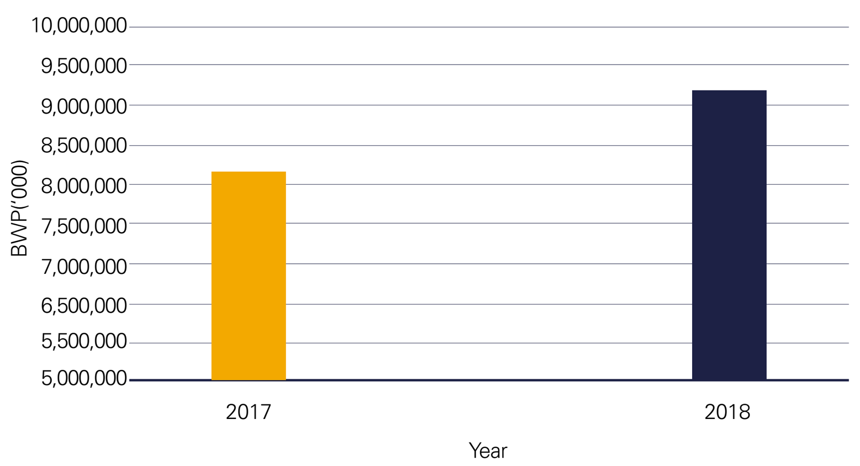
PREPARING FOR THE FUTURE

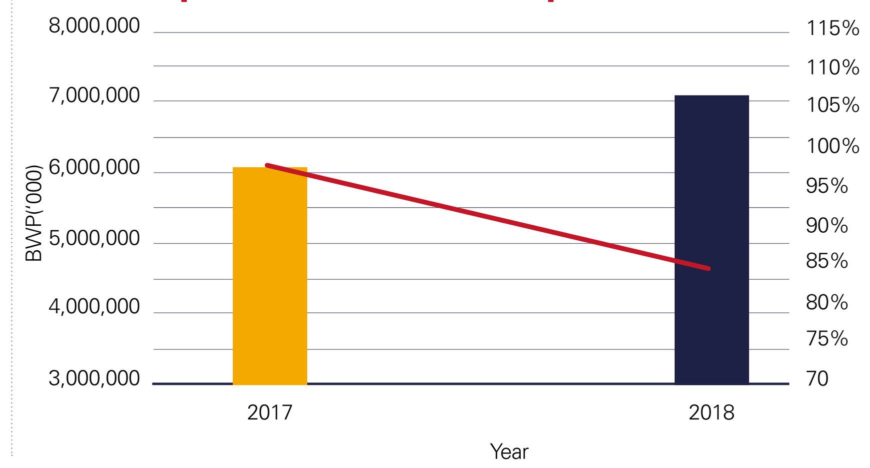
BancABC part of atlasmara

AFRICAN BANKING CORPORATION OF BOTSWANA LIMITED
CONDENSED CONSOLIDATED AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

