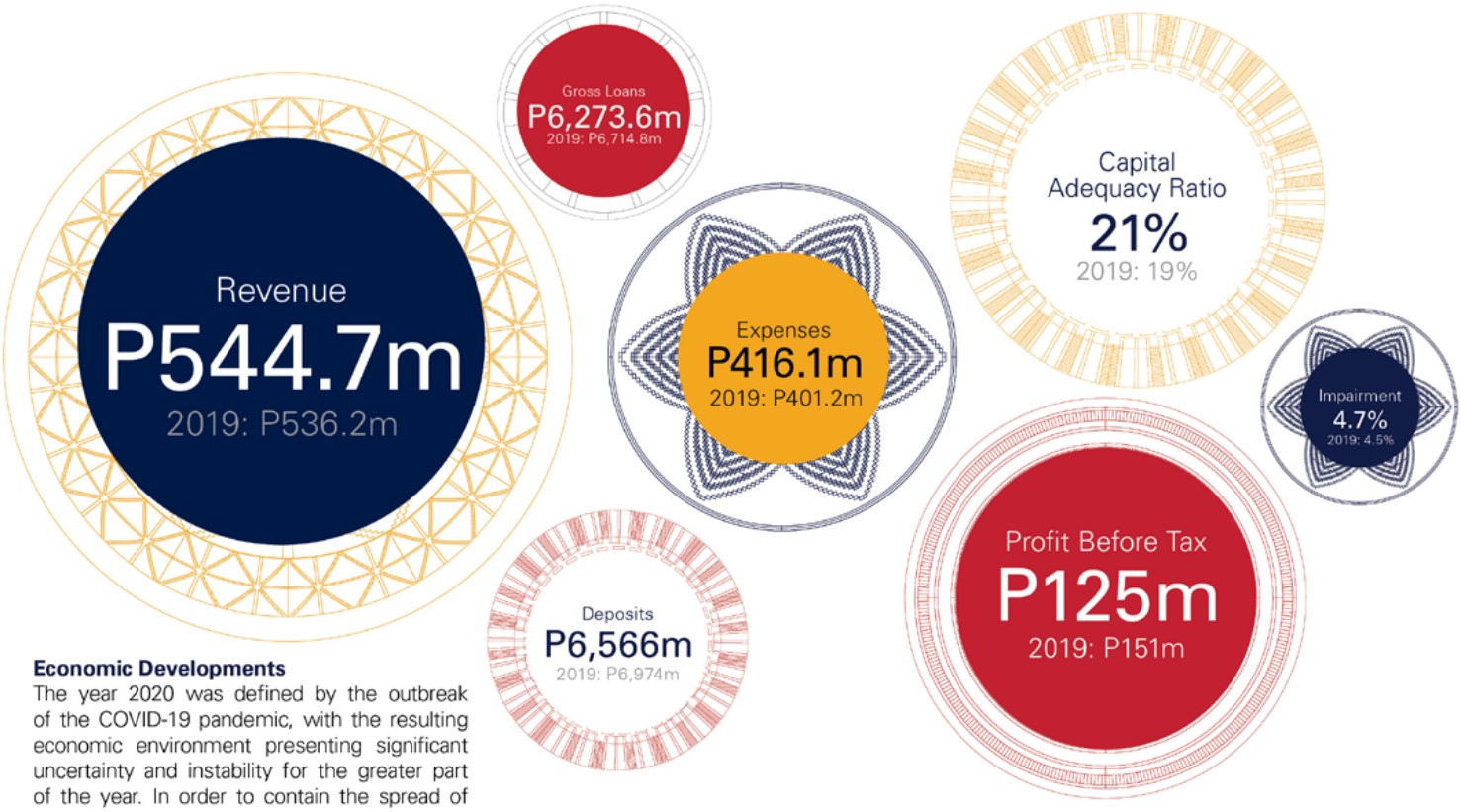
AFRICAN BANKING CORPORATION OF BOTSWANA LIMITED

SUMMARISED CONSOLIDATED AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020



Economic Developments

The year 2020 was defined by the outbreak of the COVID-19 pandemic, with the resulting economic environment presenting significant uncertainty and instability for the greater part of the year. In order to contain the spread of the pandemic and safeguard lives, lockdowns were introduced at the beginning of the second quarter. These were followed by various other restriction measures which generally slowed down economic activities, especially in the second and third quarters of the year.

