

Standard Chartered Bank Botswana Limited

Preliminary 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) preliminary 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 4.3 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.

Still in 2018, the Bank launched its prestigious Visa Infinite Cards for the priority segment. The cards come with a range of added life style benefits that include the accumulation of 360° loyalty points, decent discount at selected shopping centres and free access to almost 1000 premium airport lounges across the world, among others.

A suit of General Insurance products was launched in a bid to exalt customer convenience, and in this regard the Bank has entered into strategic alliances with Insurance Industry leaders to ensure optimal delivery channels.

The Bank remains committed to invest in human capital, driving the right client centric culture, while attracting, harnessing and retaining talent.

Outlook

The economic outlook is positive and the Bank is geared for growth leveraging on balance sheet strength and strong capital position. The business is focused on improving the top line performance, while maintaining both cost and capital discipline. The sound capital position is expected to drive credit growth and consequently net interest income and non-funded income, complemented by a diversified product offerings and digital platforms.

Here for good

2018 was earmarked as a year of engagement; we wanted to ensure that the Bank, our brand, and our people were driving more impactful interactions with our community and our clients. We were spurred on by the desire to ensure that we do not take for granted what we stand for through our brand promise of being Here for good.

Here for good has been with us since 2010, the Bank felt that it was time to not simply recommit to the promise but reignite the challenge and responsibility that it poses to all who are part of the Bank. Against this background, the Bank refreshed the promise with the tag line of "Good enough will never change the world" We sought to answer a single question; how can banks help tackle some of the problems that stand in the way of global prosperity and commerce? Our engagement will help us to answer this question.

Community engagement continues to be a source of pride for the Bank. Our employee volunteering programme exceeded our annual targets in 2018 yielding a return of 201% of the annual target. Going into 2019, the focus will be on strategic partnerships for sustainable impact. 2018 initiatives ranged from partnering with the community to clean up identified areas in Francistown to empowering young girls facing the challenges of adolescence in impoverished communities and also to supporting the needs of animal welfare in stray shelters.

The Bank's renewed partnership with Liverpool FC through to 2023 continues to engage both existing and potential Bank clients. Through the #StandRed campaign, the Bank seeks to engage fans and non-fans alike to understand the shared values that make our partnership with Liverpool FC so impactful. The Bank once again hosted the SC Cup, which rewarded one 5-a-side team with one client team flying to Liverpool as guests of Liverpool FC.

In 2019, the Bank will forge ahead with a revised community engagement strategy - Futuremakers - that will ensure that our engagement creates sustainable momentum for the youth in our community.

Dividend Declaration

The Board has proposed the declaration and payment of a final dividend of 7.99 thebe per ordinary share, amounting to P23.8million subject to regulatory approval.

Audit Opinion

The Audit for the Financial year ended 31 December 2018 is substantially complete and the audit opinion will be published together with the final audited Financials. The audit opinion will be ready for inspection at our registered office within a period of a week.

By order of the Board

Bojosi Othogile
Chairman
Gaborone

Mpho Masupe
Managing Director
Gaborone

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	(467,982)	(261,401)
Staff expenses	(237,557)	(229,199)
Other expenses	(465,757)	(529,199)
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	3,482,068	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	251,799	367,630	165,355
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	16,605,007	15,041,123	13,871,284
Liabilities			
Deposits from other banks	754,429	1,108,372	701,048
Deposits from customers	12,183,976	12,238,929	11,268,725
Unsettled Treasury Bills	1,348,939	-	-
Other liabilities	473,142	203,823	184,699
Restructuring provision	30,674	7,370	2,743
Deferred taxation	-	17,504	10,115
Senior and subordinated debt	686,260	686,260	686,260
Total liabilities	15,477,420	14,262,258	12,853,590
Equity			
Stated capital	179,273	179,273	179,273
Capital contribution	428,213	28,213	28,213
Reserves	520,101	571,379	810,208
Total equity	1,127,587	778,865	1,017,694
Total liabilities and equity	16,605,007	15,041,123	13,871,284

