Standard Chartered

Standard Chartered Bank Botswana Limited

Unaudited Abridged Consolidated Financial Results for the Half Year ended 30 June 2020

The directors have pleasure in announcing the Group (Standard Chartered Bank Botswana and its subsidiaries*) unaudited abridged financial results for the period ended 30 June 2020 together with comparative figures for 2019.

Income Growth
Operating Income at P384 million
14% UP

Net Interest Income
NII up at P251 million
25% UP

Operating Profit
Underlying PBT at P76 million,
Total PBT at P109 million
71% UP

Loans & Advances
Loan to customers
14% UP

Headline EPS
At 30.18 thebe per share
UP 3.3x

Economic Review

Global Economy

The global economy is battling to emerge from what is set to be the worst recession since World War II as the Corona Virus pandemic continues to disrupt economies into the second half of 2020. Economic risks persist amid rising geopolitical uncertainty. Policy makers have provided massive emergency support, but now need to turn to post-COVID-19 reconstruction, against a backdrop of significantly expanded Government and Central Bank financial position. However, there is a glimpse of hope as early signs of economic activity recovery are beginning to emerge albeit amid a resurgence of COVID-19 infection rates, particularly in the US.

Global growth is expected to improve in Q3, at best. Output gaps are likely to keep unemployment relatively high and inflation low; weak energy prices will also likely cap inflation. Global growth forecast for 2020 has been revised to -3.3% (from -2.6%) to reflect further downgrades for most regions, apart from Asia. Global GDP is forecast to recover to a 5.5% expansion in 2021, followed by a slower growth of 3.5% in 2022, falling below the 25-year average pace of 3.7%.

Regional Economy

Sub-Saharan Africa is expected to contract by 3.2% in 2020, with contraction in Nigeria and South Africa expected at 4.3% and 8.0%, respectively. The IMF estimates that per-capita GDP in Sub-Saharan Africa (SSA) could fall back to 2010 levels as a result of the COVID-19 pandemic, reversing gains from almost a decade of growth. Africa should see a technical bounce back in real GDP in 2021 from this year's low base as containment measures are eased. However, the outlook beyond 2021 is less certain, given rising public debt profiles and the risk that this constrains investment.

In South Africa; GDP is unlikely to return to the end-2019 level until 2023. South Africa was already in a recession before the COVID-19 scourge, having experienced three consecutive quarters of negative growth. COVID-19 cases have been on the rise in South Africa and now accounting for over 50% of all reported cases in Africa. A new lockdown in the economically important province of Gauteng is a risk and likely to further impact trade.

Local Economy

Real Gross Domestic Product for the first quarter increased by 2.6%. The increase was attributed to the significant growth in real value added in Water & Electricity, Finance & Business Services and Trade, Hotels & Restaurants industries.

The outbreak of the coronavirus has resulted in slowdown in trade and subsequently business activity. The IMF initially forecasted GDP to fall by 5.4% in 2020, and now revised it to 9%, and anticipates a rebound to 6.8% in 2021. Government predicts a much more accelerated contraction of between 9% and 13.1% and a recovery to a 3.9% growth in 2021. The Government's views are informed by expected contractions in major sectors in 2020, these being mining (-33.6%); Trade, Hotels & Restaurants (-32.2%); Manufacturing (-10.0%); Social & Personal Services (-4.8%); Transport & Communications (-4.1%).

The Central Bank Monetary Policy Committee maintained the Bank Rate at 4.25% following a 50 basis points cut in April 2020. Annual inflation eased to a historic 0.9% in June from 2.2% recorded in March following a significant decrease in fuel prices.