Economic growth stalled overall during the year, with broad based decline in gross domestic product across most categories, with the only sectors recording growth being Agriculture, Water and Electricity. Latest data released shows that the real GDP for the third quarter declined by 6% compared to an increase of 3.1% in the same quarter in 2019. This followed on from a year on year contraction of 24% in the second quarter of 2020 which was covered by an extended country wide lockdown. In nominal terms, third quarter GDP increased by 21% from the second quarter, representing an easing of restrictions with the major contribution coming from hotels and restaurants, trade, Government, finance and business and mining.

The revised forecast from Ministry of Finance and Economic Development is for the economy to have contracted by 7.7% before rebounding to grow by 8.8% during 2021. Growth is projected to be stimulated by the recovery of the global economy, promising vaccine development to curb the pandemic as well as the successful implementation of the Economic Recovery and Transformation Plan as outlined in the recent budget plan.

Our Operating Environment

Our people and operations were resilient in the face of the pandemic. During the year the Group experienced the impact of the COVID-19 pandemic on the operations of the business and had to make adjustments throughout the year. Throughout most of 2020 the Bank sought to follow COVID-19 protocols to prioritise the safety of our staff, customers and stakeholders from contracting the virus as a primary objective. This entailed restricting customer numbers in most physical areas of operations as well as facilitating working from home arrangements. The Group prioritised safety and also supporting customers to weather the tough economic environment through several support initiatives such as discounted transactional fees as well as extending loan repayment moratoriums to impacted customers. Notable market liquidity tightness was experienced at the end of the first half, however, supportive central bank policies – reduction in interest rates, reduction of capital requirements as well as easing primary reserve requirements ensured sufficient liquidity returned to the market to aid counter cyclical stance through improved lending to the market. All efforts were engaged to ensure the impact to both the client and the shareholder is as minimal as possible. This included the implementation of some cost management strategies where possible and assisting our clients as they manoeuvre through the difficult economic environment.

The Group continued on its strategic focus to ensure that customers received service excellence. This included the implementation of a retail banking digital platform (SARUMoney) in the first quarter of the year, the rolling out of ATMs in locations outside of Gaborone, that is Kanye, Gantsi, Molepolole and Letlhakane and emphasis to our clients on the use of the corporate banking BancOnline platform. The pandemic as well as the timeous launch of our retail digital platform has been a success – resulting in a 60% increase in digital adoption by customers.

BancABC part of atlasmara

Financial Performance

The Bank achieved a modest performance in 2020. Despite the economic and global challenges, income lines showed relative resilience and growth in the case of Net interest income (NII), although this was insufficient to offset the challenges of increases in expected credit losses. Overall the Bank had a 17% (P25.7 million) decline in profit before tax (PBT) from a restated position of P150.6 million to P124.9 million. Income lines in general have remained stable – net interest income grew by 2% despite declining yields exacerbated by a reduction in policy rates of 100 basis points during the year. Good progress has been achieved on the management of interest expense as well as careful management of interest margin. Non-interest income decreased by 1%, buoyed by a strong Global Markets business performance which offset a reduction in activity linked fee income. Expected credited losses increased by 124% from a P15.7 million release in the year prior to a P3.7 million increase in provision in the current year. The Bank has implemented additional elements to its credit modelling which resulting in an increase in expected credit losses relative to the prior year as the main driver of reduced performance. Costs remain relatively well controlled.

This performance validates some relative success in combating the challenging operating environment while remaining headstrong in building sustainable underlying revenue growth and operating income with the aim of maximizing medium term value for our shareholders. The first quarter of 2020 had picked up momentum from the last half of 2019 whilst performance declined with the onset of restrictions from the second quarter of the year onwards. The Bank has continued to invest in its transformation journey, as seen in a 22% increase in Depreciation and Amortisation Expenses as key transactional banking projects came online during the year. The increased effective tax resulting in a lower profit after tax is largely due to timing differences on capitalisation of these projects. The Bank's return on equity has reduced to about 8% whilst previous year it was at 12%, driven mostly by the reduced performance and increase in the amount of equity held.

