Standard Chartered

Standard Chartered Bank Botswana Limited

Audited Financial Results for Year ended 31st December 2019

The directors have pleasure in announcing the Group (Standard Chartered Bank Botswana and its subsidiaries*) audited financial results of the Bank for the year ended 31 December 2019 together with comparative figures for 2018.

Key Financial Highlights

- **Operating income** remained relatively flat at P726 million, supported by strong performance in non-interest income.
- **Interest Expense** down 6% as we re-profiled overall liquidity.
- **Operating Expenses down** down 11% as a result of continuing austerity on spending and bedding down of operational efficiencies across the business.
- **Pre-impairment Profits** up 4X to P102 million as a result of a modest increase in income across all primary lines, against a decrease in costs.
- **Impairment Charges** up P32 million as the ECL models continue to settle, however this poses no concern as NPL remain lower than industry averages at 2.4%.
- **Profit before Tax** up 3X, Profit After Tax up 2X both driven by sustainable improvements in the underlying business variables.
- **Return on Equity** rose by 400 basis points to 6%
- **Capital Adequacy Ratio (CAR)** stable at 19% against a regulatory limit of 15%. The stable CAR is underpinned by its quality, with Tier 1 accounting for 13% and CET at 8%.
- **Dividends** up 2.3X to 18.4 thebe per share.

Total income remained flat in 2019 while costs went down, portfolio rebalancing initiatives, supported by discipline over the quality of new asset origination led to a decline in NPLs. An improved liquidity, an enhanced efficiency in liability deployment and a more optimal asset pricing led to improved returns.

Economic Environment

World Economy

Initial economic projections before COVID-19 outbreak were positive and anticipated 2020 to be a year of soft but stabilising growth for the global economy. Global output growth estimated at 3.3%, slightly higher than the 3.1% estimate for 2019. China is likely to stabilise at the minimum rate required to double GDP in 2020 versus 2010 (the official target), before weakening further in 2021. The US economy to decelerate further to 1.8% in 2020 and euro-area growth to remain subdued. Cyclical positives for global growth should counter three long-term structural drags: debt, demographics and de-globalisation. The cyclical positives include the lagged impact of the global 'dovish wave' by global central banks in 2019, fiscal support from China and India, and the likely improvement in the electronics cycle, and the likelihood of a US-China trade deal in 2020.

In response to the rapidly accelerating global coronavirus pandemic The Federal Reserve and Bank of England has implemented interest rate cut. The EU economy is likely to shrink 1% in 2020 as a result of the coronavirus, but more pessimistic estimates point to a recession of about 2.5%.

Regional Economy

Growth in Sub-Saharan Africa (SSA) is expected to accelerate in 2020 from a weak base, despite global headwinds. The turnaround should be led by recovery prospects in the region's largest economies, Nigeria and South Africa; while Angola is expected to see its first year of positive growth since 2015. Growth expectations for both South Africa and Nigeria are above consensus.

In South Africa, balance-sheet repair by households and higher investment from an exceptionally weak base favour rising growth, despite low consensus expectations. As part of South Africa's far-reaching reforms, authorities have agreed to end the long-running monopoly of state utility Eskom. This should support rising renewables investment as South Africa seeks to increase the stability of its electricity supply. With the electricity availability factor still vulnerable, risks to this view would arise from renewed load shedding on the scale seen in early 2019. Any evidence of weak commitment to reform, such as government backtracking on much-needed public-sector compensation cuts or the functional unbundling of Eskom, would exacerbate rating risks and weaken growth.

However the anticipated growth rates are now in doubt following the outbreak of COVID-19, with negative effects across economies.

Local Economy

The economy faced some headwinds as diamond production was sluggish, with weaker local and global demand during 2019, and we expect this to reflect in a slow down on GDP growth to 3.8%. Sectors registering a growth during the year were Finance and Business Services, Trade, Hotels and Restaurants as well as Transport and Communications, whereas contribution from the mining sector was softer. Inflation remained at the lower end of the policy range for the better part of 2019, while the Monetary Policy Committee slashed 25bps off the Bank rate to re-set it at 4.75% on the 30th of August 2019. In the twelve months to December 2019, the Pula appreciated against major currencies (notably the EURO, British Pound and US Dollar), while it depreciated marginally against the South African Rand.

