

Standard Chartered Bank Botswana Limited

Audited Financial Results for the year ended 31st December 2018

The directors have pleasure in announcing the Group (Standard Chartered Bank Botswana Limited and its subsidiaries) audited financial results for the year ended 31 December 2018 together with comparative figures for 2017.

Key Financial Highlights

- Bank operations return to profitability following substantial losses in 2017.
- A Profit After Tax of P24 million, from a P189 loss recorded in the prior year.
- An overall 11% reduction in expenses as efficiency improvements continue to consolidate.
- A 10% year-on-year balance sheet growth, supported by a stronger liquidity position and improved capital adequacy.
- Market share for both client assets and deposits largely maintained at 13% and 17% respectively.

Botswana Economic Environment

According to Statistics Botswana real GDP grew by 4.2 percent in the twelve months to September 2018, compared to a slower rate of expansion of 3.5 percent in the year to September 2017. The non mining sectors recorded a positive growth in 2018 anchored by accommodative monetary policy and Government driven initiatives on policies and strategies. The decrease in the real mining value added of 2.7 percent was mainly driven by diamond value added which decreased by 4.8 percent. Non-mining GDP increased by 5.0 percent in the third quarter of 2018 compared to 3.5 percent registered in the same quarter of the previous year. The positive growth outlook remains underpinned on the strong rebound in mining growth. This coupled with a planned multi-year record increase in government spending should drive positive output across both mining and non mining sectors.

Headline inflation moved lower to average 3.6% in the fourth quarter, from 3.0% reported during the previous quarter, and the increase was driven by increase in fuel prices during the final quarter. Headline inflation was 3.5% in December 2018 and remains in the lower end of the target range, reflecting, in part, subdued domestic demand due to slower growth in household incomes. The Bank of Botswana maintained the bank rate at 5.0% throughout 2018 and the prevailing accommodative monetary policy stance is still consistent with maintaining inflation within the objective range of 3-6% in the medium term.

Business and Financial Performance Review

Despite the headwinds, the bank returned to profitability posting a Profit After Tax of P24 million, up from a loss incurred in 2017 (P189 million). Although top line performance remained subdued, mainly as a result of contained growth during the first half of the year, there was strong performance in overall cost management due to efficiency improvements across the business. There was an overall 11% reduction in costs, mainly from the administrative and business support cost lines.

The portfolio, mainly across the Corporate segments was substantially reviewed and optimally rebalanced, results of which are reflected by an overall decrease on non performing loans from 7.1% to 3.3%. This is part of the wider initiative to secure income foundations for sustainable growth and creating long term value.

Although reflecting a year on year flat trend on customer deposits, market share remained relatively stable at 17%. However, market conditions contributed significantly to a higher cost of deposits, particularly towards the end of the financial year. On the other hand, the market share of customer assets also remained stable at 13%.

Balance sheet resilience continued its improvement path, closing the year with a growth supporting capital adequacy ratio (CAR) of 22%. Liquidity remained sound, with an asset deposit ratio (ADR) of 61% demonstrating capacity to accelerate growth in top line performance in the context of risk adjusted returns.

The Bank adopted IFRS 9 effective 1 January 2018. The standard requires the recognition of expected credit losses (ECL) rather than incurred losses as was the case with IAS 39. The initial adoption of the ECL approach impacted retained earnings, with a Day 1 impact of P64 million charged. No significant losses were recorded and carried as at year end.

To realise long term value, the bank remains focused on improving customer experiences through investments in technology and offering attractive value propositions for our clients. We continued to re-configure our branch networks leveraging on the strength of our digital platforms and staff capabilities. Two paperless branches and a fully digital branch were launched successfully, alongside an enhanced online banking platform.

The Bank launched its 360° loyalty rewards program, a first of its kind in the market. The program comes as part of Standard Chartered Bank's card offering and rewards customers in a variety of ways that include prestigious shopping, flights to global destinations and hotels across the world depending on the amount of accumulated points, all at no cost.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (P'000s)	Revaluation reserve (P'000s)	Statutory credit risk reserve (P'000s)	Retained earnings (P'000s)	Capital contribution (P'000s)	Treasury share reserve (P'000s)	Fair value reserve (P'000s)	Total (P'000s)
Balance at 01 January 2017 as previously reported	179,273	23,691	19,152	781,814	28,213	(31,566)	17,405	1,017,982
Impact of correction of errors	-	-	-	(7,949)	-	-	-	(7,949)
Restated balance as 1 January 2017	179,273	23,691	19,152	773,865	28,213	(31,566)	17,405	1,010,033
Loss for the year	-	-	-	(188,649)	-	-	-	(188,649)
Fair value adjustment: Available for sale securities	-	-	-	-	-	-	(477)	(477)
Transaction with owners of the bank	-	-	-	(49,703)	-	-	-	(49,703)
Dividend to equity holders - paid	-	-	-	-	-	-	-	-
Restated balance at 31 December 2017	179,273	23,691	19,152	535,513	28,213	(31,566)	16,928	771,204
IFRS 9 transition adjustment	-	-	-	(64,476)	-	-	-	(64,476)
Adjusted balance as 1 January 2018	179,273	23,691	19,152	471,037	28,213	(31,566)	16,928	706,728
Total comprehensive income								
Profit for the year	-	-	-	23,844	-	-	-	23,844
Fair value adjustment: Items under fair value through other comprehensive income	-	-	-	-	-	-	(10,646)	(10,646)
Transaction with owners of the bank	-	-	-	-	-	-	-	-
Issue of subordinated capital securities	-	-	-	-	400,000	-	-	400,000
Balance at 31 December 2018	179,273	23,691	19,152	494,881	428,213	(31,566)	6,282	1,119,926