Business Review

Statements of Profit or Loss	30 Jun 20 P'000	30 Jun 19 P'000
Net interest income	250,795	200,692
Other Income	133,470	137,597
Operating income	**384,265**	**338,289**
Operating Expenses	(308,408)	(293,815)
Profit before Impairment and Taxation	**75,857**	**44,474**
Impairment Charges		
Charge during the period	(14,569)	(11,390)
Reversal during the period	48,049	-
Profit before Taxation	**109,337**	**33,084**
Taxation	(19,286)	(6,041)
Profit for the period	**90,051**	**27,043**

The Bank opened 2020 with a good income run, posting a 14% YoY growth on account of improved momentum on sales of primary services and products, supported by an optimised financial position. The margin improvement plans across certain product classes also contributed to the overall income growth. Operating costs reflect a 5% growth over prior year, primarily because of once off items recorded in the prior year, whereas current year costs are normalised. However, the strong performance on top line saw a 7% reduction in the cost to income ratio. Impairment charges for the year remain at lower thresholds as a result of continuing discipline on credit origination. The P48 million Impairment reversal relates to a cancelled related party loan to the SCB Education Trust, consolidated into the Group's results.

Segment Performance	30 Jun 20 P'000	30 Jun 19 P'000
Retail Banking	260,679	238,150
Corporate Banking	123,586	100,139
Total Operating Income	**384,265**	**338,289**
Retail Banking	37,693	36,799
Corporate Banking	71,644	(3,715)
Operating Profit Before Tax	**109,337**	**33,084**

Retail Segment

Retail banking posted an impressive performance during the half, with income edging up 10% to close at P261 million while profits were 3% higher. Loans and advances to households and small businesses went up 9% for the period, closing at P6.8 billion and delivering a 23% growth in Net interest Income. The strong performance signifies payoffs from the strategy that launched in early 2019. At the core of the strategy is digitisation; the SC mobile platform has digitised banking for SCB clients, including starting new relationships, giving access to over 70 banking services and having a conversation with the Bank. Progressive and transformative improvements have been implemented on the e-banking platform, and up to 93% of H1 retain (mass and priority) transactions were on digital platforms. Invariably, this means that a progressive transformation of primary delivery channels will continue.

Commercial, Corporate and Institutional Banking

The segment is gradually restoring its historically good performance, posting a 23% YoY growth in revenues to close the period at P124 million. The growth in income is broad based; Net Interest income and Non-Interest Income were up at 34% and 12% respectively. The segment delivered an impressive 39% YoY growth in loans and advances to Corporates, which ended the period at P1.6 billion. Segment underlying profits were at P24 million, up from a loss of P4 million in the prior year, however total segment profits closed the period at P72 million after a P48 million Impairment reversal resulting from a related party transaction. Driving the solid performance is the client centric strategy rolled out in the prior year, which entailed portfolio risk adjustment measures, a sharper focus on *capital lite* business and enhanced client product mix, among others.

Net Interest Income and margins	30 Jun 20 P'000	30 Jun 19 P'000
Net Interest Income	250,795	200,692
Average Interest-earning Assets	13,629,069	13,710,578
Average Interest-bearing Liabilities	**19,347,523**	**20,263,549**
Gross Yield (%)	**5.7**	5.4
Rate Paid (%)	**1.4**	1.7
Net Yield	**4.3**	3.7
Net Margin (%)	**3.7**	2.9

Overall Net Interest Income ('NII') went up 25% despite a 1% drop in the average interest earning book base, reflecting improving margins, i.e. NII is on an upward trend and the cost of funds is declining. Overall gross yield is 30 bps higher against a corresponding 30 bps drop in rate paid. Driving improved margins were a range of strategic portfolio return management measures across certain classes of assets, built on a more supportive, lower cost stable liquidity profile.

Credit Quality	30 Jun 20 P'000	30 Jun 19 P'000
Gross loans and Advances to customers	**8,550,039**	**7,539,574**
Of which Stage 1 and 2	8,363,712	7,255,307
Of which Stage 3	186,327	251,097
Expected Credit loss provisions	187,404	182,196
Of which Stage 1 and 2	91,637	107,648
Of which Stage 3	95,767	74,548
Net loans and Advances to customers	**8,362,636**	**7,357,379**
Of which Stage 1 and 2	8,272,076	7,147,659
Of which Stage 3	90,560	176,549
Collateral	**4,659,638**	**4,061,842**
Stage 1 and stage 2 exposures	4,193,832	3,581,800
Stage 3 exposures	465,806	480,042

Overall credit growth remained concentrated in the good book, with a 15% overall growth in stage 1 and 2 advances against a 26% drop in stage 3 loans. This corresponds to a 15% drop in overall ECL provisions on stage 1 and 2 advances, albeit a 28% acceleration on ECL against stage 3 loans, as expected. The Bank maintains adequate collateral cover over significant exposures, and the entire portfolio is reviewed and stress tested regularly to foresee impact of likely horizon risks and manage them accordingly. This has been particularly the case in the era of COVID-19 pandemic.

