coupled with a further issuance of senior debt during the second quarter. Both these initiatives are aimed at further lengthening the Bank's funding profile. As a result, the deposits to customers and borrowings (which represent senior debt) posted growth of 4% and 21% respectively leading to a stable loan to deposit ratio of 85%.

The excess funding which resulted from the Bank's cautious credit policy and the lack of viable business credit demand, led to growth in cash and short-term funds of 19%, and in investment securities of 28%. This short-term position is considered reasonable considering the importance of maintaining a well-diversified funding base, and positions the Bank to take advantage of any improvements in the market.

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The Bank experienced stress in its retail portfolio, predominately in the residential property and unsecured term loans portfolios due to the harsh economic conditions exacerbated by the closure of BCL and Tati Nickel mines. However, we are pleased to note that the non-performing loans as a percentage to gross advances, as at December 2017, has shown an improved position, reducing to 6.90% from a level of 7.28% in June 2017, following board strategy discussions as well as interventions by management.

The undrawn facilities have increased by 21% whilst Guarantees and Letters of Credit declined by 5%. This is due to reduced corporate funding requirements on the back of the slowdown in the economy, as well as limited construction and import activity.

Income statement

Net interest income before impairments saw a muted growth of 2%, indicative of margin squeeze in a low-interest environment. Interest on advances grew 2.6% year-on-year, reflecting sound yields despite the flat growth in advances. The aforementioned growth and lengthening of the deposit base, coupled with the increase in deposit rates offered to clients in a competitive market, has resulted in an increase in the interest expense of 30.5%. Excess liquidity on the Bank's balance sheet has been invested in reverse repos and BOBCs, coupled with placing of funds with FirstRand Group, resulted in investment income being 90.5% above prior year. The full impact of the endowment effect of the 50bps rate cut will only be seen in the second half of the year.

The impairment strain witnessed in the Bank's performance in the prior financial year emanating predominantly from what can be considered a once-off event as BCL mine closed, eased off during the period leading to a 15% reduction in impairments. The impairment charge ratio for the period improved from 2% in the prior year to 1.6% as at December 2017.

This performance was partly the result of the BCL closure falling into the prior year, but also by the successful implementation of a collections strategy which will remain an area of focus.

Non-interest revenue grew by 10% over the period driven mainly by a significant increase in the volumes of electronic transactions. This reflects success of promotional campaigns over the period to encourage customers to make less use of branches and greater use of the lower-priced electronic options, with a view to providing customers with greater convenience.

In line with increased regulation in the global banking environment, and the absolute importance of full compliance, the Bank has increased the staffing resource within the risk and compliance structures. In order to support strategy implementation and execution, as a retention mechanism, the Bank realigned some of its staff benefits upwards. In addition, the drive to retain top talent within the business also resulted in additional costs over the period. Consequently, employee benefit costs grew by 13% on the corresponding prior period.

In respect of ensuring long-term sustainability, it remains one of the Bank's strategic priorities to lead the market in developing and implementing innovative solutions. The number of Automated Deposit Taking Machines (ADTs) and Automated Teller Machines (ATMs) was increased from 188 to 202, and the network was redeveloped to ensure continuous service to our customers.

A new branch was opened in Railpark Mall, with particular focus on youth banking. The Mahalapye branch was relocated and modernised to improve both service and accessibility. While the KYC process has been highly onerous on the Bank and our customers alike, it has now been fully embedded into our business activities and will in the future assist the Bank by providing more detailed understanding of each client's requirements. This in turn should allow us to tailor a package of products most appropriate for each client, and thus improve the client's overall banking experience. Despite all of the above-mentioned investments, operating costs grew by only 8%.

Operating costs over the period were mainly geared towards ensuring the availability of channels for customers to transact more efficiently and conveniently, and which in turn translates into revenue growth. As a result, the Bank posted a cost-to-income ratio of 50.0%.