CONSOLIDATED SEGMENTAL REPORTING

	2018				2017			
	Retail Banking (P'000s)	Corporate and Institutional Banking (P'000s)	Commercial Banking (P'000s)	Total (P'000s)	Retail Banking (P'000s)	Corporate and Institutional Banking (P'000s)	Commercial Banking (P'000s)	Total (P'000s)
Profit and Loss								
Net interest income	312,455	106,462	21,227	440,144	370,369	126,075	22,329	518,773
Non interest income	190,166	75,125	18,713	284,004	237,188	72,271	25,692	335,151
Revenue - external sources	502,621	181,587	39,940	724,148	607,557	198,346	48,021	853,924
Impairment movement	10,330	5,742	(16,107)	(35)	(23,681)	(270,378)	(1,376)	(295,435)
Net income after impairment	512,951	187,329	23,833	724,113	583,876	(72,032)	46,645	558,489
Operating expenses	(447,049)	(177,136)	(79,454)	(703,639)	(460,487)	(278,912)	(51,201)	(790,600)
Profit before taxation	65,902	10,193	(55,621)	20,474	123,389	(350,944)	(4,556)	(232,111)
Statement of financial Position								
Investment securities	-	4,049,463	-	4,049,463	-	3,364,689	-	3,364,689
Loans and advances to customers	5,963,708	1,272,335	249,192	7,485,235	6,040,040	1,259,646	290,177	7,599,863
Other assets for reportable segments	41,493	5,025,229	2,353	5,069,075	23,277	4,052,840	2,793	4,078,910
Total assets for reportable segments	6,005,201	10,347,027	251,545	16,603,773	6,063,317	8,677,175	292,970	15,033,462
Deposits from non bank customers	3,077,290	8,102,907	1,160,464	12,340,661	2,894,457	7,189,990	2,154,482	12,238,929
Other liabilities for reportable segments	(14,431)	3,207,629	(50,012)	3,143,186	7,975	2,058,484	(43,130)	2,023,329
Total liabilities for reportable segments	3,062,859	11,310,536	1,110,452	15,483,847	2,902,432	9,248,474	2,111,352	14,262,258

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	31-Dec-18 (P'000s)	31-Dec-17 (P'000s) Restated
Interest Income	783,862	811,017
Interest expense	(343,718)	(292,244)
Net interest income	440,144	518,773
Fee and commission income	247,376	296,229
Other income	86,263	89,968
Less: Commission expense	(49,635)	(51,046)
Net fee income	284,004	335,151
Operating income	724,148	853,924
Operating expenses	(237,982)	(261,401)
Staff expenses	(465,757)	(529,199)
Other expenses	(703,639)	(790,600)
Total operating expenses	(703,639)	(790,600)
Profit before impairment losses	20,509	63,324
Net impairment loss on financial assets	(35)	(295,435)
Profit / (loss) before income tax	20,474	(232,111)
Income tax credit	3,370	43,462
Total comprehensive income / (loss) for the year	23,844	(188,649)
Number of ordinary shares in issue during the period at 100 thebe per share	298,350,611	298,350,611
Basic and diluted earnings per share (thebe)	7.99	(63.23)
Headline and diluted headline earnings per share (thebe)	7.99	(63.23)
Dividend per share (thebe) - declared in the year	-	16.66

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31-Dec-18 (P'000s)	31-Dec-17 (P'000s) Restated	01-Jan-17 (P'000s) Restated
Assets			
Cash and balances with central bank	1,162,191	969,846	1,066,099
Loans and advances to banks	3,488,495	2,577,528	2,092,855
Investment securities	4,049,463	3,364,689	2,783,872
Loans and advances to customers	7,485,235	7,589,863	7,659,996
Other assets	244,138	359,969	157,694
Tax refundable	13,926	1,408	3,999
Property and equipment	58,531	64,430	56,213
Intangible assets and goodwill	29,366	34,253	42,895
Deferred taxation	72,428	71,476	-
Total assets	16,603,773	15,033,462	13,863,623
Liabilities			
Deposits from other banks	754,429	1,108,372	701,048
Deposits from customers	12,340,661	12,238,929	11,268,725
Unsettled Treasury Bills	1,348,939	-	-
Other liabilities	322,884	203,823	184,699
Restructuring provision	30,674	7,370	2,743
Taxation payable	-	17,504	10,115
Senior and subordinated debt	686,260	686,260	686,260
Total liabilities	15,483,847	14,262,258	12,853,590
Equity			
Stated capital	179,273	179,273	179,273
Capital contribution	428,213	28,213	28,213
Reserves	512,440	563,718	802,547
Total equity	1,119,926	771,204	1,010,033
Total liabilities and equity	16,603,773	15,033,462	13,863,623