Statement of Financial Position and Liquidity	30 Jun 20 P'000	30 Jun 19 P'000
Assets		
Loans and advances to banks	2,995,488	2,191,439
Loans and advances to customers	8,362,636	7,357,379
Other Assets	3,619,481	4,952,345
Total assets	**14,977,605**	**14,501,163**
Liabilities		
Deposits from other banks	757,168	849,643
Deposits from customers	11,603,514	11,807,039
Other Liabilities	1,488,773	732,750
Total liabilities	**13,849,455**	**13,389,432**
Equity	**1,128,150**	**1,111,731**
Advances-to-deposits Ratio (%)	72%	62%

Overall financial position growth is at 3%, led in particular by a 14% growth in the high yielding assets (loans and advances to customers), against a deliberate 27% reduction in low to non-yielding assets (non-statutory). Liabilities remained relatively flat, notably customer deposits which saw a marginal 2% dip. Key financial position matrices remained stable throughout the period, with the asset deposit ratio climbing to 72% on the back of a strong and stable liquidity base. Liquid Asset Ratio (LAR) averaged 19%, reflecting efficiency.

Risk Weighted Assets (RWA)	30 Jun 20 P'000	30 Jun 19 P'000
By Risk Type		
Credit	6,419,463	7,020,880
Market	42,819	46,445
Operational	745,329	781,828
Total RWAs	**7,207,611**	**7,849,153**

Despite a substantial increase in credit exposures (loans and advances to customers), Credit RWA was 9% lower as at the end of the period, thus leading an 8% reduction in overall RWA. This comes as a result of a RWA efficiency exercise that has been embedded into the core principles of managing capital.

Capital Base and ratios	30 Jun 20 P'000	30 Jun 19 P'000
Common Equity Tier 1(CET 1) Capital	**569,994**	**640,263**
Additional Tier 1 Capital (AT1)	400,000	400,000
Tier 1 Capital	**969,994**	**1,040,263**
Tier 2 Capital	505,498	500,385
Total Capital	**1,475,492**	**1,540,648**
Capital adequacy ratio (%)	**20.5%**	19.6%
Regulatory Threshold (%)	**12.5**	15

The Bank remained well within regulatory capital thresholds. CET1 moved 11% down mainly driven by dividend pay-out and Additional Tier 1 capital distributions during the period, but this was partially offset by positive performance during the period. Regulatory adjustments were higher in 2019 as day 1 IFRS 9 impact amortisation continues to taper down.

Outlook

The business started the year on a positive note, sustaining good momentum throughout the first quarter before facing a noticeable disruption in the second quarter of the year. However, the overall H1 results portray a broadly positive picture. Significant uncertainties arising from the COVID-19 pandemic remain. It is widely expected that the second half of the year will be punctuated by intermittent lockdowns of localities while the disruptions on global supply chains will likely persist, albeit with some level of reprieve. There is a consensus on a pronounced contraction in the global and regional economies, and the domestic market is no exception.

The Bank continues to upscale its COVID-19 response measures in alignment to the ideals postulated by competent authorities, and this include robust business continuity plans and apt health and safety protocols for clients, staff and communities. Credit extension will continue, but in the full context of realities imposed by the corona virus pandemic. Protection of, and vigilance around the extant book remains paramount and ongoing client engagements are symbolic of the bank's belief in proactive and transparent approach to risk management.

All in all, performance outlook is positive, but significant uncertainties remain.

Appreciation

The Board of Standard Chartered Bank extends its appreciation to Management and staff for all the good work, and to shareholders and investors for the continued support.