Profit before tax grew by 9% year-on-year driven by reduction in impairments as well as strong non-interest revenue growth. Return on equity is reported at 24.3% which is above the Bank's internal hurdles and considered reasonable in relation to the market. This return is on the back of a prudent and strong capital base, with the capital adequacy ratio before dividend being maintained at an internationally high level of 19.88% as at December 2017.

LOOKING AHEAD

The directors are confident that the Bank is in a very strong financial position. Constant improvements in our electronic offerings keep us at the forefront of the market in this regard. Deeper understanding of our customers' needs should convert into improved service levels. Our cautious approach to lending in recent times, has impacted on our net interest income growth, but has reduced the Bank's exposure to impairments, and leaves the Bank well-placed to take advantage of future opportunities.

CAPITAL MANAGEMENT

The overall capital management objective of FNB Botswana is to maintain sound capital ratios to ensure confidence in the Bank's solvency and quality of capital during calm and turbulent periods in the economy and the financial markets. The Bank, therefore, maintains capitalization ratios aligned to its risk appetite and appropriate to safeguard operations and stakeholder interests. The key focus areas and considerations of capital management are to ensure an optimal level and composition of capital, effective allocation of resources including capital and risk capacity and a sustainable dividend policy.

The Bank undertakes a forward-looking approach in the capital planning process considering the organic growth requirements, safety margin for unexpected fluctuations in business plans and volatile earnings brought on by fair value accounting. Through this approach, compliance with Bank of Botswana capital adequacy requirements can be ascertained, shareholders' returns can be safeguarded, and the Bank can maintain the ability to continue as a going concern even under severe stress conditions.

The Bank continues to focus on maintaining a strong capital position in line with the Board approved Capital Management Framework. In this regard, the strategic focus is on the quality of capital and optimization of the Bank's risk-weighted assets and capital mix during the implementation of Basel II which commenced on 1 January 2016. As part of the capital management strategy, on 1 December 2016, the Bank redeemed non-compliant Tier II capital instruments and reissued compliant instruments to enhance the capital position of the Bank and lengthen the maturity profile. As such, the Bank's total capital adequacy ratio before dividend, has been maintained at 19.88% as at 31 December 2017. This is well above Bank of Botswana's required minimum ratio of 15%.

In this financial year, the Bank continued to operate above the regulatory minimum ratios. As at 31 December 2017, Tier I capital ratio stood at 15.41% above the regulatory minimum of 7.50% whilst Tier II capital ratio was 4.47% in the same period. The current Tier II capital ratio can be built up to the regulatory minimum of 7.50% over time, depending on the Bank's strategy, capital demand and supply dynamics. However, as per the regulations, the entire minimum capital adequacy ratio of 15% can be covered with Tier I capital. When the strategy dictates, the Bank would keep on tapping the capital markets for Tier II capital instruments in line with the Capital Management Framework.

Whilst the level of capital has improved, the market conditions remain challenging and the implementation and impact of IFRS9 during 2018/2019 is receiving attention.

Commensurate with the anticipated impact of regulatory and accounting changes on the Bank's profitability, the Directors believe that it is appropriate to continue with the prudent approach to capital management.

On this basis, the Directors propose an interim dividend of 5.0 thebe per share.

EVENTS AFTER REPORTING DATE

There were no material events that occurred after the reporting date that require adjustment to the amounts recognised in the financial statements or that require disclosure.

CORPORATE GOVERNANCE

Our Board of Directors, as the focal point of corporate governance, is committed to upholding best practices, business ethics and integrity by ensuring that there are adequate people, processes and systems to facilitate the successful implementation of the Bank's strategy. The Board is supported by robust and independent risk control functions over which it has oversight.

The Board of Directors, through the Directors Affairs and Governance Committee has invested a significant amount of time and resources to bring the structures of the Bank in line with the highest standards of corporate governance espoused within the principles of King III and recommended international best practice. The implications of the recently published King IV are being assessed.

