

Standard Chartered Bank Botswana Limited

Unaudited Condensed Financial Results for the half year ended 30 June 2019

ECONOMIC REVIEW

Global Economy

Global economic growth has remained somewhat sluggish, with the International Monetary Fund (IMF) re-forecasting the 2019 growth rate down to 3.2%, although expecting an improved 3.5% in 2020.

Euro-area headline inflation fell to 1.1% in July from 1.3% in June. This reflected lower price gains for energy and reduced services inflation, which fell to 1.2% from 1.6%.

China Lending Prime Rate reduced to 4.25%, still above the 3.91% minimum that banks offer to clients, suggesting a sustained downwards trend in the near term.

Downside risks to forecasts are quite pronounced; Brexit uncertainties persist while trends in energy prices carries substantial uncertainty. Pockets of geopolitical tensions will remain a pain point.

Regional Economy

IMF forecasts a 3.5% economic growth in sub-Saharan Africa for 2019, reflecting an improvement over the 3% recorded in 2018. There is an expectation of a generalised recovery which will see growth rates stabilising at just under 4% in the mid-term.

Inflation in the region is expected to average 8.1% in 2019, down from 8.5% recorded in 2018 (IMF). This reduction is largely attributable to declining energy prices, a trend expected to have a somewhat counter-effect on depreciation of currencies.

Domestic Economy

Gross Domestic Product (GDP) is projected to increase by 3.8% in 2019. The significant influences on domestic economic performance include conducive financing conditions supported by an accommodative monetary policy and sound financial environment that facilitate policy transmission, intermediation and risk mitigation. It is anticipated that the increase in government spending, as well as implementation of initiatives, such as the doing business reforms, should also be supportive.

Overall, the economy is projected to operate close to, but below full capacity in the short to medium term, thus posing no upside risk to the inflation outlook. This position is likely to be cemented by the pass-through effects of reduced global energy prices, although the China-US trade war and Brexit present potential headwinds. Timing and effects of full scale implementation of the Africa Free Trade pact remains largely unknown, but could present important tailwinds.

Although inflation has remained below the lower band of the objective range of 3 – 6% for three consecutive months, the medium-term outlook remains positive as inflation is forecast to be within the range.

In the six months to June 2019, the Pula appreciated against the rand (0.98%); and Japanese yen (1.28%); but depreciated against the US dollar (1.06%); Chinese renminbi (0.85%); pound sterling (1.21%); and euro (1.69%).

BUSINESS REVIEW

Following the launch of refreshed strategic priorities in February this year, steady progress has been made in transforming the business. A lot has gone into reshaping our response to market, transforming client experience and further consolidating our market relevance.

We launched our digital bank during the period under review, and its proving to be a success. Prospective clients have the opportunity to open accounts from places of their convenience with no human interaction. Once on boarded, clients can instantly access over seventy services from their mobile devices via our "Sc Mobile". As a first of its kind in the market, acceptance levels for the digital bank has been high, funding levels for accounts opened via this channel are impressive, with growing transaction levels set to surpass those on traditional means of banking. The business is recording increasing level of efficiencies over

of the digital bank- costs to service are decreasing, with an increased speed to serve, client outreach is phenomenal and above all, Sc Mobile is truly redefining client experience.

In response to market realities, and in the full context of responsible lending, we adjusted our Personal Instalment Loans limits upwards to P600,000 – a first in the market. Uptake has been exceptional, with demonstrable positive outcomes of this elevated financial intermediation step.

During the past financial year, we announced some exciting innovations around our bancassurance offerings, which we deliver through strategic partnerships with key industry players. We have excelled in providing long term life insurance to our clientele, which is perfectly complimentary to the convenient lending products we extend to customers.

The business foundations have progressively been secured; capital adequacy is stable at 19.4%, with a healthy Asset to Deposit Ratio of 63%. The cost of liquidity has been contained to prior year levels despite an overall 6% growth in client deposits. This reflects an improving liquidity profile supporting the planned sustainable growth. Capitalising on this, Retail Banking, our largest segment registered a 5% growth for the half year driven by loans and advances to customers. Overall Bank balance sheet registered a healthy 8% growth over the last twelve months.

Financial Performance Review

Our interim consolidated Profit Before Tax grew 20% to P33.1 million as we continue to embed efficiencies across our business model. This is despite a 5% drop in top line, which come on the backdrop of our strategy to pursue high quality income. Our interest expense was maintained flat to prior year levels against an increased client deposit book. A marked improvement was registered in our current, call and savings account deposits, and this was complemented by a progressive and sustainable repricing of our term liabilities.

Our non-funded income registered a 1% increase, finally reversing a downward trend this line have been experiencing in the last few reporting periods. Leading this improvement are our innovative wealth products, while the digital platforms continue to pick up.

The growth in profitability was segment wide, with a great run on our Corporate, Commercial and Institutional Banking segment's non-funded income which registered a 17% increase over the last period.