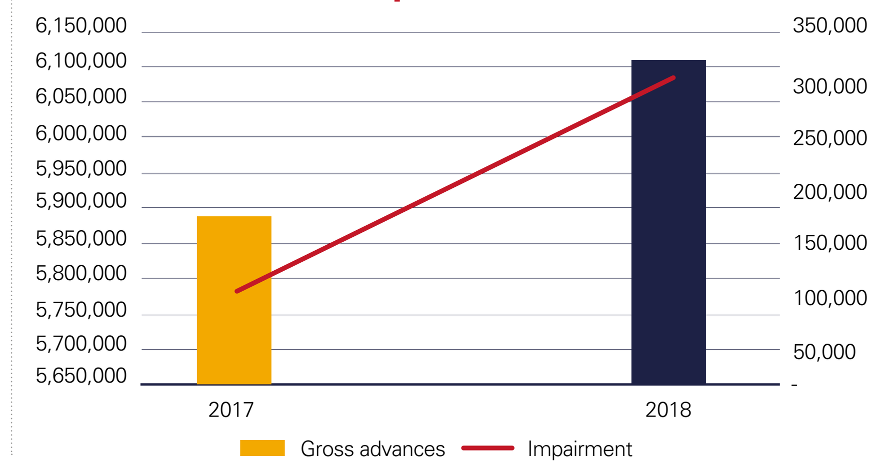
Total Assets



Deposits vs Loans to Deposits Ratio



Gross Advances vs Impairment on Gross Advances



Revenue	**Expenses**	**PAT**
P569.9m	**P404.5m**	**P128.2m**
F2017: 553.1 million	F2017: 374.0 million	F2017: 139.2 million
Gross Loans	**Customer Deposits**	**Total Equity**
P6,123.7m	**P7,192.5m**	**P972.8m**
F2017: P5,899.8 million	F2017: 6,059.9 million	F2017: 1,065.3 million
Cost to Income	**Return on Equity**	**Non - Interest Income**
73.4%	**12.6%**	**24.1%**
F2017: 62.1%	F2017: 14.0%	F2017: 18.8%

Economic developments

The economy showed signs of better than expected recovery, having grown by an average of 4.6% in 9-months of 2018 led by a recovery in the mining sector. Looking ahead into 2019, economic growth is expected to broadly remain around 4.5% although a weakening global expansion amid growing risks may presents a sub-trend growth. Trade and hospitality, now the largest sectors in terms of contribution to GDP may benefit from favourable diamond price outlook and expected improvement in tourism flows. Strong performance in the non-mining sector reflects the positive impact of the fiscal stimulus.

In the banking sector, initially the private sector credit growth was muted. The subdued growth was largely attributed to restrained growth in personal incomes and relatively high levels of household debt. Given the favourable inflation outlook, an accommodative monetary policy is expected to remain in the medium term. While starting from a low base, the moderate rebound in private sector growth which commenced in the second half of 2018 is expected to continue in 2019, underpinned by a strong mining sector and increased Government capital spending, and consumption based on recharged consumer spending capacity driven by recently announced salary increases thereby supporting sustained economic growth. The downside risks relate to soft household demand for credit which may continue to weigh on the banking sector. The sector-wide non-performing loan (NPL) ratio fell to 4.8% as of June 2018, down from 5.2% a year earlier. The asset quality is expected to continue improving on increased Government spending on infrastructure, which should support significant growth in the construction industry. Banking sector deposit growth was sluggish on account of weak household wage growth. Increased private sector activity in 2019 should likewise support deposit growth.

Financial Performance

The bank positioned itself for growth with its listing on the Botswana Stock Exchange. The listing is the bank's commitment to its stakeholders that it is positioning itself for the next phase of growth and transformation. The Bank has begun accelerating capacitating the business for this growth. Performance for the year reflects a declining net interest margin which was balanced by growth in non-interest income. Whilst this is in line with expected trend in the banking industry.

Operationally the bank made a net profit after tax of P128 million which was 8% below prior year. Customer deposits closed the year at P7.2 billion which was 19% above prior year resulting in a healthy Loan to Deposit ratio (LDR) and Liquid asset ratio (LAR) of 81% and 19% respectively. The significant increase in customer deposits was invested in Bank of Botswana Certificates (BOBC's) and Treasury bills which increased by 84% to P1.2 billion. The increase was mainly to cater for anticipated first quarter loan disbursements and manage liquidity. The bank's return on equity tapered during the year under review to 13% as a lot of effort was expended in talent acquisition, improving governance structures, processes and strengthening the enterprise risk framework. The bank is investing in capacity to contain shocks in interest expense going forward.

Total Income

Net interest income at P418 million was 15% below prior year. Net interest margin reduced by 1.2% to 5.2% reflecting higher cost of funding which increased by 0.5% and a decrease of 0.7% in average yields on interest bearing assets. Margin compression was a result of the full year impact of the 0.5% reduction in the bank rate in October 2017 as well as the general softening of yields on the consumer loan book and the change in asset mix after a significant increase in liquid assets. Cost of funding increased as a result of the tight liquidity condition in the first half of the year. The bank incurred high deposit interest rates during the first half of the year because of market liquidity squeeze and the bank's funding structure which is heavily skewed towards term deposits and wholesale funding. Customer deposit interest rates only softened in the last quarter of the year. The cost of USD Libor linked borrowings also contributed to the increase in funding costs, however the Bank has repriced USD Libor assets to ensure pass through going forward.