Going into 2020, we expect the GDP growth to accelerate to 4.2% after the slow down estimated for 2019. Driving the growth will be increased domestic consumption on the back of a successive increase in public sector salaries, a boost in aggregated mining output supported by significant investments currently being rolled out.

New challenges are however emerging, notably the COVID-19 scourge. The spread of the Coronavirus has been described as epidemic, crossing over from the epicentre in China to Europe, East Asia, America and now Africa in a matter of weeks. Human movement is being curtailed; business and trade will slow down as value chains take a knock from wide ranging bottle necks. For Botswana in particular, diamond sales may suffer while tourism may take a downturn. This, as and when it crystallises, will have an obvious impact on the banking industry.

Business and Financial Performance Review

Net Interest Income and margin	2019 P'000	2018 P'000
Net Interest Income	438,300	440,144
Average Interest-earning Assets	15,411,708	14,952,106
Average Interest-bearing Liabilities	14,058,361	13,907,456
Gross Yield (%)	5	5
Rate Paid (%)	2.3	2.5
Net Yield	2.7	2.7
Net Margin (%)	2.9	2.9

Net interest income remained relatively flat against a 3% growth on average interest earning assets. This translated into a 20-basis point climb-down in gross yield. However, a much improved and stable liquidity profile resulted into a corresponding 20-basis point improvement in average rate paid, thus fully protecting the NIMs. The numbers however are averages and do not yet reflect full effects of asset pricing optimisation that happened in Q3.

Credit Quality	2019 P'000	2018 P'000
Gross loans and Advances to customers	8,017,844	7,701,832
Of which Stage 1 and 2	7,925,357	7,451,215
Of which Stage 3	182,487	250,617
Expected Credit loss provisions	188,617	216,597
Of which Stage 1 and 2	91,114	84,907
Of which Stage 3	97,503	131,690
Net loans and Advances to customers	7,919,227	7,485,235
Of which Stage 1 and 2	7,834,243	7,426,119
Of which Stage 3	84,984	59,116
Collateral	4,732,901	3,958,960
Stage 1 and stage 2 exposures	4,099,782	3,319,260
Stage 3 exposures	633,119	639,700

The asset quality remained strong during the year, with NPL ratio declining by 90 basis points to 2.4%. This comes as a result of continuing discipline and credit-based portfolio rebalancing is crystallising into tangible benefits. The greater part of stage 2 and 3 exposures are collateralised. The Bank's portfolio is reviewed and stress tested regularly to foresee impact of likely horizon risks and manage them accordingly.

Balance Sheet and Liquidity	2019 P'000	2018 P'000
Assets		
Loans and advances to banks	3,458,459	3,488,495
Loans and advances to customers	7,919,227	7,485,235
Other Assets	4,352,641	5,630,043
Total assets	15,730,327	16,603,773
Liabilities		
Deposits from other banks	1,020,928	754,429
Deposits from customers	12,875,805	12,340,661
Other Liabilities	725,747	2,388,904
Total liabilities	14,622,480	15,484,994
Equity	1,107,847	1,108,779
Advances-to-deposits Ratio (%)	62%	61%

The Bank's balance sheet remained adequately resilient and stable throughout the year; liquidity profile was optimised and well diversified. Capital adequacy remained strong, with an improved quality.

At total balance sheet assets level there was a 5% decline, however the core lending book registered an impressive 6% as sales of our primary retail lending products for the year crossed the P2 billion mark. Contributing to the reported decline in other assets is a booking related timing difference that is reflected in the reported other liabilities.

Client liabilities saw a 4% increase, despite a reduced interest cost bill for the year. This reflects combined effects of a more stable deposit book characterised by a growth in CASA and a softer market-wide liquidity scenario for a better part of 2019.

ADR edged 100 basis points up, while the LAR closed the year down at 24.5%. The decline in LAR is a result of gradual steps taken to improve liquidity allocation.

Risk Weighted Assets	2019 P'000	2018 P'000
By Risk Type		
Credit	7,118,133	6,871,585
Market	49,952	46,201
Operational	761,215	825,808
Total RWAs	7,929,299	7,743,594

Total risk weighted assets increased to P7,929 million driven by increased business activity on the retail side of the bank, the growth is net of RWA efficiency drivers implemented during the year. The growth in market RWA is also reflective of higher activity with our financial markets during the year.