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For the six months ended 31 December 2017

The FNBB Board ensures that the Bank is seen to be a responsible corporate citizen. It considers the financial performance of the business together with the impact of its operations on the society that it operates within. FNBB is committed to a policy of fair, transparent dealing and integrity and expects its employees to share this commitment. 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 the following:

1. Adequate and effective management of corporate governance and risk and in accordance with recommended current best practice;
2. Maintenance of appropriate internal controls including the reporting of material malfunctions and;
3. The Group's continued capability to operate as a going concern.

The Board comprises a majority of independent, non-executive Directors and meets regularly, provides oversight to 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 Audit, Credit, Directors Affairs and Governance, Remuneration and Risk, Capital and Compliance.

In today's world, the strong emphasis on ensuring good year-on-year growth and maintaining integrity and ethical governance places huge accountability and responsibility on management. The Board is deeply aware of these challenges and is committed to ensuring that these values are upheld.

SOCIAL RESPONSIBILITY

The FNB Foundation is one of the largest corporate donors in Botswana and a leader in the financial services sector. The FNB Board established the FNB Foundation in 2001 to provide the Bank with a fitting and structured vehicle to execute its social investment programmes with the communities within which it operates.

Annually, the Bank contributes up to 1% of its after tax profits to the Foundation. An extension of the Foundation's commitment towards the community is the Staff Volunteer Programme which is an initiative that affords the Bank's employees an opportunity to identify a deserving project of their choice in their respective localities, to donate funds and volunteer their time & skills.

Since the inception of the Foundation, the Bank has made grants in excess of P55 million to the Foundation, and in turn, the Foundation has invested funds in various projects, enriching and uplifting the lives of many people in need across the country.

The FNBB Foundation, which has an independent board, supports education, arts and culture, sports and recreation, social welfare development and environmental sustainability. It identifies deserving beneficiaries who are in need of assistance, which may be provided in kind, such as the building of facilities, the provision of amenities or financial aid for working capital.

DECLARATION OF DIVIDEND

Notice is hereby given that an interim dividend of 5.0 thebe per share has been declared for the six months ended 31 December 2017. The dividend will be paid on or about 30 March 2018 to shareholders registered at the close of business on 9 March 2018. The transfer registers will be closed from 12 March 2018 to 15 March 2018, 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 9 March 2018.

For and on behalf of the Board.

J K Macaskill
Chairman

S L Bogatsu
Chief Executive Officer

Gaborone, 2 February 2018

TRANSFER SECRETARIES

PricewaterhouseCoopers (Proprietary) Limited
Plot 50371, Fairgrounds
PO Box 294
GABORONE

UNAUDITED SUMMARISED CONSOLIDATED **INCOME STATEMENT**

	Unaudited Six months ended 31 December 2017 P'000	Unaudited Six months ended 31 December 2016 P'000	% Change
Interest and similar income	757,421	706,596	7
Interest expense and similar charges	(164,260)	(125,852)	31
Net interest income before impairment of advances	593,161	580,744	2
Impairment of advances	(127,160)	(150,353)	(15)
Net interest income after impairment of advances	466,001	430,391	8
Non-interest income	548,811	499,663	10
Income from operations	1,014,812	930,054	9
Operating expenses	(294,047)	(271,392)	8
Employee benefits costs	(266,285)	(235,989)	13
Profit before indirect taxation	454,480	422,673	8
Indirect taxation	(10,407)	(15,277)	(32)
Profit before direct taxation	444,073	407,396	9
Direct taxation	(97,696)	(89,627)	9
Profit for the period	346,377	317,769	9
Average number of shares in issue during the period (thousands)	2,563,700	2,563,700	
Earnings per share (thebe) (based on weighted average number of shares outstanding)	13.51	12.49	8

SUMMARISED CONSOLIDATED **STATEMENT OF OTHER COMPREHENSIVE INCOME**

	Unaudited Six months ended 31 December 2017 P'000	Unaudited Six months ended 31 December 2016 P'000	% Change
Profit for the period	346,377	317,769	9
Other comprehensive income for the period	-	-	
Total comprehensive income attributable to equity holders	346,377	317,769	9