By order of the Board

Doreen Khama
Chairperson
Gaborone
12 August 2020

Mpho Masupe
Managing Director
Gaborone

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	Unaudited 30 Jun 20 (P'000s)	Unaudited 30 Jun 19 (P'000s)
Interest income	388,194	372,880
Interest expense	(137,399)	(172,188)
Net interest income	**250,795**	**200,692**
Fee and commission income	99,725	126,688
Other income	49,586	37,430
Less: commission expense	(15,841)	(26,521)
Net fee income	133,470	137,597
Operating income	**384,265**	**338,289**
Operating expenses		
Staff expenses	(113,075)	(106,042)
Other expenses	(195,333)	(187,773)
Total operating expenses	**(308,408)**	**(293,815)**
Profit before Impairment losses	**75,857**	**44,474**
Net Impairment loss on financial assets	(14,569)	(11,390)
Profit before loan Impairment	61,288	33,084
Other Impairment	48,049	-
Profit before income tax	**109,337**	**33,084**
Income tax charge	(19,286)	(6,041)
Total comprehensive income for the period	**90,051**	**27,043**
Number of ordinary shares in issue during the period at 100 thebe per share	298,350,611	298,350,611
Headline EPS	30.18	9.02
Basic and diluted earnings per share (thebe)	30.18	7.99
Dividend per share (thebe) declared and paid in the period	18.38	7.99

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	Unaudited As at 30 Jun 20 (P'000s)	Unaudited As at 30 Jun 19 (P'000s)
Assets		
Cash and balances with central bank	311,554	1,150,820
Loans and advances to banks	2,995,488	2,191,439
Investment securities	2,930,144	3,421,052
Loans and advances to customers	8,362,636	7,357,379
Other assets	159,844	129,546
Tax refundable	10,198	20,122
Property and equipment	118,363	127,071
Intangible assets and goodwill	41,481	25,921
Deferred taxation	47,897	77,813
Total assets	**14,977,605**	**14,501,163**
Liabilities		
Deposits from other banks	757,168	849,643
Deposits from customers	11,603,514	11,807,039
Unsettled treasury bills	799,643	-
Other liabilities	243,552	280,072
Provisions	-	1,747
Taxation payable	6,578	11,931
Senior and subordinated debt	439,000	439,000
Total liabilities	**13,849,455**	**13,389,432**
Equity		
Stated capital	179,273	179,273
Capital contribution	428,213	428,213
Reserves	520,664	504,245
Total equity	**1,128,150**	**1,111,731**
Total Liabilities and equity	**14,977,605**	**14,501,163**

CONSOLIDATED STATEMENTS OF CASH FLOWS	Unaudited 30 Jun 20 (P'000s)	Unaudited 30 Jun 19 (P'000s)
Cash flows from operating activities		
Profit for the period	90,051	27,043
Adjustments for:		
- Interest income	(388,194)	(372,880)
- Interest expense	137,399	172,188
- Taxation	19,286	6,041
- Depreciation	6,432	3,552
- Amortisation on intangibles	8,903	4,258
- Profit on disposal of assets	5,420	(140)
- Impairment loss on loans and advances	(55,361)	11,341
- Movement in operating lease accrual	-	2,554
- Movement in restructuring provision	-	10,723
	(176,064)	**(135,320)**
Change in investment securities	143,954	624,487
Change in loans and advances to customers	(388,048)	33,766
Change in other assets	22,668	114,591
Change in deposits from other banks	(263,760)	95,214
Change in amounts due from customers	(1,272,291)	(533,622)
Unsettled treasury bills	799,643	-
Change in other liabilities	(34,558)	(1,444,571)
	(1,168,456)	**(1,245,455)**
Taxation refunded	-	-
Taxation paid	(8,533)	(4,415)
Interest income	388,194	(304,050)
Interest expense	(125,146)	663,972
Net cash (used in) / from operating activities	**(913,944)**	**(889,948)**