Non-funded income of P 133 million was 18% above prior year. Lending related charges contributed 44% of non-funded income which was 41% above prior year, reflecting the adjustments on the pricing regime on some of the retail lending portfolio. Customer service fees of P25 million contributed 28% to total income and was 44% above prior year due to increase in the services which are being charged after a review of service offering and related pricing. The increase in fees was partially offset by the reduction in foreign exchange trading income which reduced by 59%. The reduction was as a result of reduction in volumes and margins as well as a trading loss on the bank's proprietary book.

Impairments and Changes in expected credit losses

The bank adopted the IFRS 9 impairment calculation methodology at the beginning of the year. During the period, the bank had a net impairment release of P19 million. The net charge comprised of impairment release emanating from the improvement in expected credit loss coverage ratios. The expected credit loss ratios for all financial assets considered for impairments improved from 4.95% as at 1 January 2018 to 3.72% as at 31 December 2018. Generally all lending products experienced improvements in coverage ratios since the day 1 adjustment. The improvements were generally as a result of continued efforts during the year to improve quality of model inputs.

Operating Expenses

Operating expenses at P404 million increased by 8% when compared to prior year reflecting inflationary increases, capacity building and investments in infrastructure. The increase in operating expenses of P30 million from prior year was a result of an increase in staff costs (P18 million), IT (P4 million) and depreciation (P4 million). Increase in staff costs was influenced by salary adjustments and increase in headcount in line with the bank's thrust to build capacity across all business segments.

The increase in operating costs was partly offset by the reduction in commission expenses which reduced by P 15 million.

Balance Sheet

The significant customer deposit growth in the last quarter of the year resulted in the bank reaching another significant milestone with customer deposits and balance sheet size surpassing P7 billion and P 9 billion respectively for the first time. The customer deposit balance at P7.2 billion was 19% above prior year. Part of the deposit growth transpired in the last quarter of the year and was to provide liquidity for anticipated repatriation of special funds and levies to the Central Bank and preparing for first quarter disbursements. Most of the deposit growth was invested in short term liquid assets. The deposit growth largely emanated from commercial banking and global markets which grew by 14% and 56% respectively.

The loan book at P5.8 billion remained constant compared to prior year, with the Retail loan book growing by 12% compared to prior year. Lending was constrained in the first half of the year due to slow growth on deposits. Lending picked up in the second half of the year as deposit inflows improved. Commercial loan book at P629 million was 36% below prior year. Lending to corporates will continue to be reviewed in line with improvements in the cost of funding to maintain profitability. In the short term whilst investments are being made to be a transactional business, the bank will prioritise value add business.

Capital Adequacy

The bank's unimpaired capital and risk weighted assets stood at P1.3 billion and P7.2 billion respectively resulting in a capital adequacy ratio of 17.7%. Internal capital generation for the year contributed 200bps to capital adequacy. The current capital base and forecast profits are sufficient to meet the 2019 bank's growth prospects as well as dividend commitments.

During year, the bank refinanced the Tier 2 capital from the holding company (ABC Holdings Ltd) of P131 million with a 10 year loan of BWP 150 million raised from a leading local institutional investor.

Governance

In February 2019, BancABC confirmed Mrs. Lorato Nthando Mosetlhanyane as the Board Chair, with Mr. Joshua Benjamin Galeforolwe (appointed on the 1st of April 2018) as Senior Independent Director on the Board. BancABC also welcomed Mr. Boiki Matema Wabo Tema and Mrs. Ntoti Mosetlhe to the Board of Directors on the 3rd of October 2018 and the 1st of November 2018 respectively having bid farewell to Mr. Elias Mpedi Magosi effective on the 1st of August 2018.

Outlook

The bank's performance in 2018, was slightly lower than prior year. Efforts are already underway to strengthen and improve the performance for 2019 through a number of initiatives which include enhancing the customer value proposition by introducing more channels, products and ensuring high system availability.

The bank's risk appetite was reaffirmed during the year and a lot of effort went into strengthening the bank's risk governance structures so as to protect the bottom line. Significant building blocks have been put in place to prepare the bank for the future. The core banking infrastructure was stabilized and a road map on all other critical systems was finalized towards the end of 2018. Project roll out for key transactional platforms have already started in earnest as it is a key driver in transforming the bank's balance sheet and future growth capacity.