RATIOS AND **MARKET INFORMATION**

	Unaudited Six months ended 31 December 2017 P'000	Unaudited Six months ended 31 December 2016 P'000	% Change
Dividend per share (thebe)	5.00	5.00	-
Dividend cover (times)	2.7	2.5	8
* Cost to income ratio (percent)	50.0	48.4	3
** Return on equity (percent)	24.3	24.0	1
*** Return on average assets (percent)	3.0	2.9	3
Capital adequacy ratio (percent)	19.88	17.67	13
Closing share price (thebe)	233	296	(21)
Dividend yield - ordinary shares (percent)	4.3	3.4	26
Price earnings ratio	8.6	11.9	(28)

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

** *Return on Equity is annualised and includes proposed dividend (dividend reserve).*

*** *Return on average assets is annualised.*

UNAUDITED SUMMARISED CONSOLIDATED **STATEMENT OF FINANCIAL POSITION**

	Unaudited At 31 December 2017 P'000	Unaudited At 31 December 2016 P'000	% Change
ASSETS			
Cash and short-term funds	4,399,229	3,704,423	19
Derivative financial instruments	76,952	70,167	10
Net advances to customers	15,091,733	15,098,818	(0)
Investment securities and other investments	3,461,795	2,708,367	28
Current taxation	11,203	49,326	(77)
Due from related companies	10,463	6,455	62
Accounts receivable	276,411	203,585	36
Property and equipment	508,402	504,310	1
Goodwill	26,963	26,963	-
Total assets	23,863,151	22,372,414	7
LIABILITIES AND SHAREHOLDERS' FUNDS			
Liabilities			
Deposits from banks	1,092,722	726,811	50
Deposits from customers	17,818,762	17,077,199	4
Accrued interest payable	84,209	69,600	21
Derivative financial instruments	39,034	44,957	(13)
Due to related companies	102,366	159,987	(36)
Creditors and accruals	271,073	315,317	(14)
Employee Liabilities	66,358	51,276	29
Borrowings	1,239,705	1,025,787	21
Deferred taxation	203,502	203,180	-
Total liabilities	20,917,731	19,674,114	6
Capital and reserves attributable to ordinary equity holders			
Stated capital	51,088	51,088	-
Reserves	2,766,147	2,519,027	10
Dividend reserve	128,185	128,185	-
Total equity	2,945,420	2,698,300	9
Total equity and liabilities	23,863,151	22,372,414	7

CONTINGENCIES AND COMMITMENTS (OFF BALANCE SHEET ITEMS)

Undrawn commitments to customers	2,153,489	1,785,678	21
Guarantees and letters of credit	1,135,308	1,199,552	(5)
Total contingencies and commitments	3,288,797	2,985,230	10

UNAUDITED SUMMARISED CONSOLIDATED **STATEMENT OF CHANGES IN EQUITY**

	Stated capital P'000	Other non -distributable reserves P'000	Retained earnings P'000	Dividend reserve P'000	Total P'000
Balance at 1 July 2017	**51,088**	**44,322**	**2,503,633**	**153,822**	**2,752,865**
Profit for the period	-	-	346,377	-	346,377
Dividend paid - 2017 final	-	-	-	(153,822)	(153,822)
Dividend proposed - 2018 interim	-	-	(128,185)	128,185	-
Balance at 31 December 2017	**51,088**	**44,322**	**2,721,825**	**128,185**	**2,945,420**