Total Income

Net interest income closed the year at P422 million which was above prior year's performance. Introduction of an 84 months tenure for personal loans was successful in uplifting asset yields as well as assisting clients that required some relief on their disposable income. The Retail Banking segment managed to grow the loan book in the last quarter whilst in the middle of the year the book was constrained by muted asset growth that persisted throughout the year on the back of constrained economic activity. There also was noticeable improvement in liquidity in the second half of the year.

The Bank of Botswana reduced the Bank Rate by 50 basis points each in April and October 2020 for a total of 100 basis points reduction in the year. Interest income reduced by about 4% as a result of the policy rate changes and reduction in the loans book. Year on year interest expense has declined significantly and contributed positively to the increase in the NII. The reduction in interest expense is due to lower interest rates as well as improving the funding mix as part of continuous efforts to manage down the cost of funding.

Non-interest revenue (NIR) of P122.7 million was marginally lower than the previous year due to significant decline in the customer transactional activity linked income and discounts granted as well as reduction in lending. Trading revenue had a good year due to adequate capacity and focus of the team resulting in better client activity with higher volumes and better margins.

Expected Credit Losses

Expected credit losses in loans and advances resulted in an impairment charge of P3.7 million during the year compared to a P16 million release in 2019. Some loans were restructured, and customers given repayment holidays to assist them to cope with the general deterioration in the economy which restrained cash flows. This has had an impact on compliance with IFRS where additional impairments had to be taken. During the year, further enhancements were implemented on the impairment model, which included the introduction of a floor minimum limit for loss given default (LGD) and inclusion of forward-looking elements; As a result, the book reduction did not lead to reduced impairment due to these changes.

Operating Expenses

Total operating expenses of P416 million are 4% above prior year. Most cost items were managed in line with the environment. The significant increases on costs were from the amortisation of capitalised projects in line with investments made into technology infrastructure in the past as well as new costs to support working from home arrangements, while all other cost lines were well managed.

Balance Sheet

Deposits from customers for the year ended at P6.6 billion – a 5.8% decline on the prior year as core customer segments in the corporate sector experienced reduced operating cashflows. The Bank had a notable increase in retail deposits of 12%.

The Bank's loan book closed the year at P6 billion, a 6% reduction from the prior year. This reduction was predominantly from customer repayments and reduced activity on new lending mainly in the corporate segments where the Bank was more cautious on large ticket deals. The pandemic has had a material impact on lending as a result of the contraction of the economy. Most businesses resorted to holding back on any expansion plans and individuals also looked to preserve their disposable income as COVID-19 brought uncertainty about the future. During the year, the Bank significantly reduced related party exposures by 23%.

Prior period adjustments

During the current year, management identified instances where accounting principles were incorrectly applied: This related to accounting of reimbursement charges related to certain commercial card partnership transactions and fair value measurement of staff loans. Details of these have been explained under note 4 of this publication.

Capital Adequacy

The Bank remains in a strong solvency position. Unimpaired capital and risk weighted assets stood at P1.4 billion and P7 billion respectively resulting in a capital adequacy ratio of 21%. In a continued abundance of caution, the Board elected not to pay a dividend in the current year until the pandemic recovery trajectory is certain.

Outlook

The Bank continues to focus on its strategy to grow by enhancing its customer value proposition through augmenting its technological capabilities and product complement to improve shareholder returns. This has been evidenced by the launch of new customer channels and the Bank will continue to add functionality as well as introducing new products to ensure greater relevance and reach to customers. There will be continued effort on transactional capabilities to attract a wider segment of customers for growth and to improve the efficiency of the balance sheet and improve return on equity.

Acknowledgement

We extend our sincere gratitude to our customers, shareholders, the Board, management and the entire BancABC team for all the support during the year 2020.

Audit opinion

The summarised consolidated financial statements are extracted from the Audited annual financial statements by KPMG who expressed an unmodified opinion thereon. The directors take full responsibility for the preparation of the summarised consolidated financial statements and that the financial information has been correctly extracted from the audited annual financial statements.

The detailed audited annual financial statements and audit opinion are available for inspection at the Bank's registered office, ABC House, Plot 62433 Fairgrounds Office Park, Gaborone.

Our auditors' address is Plot 67977 Fairgrounds Office Park or P O Box 1519 Gaborone.