Acknowledgement

We extend our sincere gratitude to our customers, the board, management and the entire BancABC team for all the support during the year 2018.

Mrs. Lorato Nthando Mosetlhanyane
Chairperson

Mr Kgotso Bannalotlhe
Managing Director

Statements of profit or loss and other comprehensive income
for the year ended 31 December 2018

	2018 P'000	2017 P'000
Effective interest and similar income	748,923	767,181
Effective interest expense and similar charges	(330,931)	(278,230)
Net interest income	**417,992**	**488,951**
Expected credit losses / impairment losses	18,906	(48,697)
Net interest income after loan impairment charges	**436,898**	**440,254**
Net trading income	14,865	36,432
Net fee and commission income	118,138	76,476
Total net revenue	**569,901**	**553,162**
Personnel expenses	(144,979)	(126,598)
General and administrative expenses	(159,391)	(137,581)
Depreciation and amortisation expenses	(26,422)	(22,298)
Other operating expenses	(73,693)	(87,563)
Total operating expenses	**(404,485)**	**(374,040)**
Profit before tax	**165,416**	**179,122**
Tax expense	(37,234)	(39,960)
Profit for the year	**128,182**	**139,162**
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Gain on revaluation of property	4,440	(1,500)
Deferred tax (loss) / gain on revaluation of property	(977)	330
Other comprehensive income for the year	**3,463**	**(1,170)**
Total comprehensive income for the year	**131,645**	**137,992**
Earnings per share		
Basic and diluted earnings per share (thebe)	204	480
Headline earnings per share		
Basic and diluted headline earnings per share (thebe)	204	480

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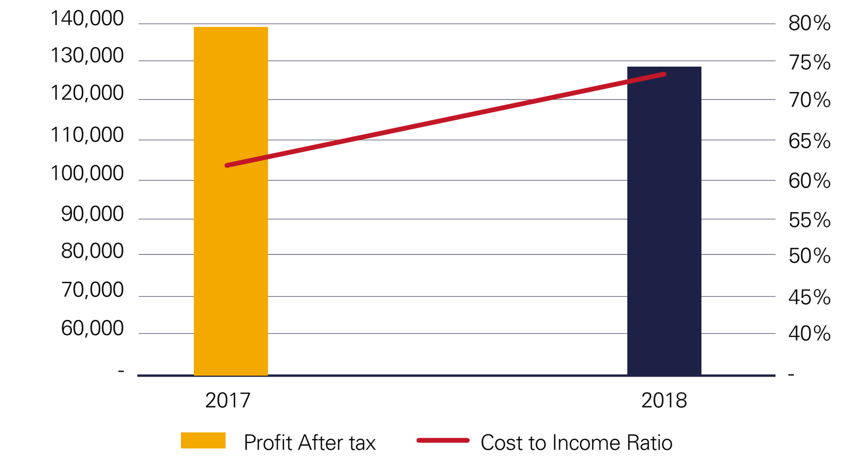
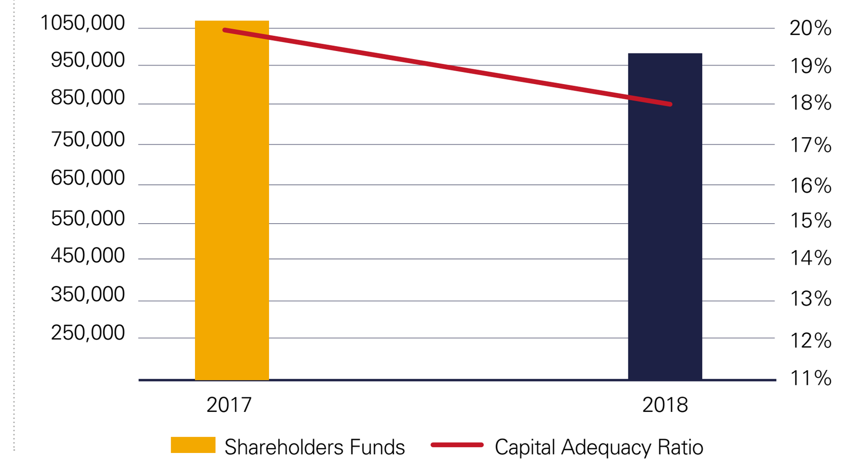
Profit after Tax vs Cost to Income