Capital Base and ratios	2019 P'000	2018 P'000
CET1 Capital	646,214	671,411
Additional Tier 1 Capital (AT1)	400,000	400,000
Tier 1 Capital	1,046,214	1,071,411
Tier 2 Capital	477,977	592,344
Total Capital	1,524,190	1,663,755
Capital adequacy ratio (%)	19.2	21.5
Regulatory Threshold (%)	15	15

The Bank remained well within regulatory capital thresholds. CET1 moved 4% down mainly driven by dividend pay-out and Additional Tier 1 capital distributions during the year, but this was partially offset by positive performance during the year. Regulatory adjustments were higher in 2019 as day 1 IFRS 9 impact amortisation continues to taper down.

Outlook

Early Q1 2020 performance has been encouraging, transitioning well from an impressive momentum run in the last quarter of 2019. Sales of primary products, in particular reflect a positive trajectory for the rest of the year, supported by increased disposable incomes for public sector employees and general positivity in the economic outlook. A number of key investments have been bedded down and expected to aide a rapid rollout of key enablers during the year. These enablers will not only improve client experience but contribute quite positively to the Bank's revenue profile, particularly the non-funded income lines.

There are headwinds though; the full effects of COVID-19 broadly remain a guess as the spread of the scourge appear far from over. Financial performance could take a knock as the Bank continues to take appropriate steps to protect its staff, clients and contribute to wider efforts in curbing the spread.

Dividend Declaration

The Board has proposed the declaration and payment of a final dividend of 18.38 thebe per ordinary share, amounting to P54.8million, subject to final regulatory approvals. This dividend will be payable on or about 19th May 2020 to those shareholders registered at close of business on 7th May 2020 with an ex dividend date of 5th May 2020.

Independent Auditors Report

Our independent auditors KPMG have audited the consolidated financial statements for the year ended 31 December 2019. The audit opinion report is available for inspection at our registered office.

By order of the Board

Doreen Khama	**Mpho Masupe**
Chairperson	Managing Director
Gaborone	Gaborone

CONSOLIDATED STATEMENTS OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

	31-Dec-19 (P'000s)	31-Dec-18 (P'000s) Restated
Interest income	762,047	783,862
Interest expense	(323,747)	(343,718)
Net interest income	438,300	440,144
Fee and commission income	238,387	249,943
Other income	85,013	86,263
Less: commission expense	(35,459)	(49,635)
Net fee income	287,941	286,571
Operating income	726,241	726,715
Operating expenses		
Staff expenses	(225,119)	(237,882)
Other expenses	(399,356)	465,757
Total operating expenses	624,475	703,639
Profit before impairment losses	101,766	23,076
Net impairment loss on financial assets	(32,187)	(35)
Profit before income tax	69,579	23,041
Income tax (charge) / credit	(14,734)	3,370
Total comprehensive income for the year	54,845	26,411
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)	18.38	8.85
Dividend per share (thebe) declared and paid in the year	7.99	-

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	31-Dec-19 (P'000s)	31-Dec-18 (P'000s) Restated	1-Jan-18 (P'000s) Restated
Assets			
Cash and balances with central bank	870,350	1,162,191	969,846
Loans and advances to banks	3,458,459	3,488,495	2,577,528
Investment securities	3,073,599	4,049,463	3,364,689
Loans and advances to customers	7,919,227	7,485,235	7,589,863
Other assets	182,512	244,138	359,969
Tax refundable	1,665	13,926	1,408
Property and equipment	131,883	58,531	64,430
Intangible Assets and goodwill	31,327	29,366	34,253
Deferred taxation	61,305	72,428	71,476
Total assets	15,730,327	16,603,773	15,033,462
Liabilities			
Deposits from other banks	1,020,928	754,429	1,108,372
Deposits from customers	12,875,805	12,340,661	12,238,929
Unsettled Treasury bills	-	1,348,939	-
Other liabilities	286,251	334,031	217,537
Provisions	-	30,674	7,370
Taxation payable	496	-	17,504
Senior and subordinated debt	439,000	686,260	686,260
Total liabilities	14,622,480	15,494,994	14,275,972
Equity			
Stated capital	179,273	179,273	179,273
Capital Contribution	428,213	428,213	28,213
Reserves	500,361	501,293	550,004
Total equity	1,107,847	1,108,779	757,490
Total Liabilities and equity	15,730,327	16,603,773	15,033,462