UNAUDITED SUMMARISED CONSOLIDATED **STATEMENT OF CASH FLOWS**

	Unaudited Six months ended 31 December 2017 P'000	Unaudited Six months ended 31 December 2016 P'000	% Change
Cash flows from operating activities			
Cash generated by operations	595,190	588,692	1
Taxation paid	(97,544)	(66,983)	
	497,646	521,709	
Change in funds from operating activities	18,632	(986,272)	
Net generated from / (utilised in) operating activities	516,278	(464,563)	
Net cash utilised in investing activities	(54,647)	(21,231)	
Net cash (utilised in) /generated from financing activities	(68,089)	101,336	
Net increase / (decrease) in cash and cash equivalents	393,542	(384,458)	
Cash and cash equivalents at the beginning of the period	5,154,574	5,539,032	
Cash and cash equivalents at the end of the period	5,548,116	5,154,574	8
Cash and short-term funds at the end of the period			
Cash and short-term funds	4,399,229	3,704,423	19
Investment in Bank of Botswana Certificates	1,148,887	1,450,151	(21)
	5,548,116	5,154,574	8

SEGMENTAL REPORTING

Operating segments are reported in accordance with the internal reporting provided to the Chief Executive Officer (the Chief Operating Decision-Maker), who is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment. The Group has five main business segments:

- Retail segment - comprising advances and deposits and the revenue flowing from individual customers;
- Business segment - comprising advances and deposits and the revenue flowing from business customers;
- Rand Merchant Bank (RMB) - comprising advances and deposits and the revenue flowing from Corporate and Investment banking customers;
- WesBank - comprising vehicle and asset financing; and
- Treasury - manages the Group's liquidity and funding.

The revenue from external parties reported to the Chief Executive Officer is measured in a manner consistent with that in the income statement.

The Group presents interest income after the cost of funding and interest expenditure after the benefit of funding for each reportable segment. These are the amounts that are presented to the Chief Executive Officer for management reporting purposes when assessing performance and allocating resources. This presentation is in line with the management approach of presenting segment information. The information provided about each segment is based on the internal reports about segment performance, assets and liabilities, which are regularly reviewed by the Chief Executive Officer.

SUMMARISED **SEGMENTAL REPORTING (UNAUDITED)**

	Retail P'000	Business P'000	RMB P'000	WesBank P'000	Treasury P'000	Total P'000
Six months ended 31 December 2017						
Income statement						
Interest income	261,016	58,933	10,061	53,952	373,459	757,421
Non- interest income	256,999	170,923	101,877	7,584	11,428	548,811
Total segment revenue	518,015	229,856	111,938	61,536	384,887	1,306,232
Interest expenditure	40,198	90,814	66,596	(1,660)	(360,208)	(164,260)
Segement operating income before impairments	558,213	320,670	178,534	59,876	24,679	1,141,972
Impairment of advances						(127,160)
Net income after impairment of advances						1,014,812
Total other expenditure						(560,332)
Profit before indirect taxation						454,480
Indirect taxation						(10,407)
Profit before direct taxation						444,073
Direct taxation						(97,696)
Profit for the period						346,377
Statement of financial position						
Net advances to customers	8,339,350	3,451,528	1,197,116	2,103,739	-	15,091,733
Deposits from banks and customers	3,901,631	7,090,952	5,310,085	-	2,608,816	18,911,484

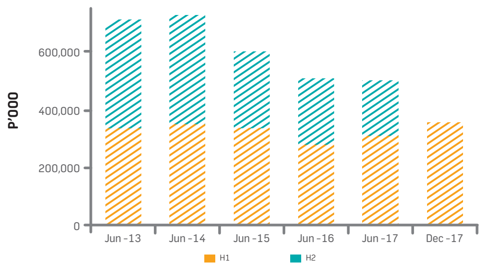
SUMMARISED **SEGMENTAL REPORTING (UNAUDITED)**

	Retail P'000	Business P'000	RMB P'000	WesBank P'000	Treasury P'000	Total P'000
Six months ended 31 December 2016						
Income statement						
Interest income	250,039	86,086	10,926	70,835	288,710	706,596
Non- interest income	225,631	157,353	102,662	10,863	3,154	499,663
Total segment revenue	475,670	243,439	113,588	81,698	291,864	1,206,259
Interest expenditure	45,284	67,861	57,766	(12,523)	(284,240)	(125,852)
Segement operating income before impairments	520,954	311,300	171,354	69,175	7,624	1,080,407
Impairment of advances						(150,353)
Net income after impairment of advances						930,054
Total other expenditure						(507,381)
Profit before indirect taxation						422,673
Indirect taxation						(15,277)
Profit before direct taxation						407,396
Direct taxation						(89,627)
Profit for the period						317,769
Statement of financial position						
Net advances to customers	7,615,485	3,958,087	1,294,428	2,230,818	-	15,098,818
Deposits from banks and customers	3,387,254	5,653,831	6,147,048	-	2,615,877	17,804,010