Shareholders funds vs Capital Adequacy Ratio



Consolidated statement of financial position
as at 31 December 2018

	2018 P'000	2017 P'000
ASSETS		
Cash and balances with the central bank	424,734	369,567
Balances with other banks	845,788	425,038
Balances due from related parties	528,780	628,403
Derivative financial assets	62,755	63,967
Financial assets held for trading	-	632,673
Financial assets held at amortised cost	1,162,700	-
Loans and advances to customers	5,809,123	5,795,372
Other assets	53,100	37,305
Current tax assets	12,544	17,020
Deferred tax asset	50,553	-
Intangible assets	110,833	90,341
Property and equipment	69,705	68,033
Total assets	**9,130,615**	**8,127,719**
LIABILITIES		
Deposits from banks	16,321	130,703
Deposits from customers	7,192,452	6,059,935
Derivative financial liabilities	59,173	61,577
Balances due to related parties	54,201	32,686
Other liabilities	92,787	79,707
Deferred tax liabilities	-	13,900
Borrowed funds	742,880	683,906
Total liabilities	8,157,814	7,062,414
EQUITY		
Stated capital	222,479	222,479
Retained earnings	735,786	831,753
Revaluation reserve	8,445	4,982
Other reserves	6,091	6,091
Total equity	972,801	1,065,305
Total equity and liabilities	**9,130,615**	**8,127,719**

Consolidated statement of changes in equity
for the year ended 31 December 2018

	Stated capital P'000	Other reserves P'000	Revaluation reserve P'000	Retained earnings P'000	Total P'000
At 1 January 2017	**222,479**	**6,091**	**6,152**	**692,591**	**927,313**
Comprehensive income					
Profit for the year	-	-	-	139,162	139,162
Other comprehensive income					
Revaluation of land and buildings	-	-	(1,500)	-	(1,500)
Deferred tax gain on revaluation	-	-	330	-	330
Total comprehensive income	**222,479**	**6,091**	**4,982**	**831,753**	**1,065,305**
Change on initial application of IFRS 9 at 1 January 2018	-	-	-	(288,515)	(288,515)
Deferred tax on IFRS 9 adjustment at 1 January 2018	-	-	-	63,473	63,473
Net impact on IFRS 9 application at 1 January 2018				(225,042)	(225,042)
Re-measurement of financial instruments from fair value to amortised cost	-	-	-	893	893
At 31 December 2017	**222,479**	**6,091**	**4,982**	**607,604**	**841,156**
At 1 January 2018	**222,479**	**6,091**	**4,982**	**607,604**	**841,156**
Comprehensive income					
Profit for the year	-	-	-	128,182	128,182
Transactions with owners					
Revaluation of land and buildings	-	-	4,440	-	4,440
Deferred tax on revaluation	-	-	(977)	-	(977)
Total comprehensive income	**-**	**-**	**3,463**	**128,182**	**131,645**
At 31 December 2018	**222,479**	**6,091**	**8,445**	**735,786**	**972,801**