CONSOLIDATED STATEMENTS OF CASH FLOWS

	31-Dec-19 (P'000s)	31-Dec-18 (P'000s) Restated
Cash flows from operating activities		
Profit after taxation	54,8465	26,411
Adjustments for:		
- Interest income	(762,047)	(783,862)
- Interest expense	323,747	343,718
- Taxation	14,734	(3,370)
- Depreciation	23,792	7,363
- Amortisation on intangibles	14,912	13,413
- Profit on disposal of assets	(140)	-
- Impairment loss on loans and advances	26,168	203,556
- IFRS 9 equity adjustment	-	(82,844)
- Movement in operating lease accrual	(5,908)	1,497
- Movement in provisions	(30,674)	23,304
	(340,571)	(250,814)
Change in investment securities	974,490	650,516
Change in loans and advances to customers	(460,160)	(98,928)
Change in other assets	61,626	236,872
Change in deposits from other banks	266,499	(354,455)
Change in amounts due from customers	535,144	101,732
Payment of unsettled Treasury bills	(1,348,939)	-
Change in other liabilities	(25,508)	84,908
	(337,419)	369,830
Tax refund received	13,150	10,217
Tax paid	(5,883)	(16,450)
Interest received	762,047	662,821
Interest paid	(291,454)	(277,017)
Net cash generated from operating activities	140,441	749,401

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

	31-Dec-19 (P'000s)	31-Dec-18 (P'000s) Restated
Cash flow from investing activities		
Acquisition of property and equipment	(111,299)	(1,464)
Acquisition of intangibles	(16,873)	(8,526)
Proceeds from sale of property	140	-
Net used in investing activities	(128,032)	(9,990)
Cash flow from financing activities		
Issue of subordinated capital security	-	400,000
Redemption of subordinated debt	(247,260)	-
Interest paid on subordinated debt	(32,293)	(36,099)
Dividends paid	(23,844)	-
Distribution payment to holders of subordinated capital securities	(30,889)	-
Net cash (used in)/ generated from financing activities	(334,286)	363,901
(Decrease) / increase in cash and cash equivalents	(321,877)	1,103,312
Cash and cash equivalents:		
Cash and cash equivalents at the beginning of the year	4,650,686	3,547,374
Cash and cash equivalents at 31 December	4,328,809	4,650,686

* The financial statements of SCB Insurance and SCB Education trust have been consolidated using uniform accounting policies for like transactions and other events in similar circumstances

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital (P'000)	Revaluation reserve (P'000)	Statutory credit risk reserve P'000	Retained earnings (P'000)	Capital contribution (P'000)	Treasury share reserve (P'000)	Fair value reserve (P'000)	Total (P'000)
Group								
Balance at 01 January 2018 as previously stated	179,273	23,691	19,152	471,037	28,213	(31,566)	16,928	706,728
Total comprehensive income								
Impact of correction of error	-	-	-	(13,714)	-	-	-	(13,714)
Restated balance at 1 January 2018 **	-	-	-	457,323	-	-	-	457,323
Total comprehensive income								
Profit for the year restated**	-	-	-	26,411	-	-	-	26,411
Profit for the year as previously stated	-	-	-	23,844	-	-	-	-
Impact of correction of errors	-	-	-	2,567	-	-	-	-
Other comprehensive income								
Fair value adjustment: items measured at fair value through other comprehensive income	-	-	-	-	-	-	(10,646)	(10,646)
Transactions 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	483,734	428,213	(31,566)	6,282	1,108,779
Balance at 01 January 2019	179,273	23,691	19,152	483,734	428,213	(31,566)	6,282	1,108,779
Total comprehensive income								
Profit for the year	-	-	-	54,845	-	-	-	54,845
Other Movements***	-	-	-	(1,675)	-	-	-	(1,675)
Other comprehensive income								-
Fair value adjustment: items measured at fair value through other comprehensive income	-	2,005	-	-	-	-	(1,374)	631
Transactions with owners of the bank								
Dividends to equity holders - paid	-	-	-	(23,844)	-	-	-	(23,844)
Distributions to holders of subordinated capital securities	-	-	-	(30,889)	-	-	-	(30,889)
Balance at 31 December 2019	179,273	25,696	19,152	482,171	428,213	(31,566)	4,908	1,107,847