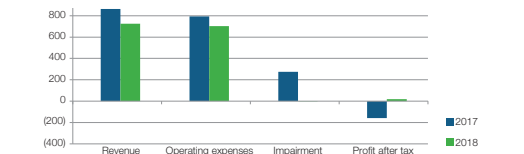
CONSOLIDATED STATEMENT OF CASH FLOWS

	31-Dec-18 (P'000s)	31-Dec-17 (P'000s) Restated
Cash flow from operating activities:		
Profit / (loss) after taxation	23,844	(188,649)
Adjustments for:		
- Taxation	(3,370)	(43,462)
- Depreciation	7,363	4,764
- Amortisation on intangibles	13,413	18,431
- Interest expense on subordinated debt	40,615	39,980
- Impairment loss on loans and advances	203,556	179,490
- IFRS 9 equity adjustment	(82,844)	-
- Movement in restructuring provision	23,304	4,627
- Movement in operating lease accrual	1,497	4,411
	227,378	19,592
Change in investment securities	650,516	(581,429)
Change in loans and advances to customers	(98,928)	(109,357)
Change in other assets	115,831	(202,275)
Change in deposits from other banks	(353,943)	407,324
Change in amounts due from customers	101,732	970,203
Change in other liabilities	117,564	14,715
Cash generated from operations	760,150	518,773
Taxation refunded	10,217	-
Taxation paid	(16,450)	(17,900)
Net cash generated from operating activities	753,917	500,873
Cash flow from investing activities		
Acquisition of property and equipment	(1,464)	(12,981)
Acquisition of intangibles	(8,526)	(9,789)
Net cash used in investing activities	(9,990)	(22,770)
Cash flow from financing activities		
Issue of subordinated capital security	400,000	-
Interest paid on subordinated debt	(40,615)	(39,980)
Dividends paid	-	(49,703)
Net cash generated from / (used in) financing activities	359,385	(89,683)
Increase in cash and cash equivalents	1,103,312	388,420
Cash and cash equivalents:		
Cash and cash equivalents at beginning of year	3,547,374	3,158,954
Cash and cash equivalents at end of year	4,650,686	3,547,374

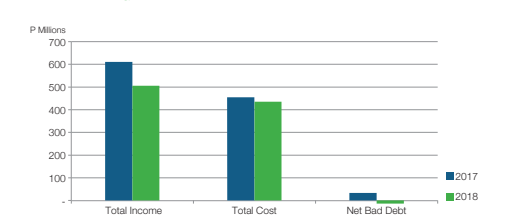
* The financial statements of Standard Chartered Insurance Agency and Botswana Education Trust have been consolidated using uniform accounting policies for like transactions and other events in similar circumstances.

** Cash and cash equivalent are cash balances and balances held with Central Bank and other financial institutions with maturity of 0 - 3 months.

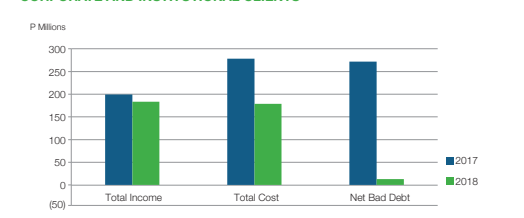
CONSOLIDATED BANK



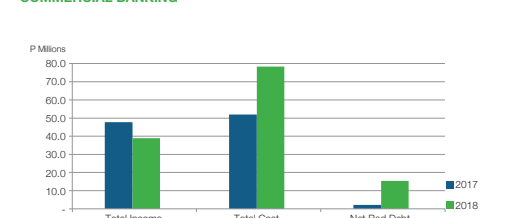
RETAIL BANKING



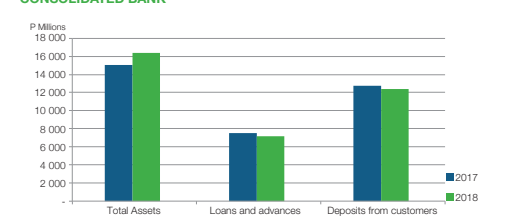
CORPORATE AND INSTITUTIONAL CLIENTS



COMMERCIAL BANKING



CONSOLIDATED BANK



TOTAL EQUITY vs CAPITAL ADEQUACY RATIO