Events after reporting date

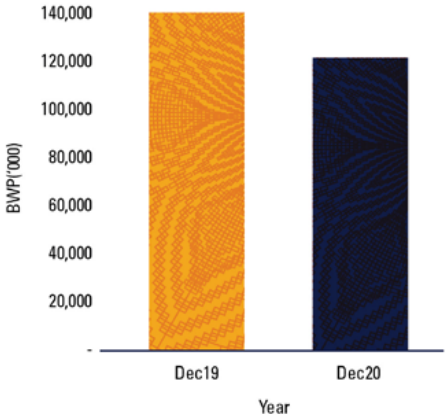
There are no material events to report after the financial year ended 31 December 2020.

Mrs. Lorato Nthando Mosetlhanyane
Chairperson

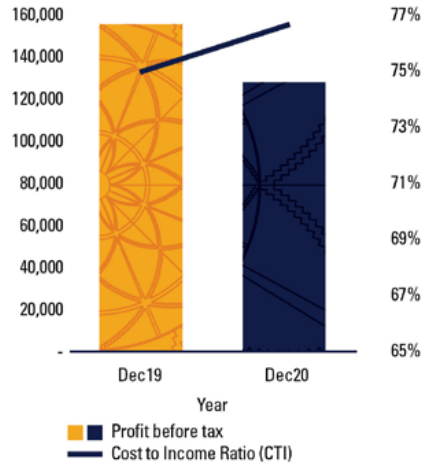
Mr Kgotso Bannalotlhe
Managing Director

SUMMARISED CONSOLIDATED AUDITED
STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
for the year ended 31 December 2020

PROFIT BEFORE TAX



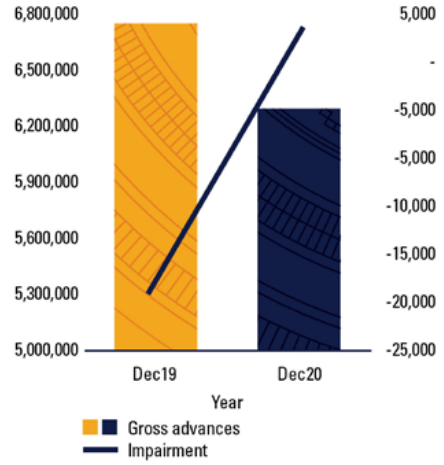
PROFIT BEFORE TAX VS COST TO INCOME



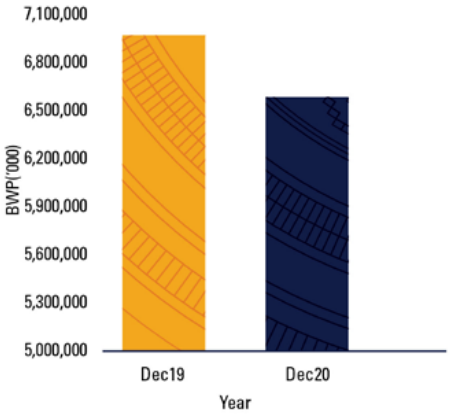
	31 December 2020 P'000	31 December 2019 Restated P'000	% Change
Effective interest and similar income	712,173	744,306	(4%)
Effective interest expense and similar charges	(290,118)	(332,381)	13%
Net interest income	**422,055**	**411,925**	**2%**
Changes in expected credit losses and other credit impairments	(3,725)	15,658	(124%)
Net interest income after changes in expected credit losses and other credit impairments	**418,330**	**427,583**	**(2%)**
Net trading income	27,540	12,860	114%
Net fee and commission income	95,126	111,420	(15%)
Total net revenue	**540,996**	**551,863**	**(2%)**
Personnel expenses	(153,789)	(155,238)	1%
General and administrative expenses	(128,755)	(128,202)	(0%)
Depreciation and amortisation expenses	(46,378)	(38,117)	(22%)
Other operating expenses	(87,185)	(79,692)	(9%)
Total operating expenses	**(416,107)**	**(401,249)**	**(4%)**
Profit before tax	**124,889**	**150,614**	**(17%)**
Tax expense	(31,792)	(29,737)	(7%)
Profit for the year	**93,097**	**120,877**	**(23%)**
Other comprehensive income for the year	**-**	**850**	**-**
Total comprehensive income for the year	**93,097**	**121,727**	**(24%)**
Earnings per share			
Basic and diluted earnings per share (thebe)	**13**	**17**	
Headline earnings per share			
Basic and diluted headline earnings per share (thebe)	**13**	**17**	

Our people and operations were resilient in the face of the pandemic. We did our duty of supporting our customers and the economy through this difficult time.