****Other movements relates to adjustments to two of the subsidiaries Standard Chartered Bank Botswana Insurance Agency and Standard Chartered Bank Botswana Education Trust retained earnings balance.*

CONSOLIDATED SEGMENTAL REPORTING

2019	Retail Banking (P'000)	Corporate and Institutional Banking (P'000)	Commercial Banking (P'000)	Total (P'000)
Profit and Loss				
Net Interest Income	328,599	87,464	22,238	438,300
Non Funded Income	190,421	72,622	24,898	287,941
Revenue - external sources	519,019	160,086	47,136	726,241
Impairment charge	(25,078)	(8,337)	1,228	(32,187)
Net Interest Income after impairment	493,941	151,749	48,364	694,054
Operating expenditure	(417,695)	(134,301)	(72,479)	(624,475)
Profit / (loss) before taxation	76,246	17,448	(24,115)	69,579
Statement of financial Position				
Investment Securities	-	3,073,599	-	3,073,599
Loans and advances to customers	6,674,082	1,027,225	217,920	7,919,227
Other assets for reportable segments	115,622	4,628,545	3,509	4,747,675
Total assets for reportable segments	6,789,704	8,729,368	221,429	15,740,501
Deposits from non bank customers	3,851,931	8,022,577	1,001,297	12,875,805
Other liabilities for reportable segments	14,352	1,789,892	(49,546)	1,754,698
Total liabilities for reportable segments	3,866,283	9,812,469	951,751	14,630,503

2018	Retail Banking (P'000)	Corporate and Institutional Banking (P'000)	Commercial Banking (P'000)	Total (P'000)
Profit and Loss				
Net interest income	312,455	106,462	21,227	440,144
Non funded income	192,732	75,125	18,713	286,571
Revenue - external sources	505,187	181,587	39,940	726,715
Impairment charge	10,330	5,742	(16,107)	(35)
Net interest income after impairment	515,517	187,329	23,833	726,680
Operating expenditure	(447,049)	(177,136)	(79,454)	(703,639)
Profit / (loss) before taxation	68,468	10,193	(55,621)	23,041
Statement of financial position				
Investment securities	-	4,049,463	-	4,049,463
Loans and advances to customers	5,963,708	1,272,334	249,192	7,485,235
Other assets for reportable segments	41,493	5,025,229	2,353	5,069,075
Total assets for reportable segments	6,005,201	10,347,027	251,545	16,603,773
Deposits from non bank customers	3,077,290	8,102,907	1,160,464	12,340,661
Other liabilities for reportable segments	(14,431)	3,207,629	(50,012)	3,143,187
Total liabilities for reportable segments	3,062,859	11,310,536	1,110,452	15,483,847

Retail Segment

The retail segment remains an income leader for the business, reflecting the structure of our lending book. For 2019, retail lending closed at just above 80% of the overall client's assets book, ahead of industry averages which hover around 63%. The retail book grew 12% year on year, broadly in line with total growth in loans and advances to households at industry level. Total unimpaired income for the retail segment was up 3%, driven by improved margins on top line and a modest 1% increase in non-funded income. Improved margins came on the back of optimised average asset pricing against a reducing cost of funds. Impairments were higher than prior year at P25 million but remain very low in context of total retail client asset base. Profits for the segment were 11% higher despite a 2% up tick on operational costs ascribed to the segment ticked.

Commercial, Corporate and Institutional Banking

Overall segment income was 6% down to P207 million as a decent 4% growth on the non-funded income line was totally offset by a 14% de-growth in net interest income. This is a result of combined effects of subdued demand for corporate debt and the Bank's strategy on stepping up its non-lending business support to corporates. Loans and advances went down 2% at industry level. The Corporate and Institutional Banking (CIB) sub segment registered a 71% growth in profit before tax, while the CB sub segment materially cut down its losses from the prior year by more than half.