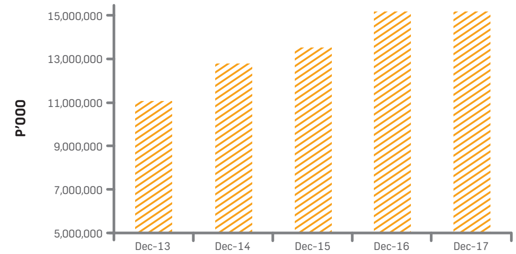
Note: The Group's segmentation model is still undergoing refinements

FINANCIAL GRAPHS (Unaudited)

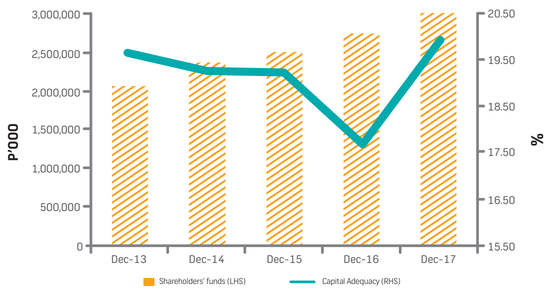
Profit After Tax



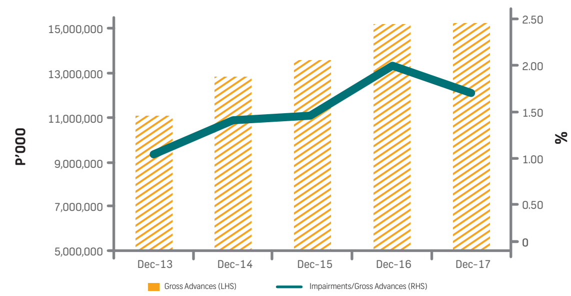
Loans and Advances



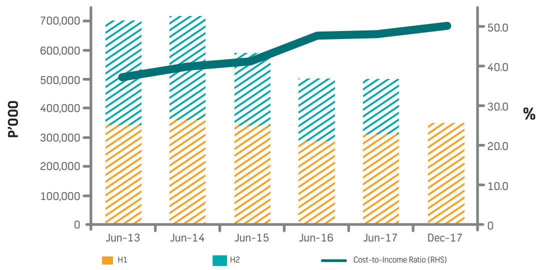
Shareholders' Funds vs Capital Adequacy



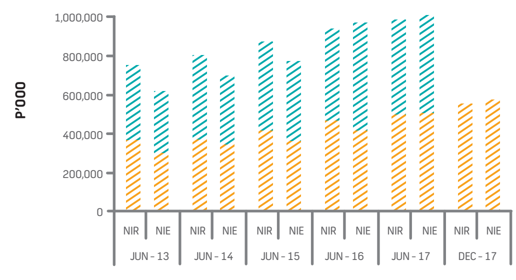
Gross Advances vs Impairments to Gross Advances



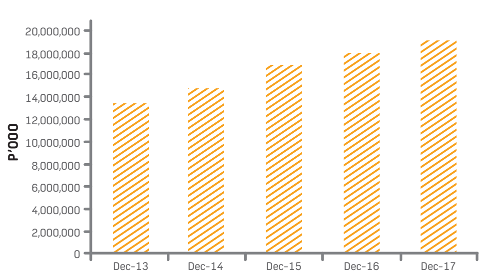
Profit After Tax vs Cost-To-Income Ratio



Non-Interest Revenue vs Non-Interest Expenses



Deposits



Gross Advances vs NPLs to Gross Advances