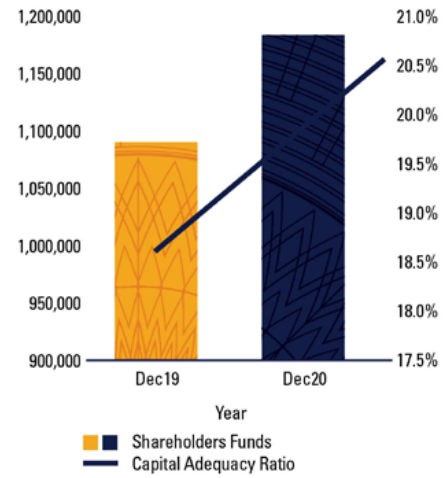
GROSS ADVANCES VS IMPAIRMENT TO GROSS ADVANCES



DEPOSITS



SHAREHOLDERS FUNDS VS CAPITAL ADEQUACY RATIO (CAR)



SUMMARISED CONSOLIDATED AUDITED STATEMENTS OF FINANCIAL POSITION

as at 31 December 2020

	31-Dec 2020 P'000	31-Dec 2019 Restated P'000	01-Jan 2019 Restated P'000
ASSETS			
Cash and balances with the central bank	384,004	77,138	424,734
Balances with other banks	895,789	904,537	845,788
Balances due from related parties	488,185	633,118	528,780
Derivative financial assets	60,569	60,487	62,755
Financial assets held at amortised cost	680,142	642,818	1,162,700
Loans and advances to customers	6,000,970	6,436,064	5,802,300
Other assets	104,167	85,381	74,342
Current tax assets	-	20,476	14,282
Deferred tax asset	25,127	29,869	52,054
Intangible assets	102,442	104,347	110,833
Property and equipment	119,718	129,860	69,705
Total assets	**8,861,113**	**9,124,095**	**9,148,273**
LIABILITIES			
Deposits from banks	68,713	66,844	16,321
Deposits from customers	6,566,048	6,973,892	7,192,452
Derivative financial liabilities	59,667	59,618	59,173
Balances due to related parties	14,226	17, 662	54,201
Other liabilities	211,695	157, 706	100,686
Current tax liabilities	3,348	-	-
Borrowed funds	759,118	763,172	742,880
Total liabilities	**7,682,815**	**8,038,894**	**8,165,713**
EQUITY			
Stated capital	222,479	222,479	222,479
Retained earnings	940,433	847, 336	745,545
Revaluation reserve	9,295	9,295	8,445
Other reserves	6,091	6,091	6,091
Total equity	**1,178, 298**	**1,085,201**	**982,560**
Total equity and liabilities	**8,861,113**	**9,124,095**	**9,148,273**

SUMMARISED CONSOLIDATED AUDITED STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2020

	Stated capital	Other reserves	Revaluation reserve	Retained earnings	Total
	P'000	P'000	P'000	P'000	P'000
At 1 January 2019 - Restated	**222,479**	**6,091**	**8,445**	**735,786**	**972,801**
Impact of correction of errors	-	-	-	9,759	9,759
Adjusted balance 1 January 2019	**222,479**	**6,091**	**8,445**	**745,545**	**982,560**
Profit for the year	-	-	-	120,877	120,877
Dividend declared and paid	-	-	-	(20,526)	(20,526)
Adjustment on initial application of IFRS 16, net of tax	-	-	-	1,440	1,440
Revaluation of land and buildings	-	-	1,090	-	1,090
Deferred tax on revaluation of land and buildings	-	-	(240)	-	(240)
Comprehensive income	-	-	850	101,791	102,641
At 31 December 2019	**222,479**	**6,091**	**9,295**	**847,336**	**1,085,201**
At 1 January 2020	**222,479**	**6,091**	**9,295**	**847,336**	**1,085,201**
Profit for the year	**-**	**-**	**-**	**93,097**	**93,097**
Total Comprehensive income	**-**	**-**	**-**	**93,097**	**93,097**
At 31 December 2020	**222,479**	**6,091**	**9,295**	**940,433**	**1,178,298**