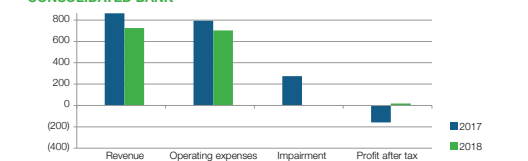
CONSOLIDATED STATEMENT OF CASH FLOWS

	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	13,412	18,431
-Interest expense on subordinated debt	40,615	39,980
-Impairment loss on loans and advances	203,557	179,490
-Movement in operating lease accrual	1,497	4,411
286,918	14,965	
Change in investment securities	(698,423)	(581,429)
Change in loans and advances to customers	(180,253)	(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	(54,953)	970,204
Change in other liabilities	1,638,546	19,342
Cash generated from operations	753,723	518,774
Taxation refunded	10,217	-
Taxation paid	(16,450)	(17,900)
Net cash generated from operating activities	747,490	500,874
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	1,096,885	388,421
Cash and cash equivalents:		
Cash and cash equivalents at 1 January	3,547,374	3,158,954
Cash and cash equivalents at 31 Dec 2018	4,644,259	3,547,374

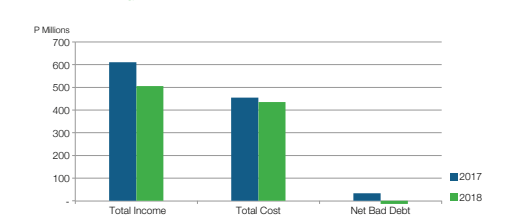
* The financial statements of Standard Chartered Insurance Agency and Botswana Education Trust have been consolidated using uniform accounting policies for like transactions and other events in similar circumstances.

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

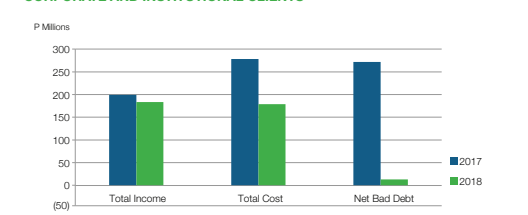
CONSOLIDATED BANK



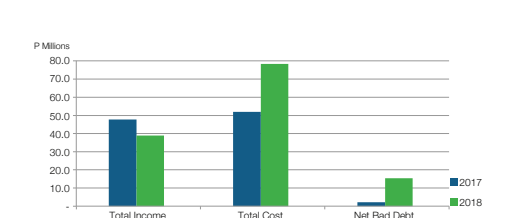
RETAIL BANKING



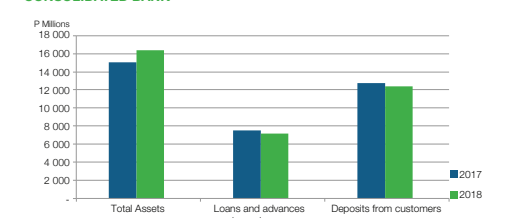
CORPORATE AND INSTITUTIONAL CLIENTS



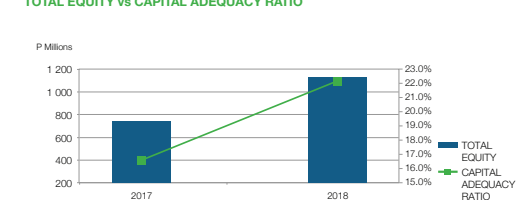
COMMERCIAL BANKING



CONSOLIDATED BANK



TOTAL EQUITY vs CAPITAL ADEQUACY RATIO



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	-	-	-	(288)	-	-	-	(288)
Restated balance as 1 January 2017	179,273	23,691	19,152	781,526	28,213	(31,566)	17,405	1,017,694
Loss for the year	-	-	-	(188,649)	-	-	-	(188,649)
Fair value adjustment: Available for sale securities	-	-	-	-	-	-	(477)	(477)
Transaction with owners of the bank								
Dividend to equity holders - paid	-	-	-	(49,703)	-	-	-	(49,703)
Restated balance at 31 December 2017	179,273	23,691	19,152	543,174	28,213	(31,566)	16,928	778,865
IFRS 9 transition adjustment	-	-	-	(64,476)	-	-	-	(64,476)
Adjusted balance as 1 January 2018	179,273	23,691	19,152	478,698	28,213	(31,566)	16,928	714,389
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	502,542	428,213	(31,566)	6,282	1,127,587

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	25,691	335,150
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								