CONSOLIDATED STATEMENTS OF CASH FLOWS	Unaudited 30 Jun 20 (P'000s)	Unaudited 30 Jun 19 (P'000s)
Cash flow from investing activities		
Acquisition of property and equipment	(10,437)	(134,092)
Acquisition of intangibles	(14,889)	(813)
Proceeds from sale of assets	-	140
Net cash used in investing activities	**(25,326)**	**(134,765)**
Cash flow from financing activities		
Redemption of subordinated debt	-	(247,260)
Interest paid on subordinated debt	(12,253)	(19,667)
Dividends paid	(54,845)	-
Cash lease payments	-	(1,469)
Subordinated capital securities distribution	(15,402)	(15,318)
Net cash used in financing activities	**(82,500)**	**(283,714)**
Decrease in cash and cash equivalents	**(1,021,767)**	**(1,308,427)**
Cash and cash equivalents:		
Cash and cash equivalents at 1 January	4,328,809	4,650,686
Cash and cash equivalents at 30 June	**3,307,042**	**3,342,259**

* *The financial statements of SCB 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 -3months.*

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)
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
Balance at 01 January 2020	179,273	25,696	19,152	482,171	428,213	(31,566)	4,908	1,107,847
Total comprehensive income								
Profit for the period	-	-	-	90,051	-	-	-	90,051
Other comprehensive income								
Fair value adjustment: items measured at fair value through other comprehensive income	-	-	-	-	-	-	499	499
Transactions with owners of the bank								
Dividends to equity holders - paid	-	-	-	(54,845)	-	-	-	(54,845)
Distributions to holders of subordinated capital securities	-	-	-	(15,402)	-	-	-	(15,402)
Balance at 30 June 2020	179,273	25,696	19,152	501,975	428,213	(31,566)	5,407	1,128,150

****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	Retail Banking (P'000)	Commercial Corporate and Institutional Banking (P'000)	Total (P'000)
2020			
Profit and Loss			
Net Interest Income	183,018	70,363	253,381
Non Funded Income	77,661	53,223	130,884
Revenue - external sources	**260,679**	**123,586**	**384,265**
Operating expenditure	(222,196)	(86,212)	(308,408)
Profit before Impairment losses	38,483	37,374	75,857
Net Impairment loss on financial assets	(790)	(13,778)	(14,569)
Profit before loan Impairment	**37,693**	**23,596**	**61,289**
Other Impairment	-	48,049	48,049
Profit before taxation	**37,693**	**71,644**	**109,337**
Statement of financial Position			
Investment securities	-	2,930,144	2,930,144
Loans and advances to customers	6,748,154	1,614,482	8,362,636
Other assets for reportable segments	118,374	3,566,451	3,684,825
Total assets for reportable segments	**6,866,528**	**8,111,077**	**14,977,605**
Deposits from non bank customers	4,084,715	7,518,799	11,603,514
Other liabilities for reportable segments	(54,783)	2,300,724	2,245,941
Total liabilities for reportable segments	**4,029,932**	**9,819,523**	**13,849,455**

Consolidated Segmental Reporting	Retail Banking (P'000)	Corporate and Institutional Banking (P'000)	Commercial Banking (P'000)	Total (P'000)
2019				
Profit and Loss				
Net Interest Income	148,266	37,845	14,581	200,692
Non Funded Income	89,884	31,800	15,913	137,597
Revenue - external sources	**238,150**	**69,645**	**30,494**	**338,289**
Net Impairment loss on financial assets	(9,023)	(3,559)	1,192	(11,390)
Net Interest Income after Impairment	**229,127**	**66,086**	**31,686**	**326,899**
Operating expenditure	(192,328)	(70,785)	(30,702)	(293,815)
Profit / (loss) before taxation	**36,799**	**(4,699)**	**984**	**33,084**
Statement of financial Position				
Investment Securities	-	3,421,052	-	3,421,052
Loans and advances to customers	6,195,055	926,466	235,858	7,357,379
Other assets for reportable segments	109,275	3,610,269	3,188	3,722,732
Total assets for reportable segments	**6,304,330**	**7,957,787**	**239,046**	**14,501,163**
Deposits from non bank customers	3,780,755	7,123,035	903,249	11,807,039
Other liabilities for reportable segments	(41,965)	1,683,125	(58,767)	1,582,393
Total liabilities for reportable segments	**3,738,790**	**8,806,160**	**844,482**	**13,389,432**

sc.com/bw

Here for good