Consolidated statement of cash flows
for the year ended 31 December 2018

	2018 P'000	2017 P'000
Cash flows from operating activities		
Profit before tax	165,416	179,122
Adjusted for:		
Depreciation	12,216	12,074
Amortisation of intangible assets	14,206	10,224
Expected credit losses / impairment losses	(18,906)	48,697
Fair value adjustment on derivatives	(1,192)	545
Movement in deferred lease liability	451	2,698
Profit on disposal of fixed assets	-	(5)
Taxation paid	(34,715)	(36,012)
Cash flows from operating activities before changes in operating assets and liabilities	**137,476**	**217,343**
Movement in operating assets / liabilities:		
Loans and advances to customers	(276,093)	(166,036)
Other assets	(16,570)	(245,770)
Deposits from customers and banks	1,018,135	(678,572)
Other liabilities	27,006	(53,074)
Net cash generated by / (used in) operating activities	**889,954**	**(926,109)**
Cash flows from investing activities		
Purchase of property and equipment	(9,448)	(4,759)
Proceed from disposal of property and equipment	-	5
Purchase of intangibles assets	(34,698)	(41,439)
Net cash used in investing activities	**(44,146)**	**(46,193)**
Cash flows from financing activities		
New borrowed funds	150,000	396,236
Repayments on borrowed funds	(91,026)	(9,133)
Net cash used in financing activities	**58,974**	**387,103**
Net increase (decrease) in cash and cash equivalents	904,782	(585,199)
Cash and cash equivalents at beginning of year	874,035	1,459,234
Cash and cash equivalents at end of year	**1,778,817**	**874,035**
Cash and cash equivalents comprised of:		
Balances with other banks	845,788	425,038
Financial assets	815,440	368,830
Cash and balances with the Central Bank	117,589	80,167
	1,778,817	874,035

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 financial statements for the year ended 31 December 2018 have been approved for issue by the members of the Board on the 26th of March 2018. 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 condensed financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have been prepared on the historical cost basis,except for revaluation of property, plant and equipment and certain financial instruments which are disclosed at fair value. The bank has consistently applied the accounting policies, 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 financial statements.

The accounting policies adopted by the Group are consistent with those applied in the previous year except on the implementation of new International financial Reporting Standards (IFRS) being:

- Financial Instruments (IFRS 9) - the Group applied IFRS 9 on a retrospective basis with an adjustment to retained earnings on 1 January 2018, as permitted by the standard, the Group has elected not to restate comparative periods.

- Revenue from Contracts with Customers (IFRS 15) - The standard is applicable to the Group in terms of revenue recognition, however, the implementation of the standard does not materially affect revenue recognition.

All other ammendments to accounting standards effective for the current reporting period had no material impact on the Group's reported results.

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.

1.2 Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs 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 financial statements for the year ended 31 December 2018.

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2. IFRS 9 Transition note

The following table illustrates the original assessment categories under IAS 39 and the new measurement categories and carrying amounts under IFRS 9 for each class of the group's financial assets at 1 January 2018 and the reclassifications between IAS 39 measurement categories and the IFRS 9 measurement categories:

IAS 39			IFRS 9					
In thousands of Pula	**Measurement Category**	**Carrying amount 31 December 2017**	**IFRS 9 ECL**	**IFRS 9 Classification and measurement**	**Carrying amount 1 January 2018**	**Measurement Category**	**Amortised cost**	**FVTPL***
Financial assets								
Cash and balances with Central bank	Loans and receivables -amortised cost	369,567	-	-	369,567	Amortised cost	369,567	-
Balances with other banks	Loans and receivables -amortised cost	425,038	-	-	425,038	Amortised cost	425,038	-
Financial instruments	Held for trading - FVPL	632,673	(15)	893	633,551	Amortised cost	633,551	-
Derivative financial assets	Held for trading - FVPL	63,967	-	-	63,967	FVTPL	-	63,967
Balances due from related parties	Loans and receivables -amortised cost	628,403	(115)	-	628,288	Amortised cost	628,288	-
Loans and advances to customers	Loans and receivables -amortised cost	5,795,372	(281,247)	-	5,514,125	Amortised cost	5,514,125	-
Total assets		**7,915,020**	**(281,377)**	**893**	**7,634,536**		**7,570,569**	**63,967**
Off balance sheet		566,861	(7,138)	-	559,723		559,723	-
Total		**8,481,881**	**(288,515)**	**893**	**8,194,259**		**8,130,292**	**63,967**

The adoption of IFRS 9 resulted in an increase in impairments of P 288.5 million which was adjusted against retained earnings net of tax. At the time of publishing the half year results the impact of adopting of IFRS 9 was assessed net of tax as P194 million. Subsequent review of the model has resulted in an increase of the day 1 adjustment net of tax to P225 million.

*** FVTPL** - Fair value through profit or loss

The table below shows the impact of applying IFRS 9 on the Group's retained income on 1 January 2018.