SUMMARISED CONSOLIDATED AUDITED
STATEMENTS OF CASH FLOWS
for the year ended 31 December 2020

	31 December 2020 P'000	31 December 2019 Restated P'000
Cash flows from operating activities		
Profit before tax	124,889	150,614
Adjusted for:		
Depreciation	19,173	19,080
Amortisation of intangible assets	27,205	19,037
Impairment losses/(credit) on financial assets	3,725	(15,658)
Net exchange losses on borrowings	4,441	-
Current revaluations	(11)	-
Net interest income	(422,055)	(411,925)
Fair value adjustment on derivatives	(32)	2,712
Cash flows from operating activities before changes in operating assets and liabilities	**(242,665)**	**(236,140)**
Movements in operating assets/liabilities:	**172,422**	**(532,462)**
Loans and advances to customers	410,664	(618,106)
Balances due from related parties	142,146	(104,338)
Other assets	(18,786)	399,870
Deposits from customers and banks	(415,976)	(168,037)
Other liabilities	57,810	(5,312)
Balances due to related parties	(3,436)	(36,539)
Interest received	744,803	744,306
Interest paid	(276,479)	(332,381)
Taxation received/(paid)	(3,226)	(13,985)
Net cash from operating activities	**394,855**	**(370,662)**
Cash flows from investing activities		
Purchase of property and equipment	(6,962)	(11,242)
Purchase of intangibles assets	(25,300)	(11,167)
Additions to debt instruments	(37,919)	-
Work in progress	-	(1,384)
Net cash used in investing activities	**(70,181)**	**(23,793)**
Cash flows from financing activities		
Dividend paid	-	(20,526)
Proceeds from borrowed funds	121,360	99,922
Repayments on borrowed funds	(128,948)	(79,630)
Payment of interest on lease liabilities	(4,544)	-
Payment of principal on lease liabilities	(5,683)	(3,783)
Net cash from financing activities	**(17,815)**	**(4,017)**
Net increase/(decrease) in cash and cash equivalents	306,859	(398,472)
Cash and cash equivalents at beginning of the year	1,380,345	1,778,817
Effect of exchange rate fluctuations on cash and cash equivalents held	22,210	-
Cash and cash equivalents for the year	**1,709,414**	**1,380,345**
Cash and cash equivalents comprised of:		
Balances with other banks	895,789	904,537
Debt instruments	429,621	398,813
Cash and balances with the central bank	384,004	76,995
	1,709,414	**1,380,345**

SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 December 2020

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 consolidated financial statements for the year ended 31 December 2020 have been approved for issue by the members of the Board. Neither the members of the Board nor others have the power to amend financial statements after issue.

1 Basis of presentation

1.1 Statement of Compliance

Accounting Policies

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared on the historical cost basis, except for revaluation of land and buildings and certain financial instruments which are disclosed at fair value.

The Bank has consistently applied the accounting policies and 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 consolidated financial statements.

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.

New and Amended Standards Adopted by the Group

A number of ammendments to standards became applicable for the current reporting period. The ammendments to standards did not have a material impact on the Group's reported results.

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 areas involving a higher degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in the annual consolidated financial statements.

The critical accounting estimates and areas of judgement relate to the following elements of the financial results:

- Impairment of financial assets
- Fair value of financial instruments

2 Stated Capital

The issued share capital of the Bank comprises of 725 000 000 ordinary shares which are 78% owned by ABC Holdings Limited. There has been no change in the Bank's stated capital during the period.

3 COVID-19

On 11 March 2020, the World Health Organisation ("WHO") declared the Coronavirus COVID-19 outbreak to be a pandemic due to its rapid spread across the globe. The Government of Botswana has continued to take stringent measures to help contain the virus, including: mandatory lockdowns, requiring self-isolation/quarantine by those potentially affected, implementing social distancing measures, and controlling or closing borders.

The Bank has implemented recommended protocols to safeguard the health and safety of employees, customers and external partners. For our people, the Bank assisted with working from home stations and overall facilitation of remote working. This has ensured business continuity and safety of our valued staff members.

The central bank introduced a number of relief measures for banks including:

- reduction of the Prudential Reserve Requirement and Capital Adequacy Requirements, amongst other measures.

- reduction of the bank rate by 100 bps in 2020 (50 bps in April and another 50 bps in October) to 3.75% from 4.75%.

In the credit space, monetary policy easing by the central bank together with the Bank's own initiatives to support obligors through payment holidays and loan restructures has mitigated the cliff effect of a large migration of loans to Stage 2 and Stage 3.

4 Correction of Prior Period Errors

4.1 VISA Sponsored Partnerships

During the year management review showed that there was incorrect accounting for reimbursements of charges and settlement entries relating to a certain VISA sponsored partnership.

The cumulative impact of the mistatement as at 31 December 2019, was a reduction of retained earnings by P8 million, net of related taxes.

4.2 Staff Loans Fair Value Adjustment

During the year management adjusted the rate used for calculation of the fair value adjustment on staff loans to the market prime rate as this better reflects current fair values. The change impacted prior periods and constitutes a prior year error.

The cumulative impact of the mistatement as at 31 December 2019, was a reduction of retained earnings of P17 million, net of related taxes.

SUMMARISED SEGMENTAL REPORTING

for the year ended 31 December 2020

Basis of Segmenting

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 December 2020

Statement of comprehensive income	Retail Banking P'000	Global Markets P'000	Commercial Banking P'000	Total P'000
Interest income	633,328	53,313	25,532	712,173
Interest expense	(333,758)	10	43,630	(290,118)
Net interest income	**299,570**	**53,323**	**69,162**	**422,055**
Non-interest income	86,734	27,154	8,778	122,666
Total income	**386,304**	**80,477**	**77,940**	**544,721**
Impairment of financial assets	(3,086)	-	(639)	(3,725)
Net income	**383,218**	**80,477**	**77,301**	**540,996**
Operating expenditure	(318,895)	(44,886)	(52,326)	(416,107)
Profit before taxation	**64,323**	**35,591**	**24,975**	**124,889**
Taxation	(16,373)	(9,060)	(6,359)	(31,792)
Profit after tax	**47,950**	**26,531**	**18,616**	**93,097**
Statement of financial position				
Debt instruments	-	680,142	-	680,142
Loans and advances to customers	5,714,174	-	286,796	6,000,970
Other assets for reportable segments	272,310	1,833,435	74,256	2,180,001
Total assets for reportable segments	**5,986,484**	**2,513,577**	**361,052**	**8,861,113**
Deposits from customers	1,200,313	-	5,365,735	6,566,048
Deposits from banks	-	68,713	-	68,713
Other liabilities for reportable segments	462,983	542,932	42,139	1,048,054
Total liabilities for reportable segments	**1,663,296**	**611,645**	**5,407,874**	**7,682,815**

Segmental Reporting December 2019

Statement of comprehensive income	Retail Banking P'000	Global Markets P'000	Commercial Banking P'000	Total P'000
Net interest income	265,824	49,971	96,130	411,925
Non-interest income	103,064	12,615	8,601	124,280
Total-income	**368,888**	**62,586**	**104,731**	**536,205**
Movement in impairment	12,248	-	3,410	15,658
Net income	**381,136**	**62,586**	**108,141**	**551,863**
Operating expenditure	(313,866)	(38,323)	(49,060)	(401,249)
Profit before taxation	**67,270**	**24,263**	**59,081**	**150,614**
Taxation	(13,046)	(4,859)	(11,832)	(29,737)
Profit after tax	**54,224**	**19,404**	**47,249**	**120,877**
Statement of financial position				
Debt instruments	-	642,818	-	642,818
Loans and advances to customers	5,915,248	-	520,816	6,436,064
Other assets for reportable segments	897,295	1,075,764	72,154	2,045,213
Total assets for reportable segments	**6,812,543**	**1,718,582**	**592,970**	**9,124,095**
Deposits from customers	1,076,175	-	5,897,717	6,973,892
Deposits from banks	-	66,844	-	66,844
Other liabilities for reportable segments	575,369	451,421	(28,632)	998,158
Total liabilities for reportable segments	**1,651,544**	**518,265**	**5,869,085**	**8,038,894**