	Movement in balances as at 1 January 2018		
In thousands of pula	**Balance as at 31-Dec - 2017 (Audited)**	**IFRS 9 transitional adjustments**	**Adjusted Balance as at 1 January 2018 (Audited)**
Ordinary share capital and share premium	222,479	-	222,479
Retained earnings	831,753	-	831,753
Movement as a result of IFRS 9 Day 1 adjustments:			
Financial instruments	-	878	878
Balances due from related parties	-	(115)	(115)
Loans and advances to customers	-	(281,247)	(281,247)
Off balance sheet items	-	(7,138)	(7,138)
Deferred tax asset arising from the impairment impact	-	63,473	63,473
Net total impact on retained earnings	**1,054,232**	**(224,149)**	**830,083**
Other reserves	11,073	-	11,073
Total equity position after IFRS 9 transition	**1,065,305**	**(224,149)**	**841,156**

3. Stated Capital

During the year, the board of directors approved a share split of one share for 25 shares resulting in a total number of shares of 725 000 000 as at the end of the year. The shares were then listed on the Botswana stock exchange on 13 December 2018.

4. Consolidated Segmental Reporting

The Managing Director, supported by the rest of the Management Committee (MANCO), is considered the Chief Operating Decision Maker ('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 to assess each reportable segment.

Segmental Reporting December 2018

Statement of profit or loss and other comprehensive income	**Retail Banking P'000**	**Global Markets P'000**	**Commercial Banking P'000**	**Total P'000**
Net interest income	301,404	66,622	49,966	417,992
Non- interest income	107,493	14,865	10,645	133,003
Total income	**408,897**	**81,487**	**60,611**	**550,995**
Movement in impairment	(5,443)	-	24,349	18,906
Net income	**403,454**	**81,487**	**84,960**	**569,901**
Operating expenditure	(310,674)	(38,532)	(55,279)	(404,485)
Profit before taxation	**92,780**	**42,955**	**29,681**	**165,416**
Taxation	-	-	-	(37,234)
Profit after tax	**92,780**	**42,955**	**29,681**	**128,182**
Statement of financial position				
Financial assets held at amortised cost	-	1,162,700	-	1,162,700
Loans and advances to customers	5,179,787	-	629,336	5,809,123
Total assets for reportable segments	**5,179,787**	**1,162,700**	**629,336**	**6,971,823**
Deposits from customers	1,033,451	1,598,655	4,560,346	7,192,452
Deposits from banks	-	16,321	-	16,321
Total liabilities for reportable segments	**1,033,451**	**1,614,976**	**4,560,346**	**7,208,773**

Segmental Reporting December 2017

Statement of profit or loss and other comprehensive income	**Retail Banking P'000**	**Global Markets P'000**	**Commercial Banking P'000**	**Total P'000**
Net interest income	350,891	50,423	87,637	488,951
Non- interest income	67,061	36,432	9,415	112,908
Total income	**417,952**	**86,855**	**97,052**	**601,859**
Movement in impairment	(46,397)	-	(2,300)	(48,697)
Net income	**371,555**	**86,855**	**94,752**	**553,162**
Operating expenditure	(309,704)	(28,488)	(35,848)	(374,040)
Profit before taxation	**61,851**	**58,367**	**58,904**	**179,122**
Taxation	-	-	-	(39,960)
Profit after tax	**61,851**	**58,367**	**58,904**	**139,162**
Statement of financial position				
Financial assets held for trading	-	632,673	-	632,673
Loans and advances to customers	4,815,409	-	979,963	5,795,372
Total assets for reportable segments	**4,815,409**	**632,673**	**979,963**	**6,428,045**
Deposits from customers	1,052,084	1,023,085	3,984,766	6,059,935
Deposits from banks	-	130,703	-	130,703
Total liabilities for reportable segments	**1,052,084**	**1,153,788**	**3,984,766**	**6,190,638**

5. Events after reporting date

On 17 January 2019 BancABC Botswana finalised a USD 10 million debt facility with Microfinance Enhancement Facility SA, SICAV-SIF, an investment company with variable capital established as a Luxembourg specialised Investment fund, organised and existing under the laws of Luxembourg, registered with the Luxembourg Trade and Companies Register. The debt facility will be used to finance the bank's asset growth as well as to manage any potential liquidity mismatches.