Outlook

Our business momentum has been registering an impressive run, particularly from Q2 after a somewhat slow start in Q1. The positive run is expected to continue into H2 and beyond; we have re-established margins across segments and products, enhanced our product offerings and re-defined our digital approach to banking. Our costs are well controlled, a re-profiled liquidity structure is yielding reduced effective cost of funding, whilst technology driven costs are driving operational costs down. We expect a sustainable broad-based improvement in overall returns, driven by an uplift in income across all segments and products, complimented by a reducing cost base.

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.

Approved by the Board of directors on 19 September 2019.


Bojosi Othogile
Chairman
Gaborone


Mpho Masupe
Managing Director
Gaborone

CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

Unaudited 30-Jun-19 (P'000s)	Unaudited 30-Jun-18 Restated*** (P'000s)	Audited 31-Dec-18 (P'000s)	
Interest income	372,880	394,281	783,862
Interest expense	(172,188)	(171,270)	(343,718)
Net interest income	200,692	223,011	440,144
Fee and commission income	126,688	127,149	247,376
Other income	37,430	39,524	86,263
Less: commission expense	(26,521)	(30,168)	(49,635)
Net fee income	137,597	136,505	284,004
Operating income	338,289	359,516	724,148
Operating expenses			
Staff expenses	(106,042)	(120,044)	(237,882)
Other expenses	(187,773)	(221,460)	(465,757)
Total operating expenses	(293,815)	(341,504)	(703,639)
Profit before impairment losses	44,474	18,012	20,509
Net impairment loss on financial assets	(11,390)	9,498	(35)
Profit before income tax	33,084	27,510	20,474
Income tax (charge) / credit	(6,041)	(4,809)	3,370
Total comprehensive income for the period	27,043	22,701	23,844
Number of ordinary shares in issue during the period at 100 thebe per share	298,350,611	298,350,611	298,350,611
Basic and diluted earnings per share (thebe)	9.06	7.61	7.99
Headline and diluted earnings per share (thebe)	9.06	7.61	7.99
Dividend per share (thebe) declared in the year	7.99	-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Unaudited 30-Jun-19 (P'000s)	Unaudited 30-Jun-18 Restated*** (P'000s)	Audited 31-Dec-18 (P'000s)	
Assets			
Cash and balances with central bank	1,150,820	1,420,752	1,162,191
Loans and advances to banks	2,191,439	2,565,653	3,488,495
Loans and advances to customers	7,357,379	7,509,262	7,485,235
Investment securities	3,421,052	1,721,768	4,049,463
Property and equipment	69,616	63,478	58,531
Flight of use of assets	57,455	-	-
Intangible assets	25,921	30,445	29,366
Other assets	129,546	11,448	244,138
Deferred taxation	77,813	61,814	72,428
Tax refundable	20,122	-	13,926
Total assets	14,501,163	13,384,620	16,603,773
Liabilities			
Deposits from other banks	849,643	276,773	754,429
Deposits from other customers	11,807,039	11,107,680	12,340,661
Unsettled Treasury bills	-	-	1,348,939
Restructuring provision	1,747	7,370	30,674
Subordinated liabilities	439,000	686,260	686,260
Income tax liabilities	11,931	-	-
Lease liability - Property	57,455	-	-
Other liabilities	222,617	583,392	322,884
Total liabilities	13,389,432	12,661,475	15,483,847
Equity			
Stated capital	179,273	179,273	179,273
Capital contribution	428,213	28,213	428,213
Reserves	504,245	515,659	512,440
Total equity	1,111,731	723,145	1,119,926
Total Liabilities and equity	14,501,163	13,384,620	16,603,773

CONSOLIDATED STATEMENT OF CASH FLOWS

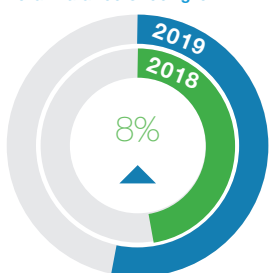
Unaudited 30-Jun-19 (P'000s)	Unaudited 30-Jun-18 Restated*** (P'000s)	Audited 31-Dec-18 (P'000s)	
Cash flows from operating activities			
Profit after taxation	27,043	22,701	23,844
Adjustments for:			
-Interest income	(372,880)	(394,281)	(783,862)
-Interest expense	172,188	171,270	343,718
-Taxation	6,041	4,809	(3,370)
-Depreciation	3,552	3,921	7,363
-IFRS 9 equity adjustment	-	-	(82,844)
-Movement in restructuring provision	10,723	-	23,304
-Amortisation on intangibles	4,258	9,418	13,413
-Net impairment loss on loans and advances	11,341	(218,161)	203,556
-Movement in operating lease accrual	2,554	-	1,497
-Profit on disposals of property and equipment	(140)	-	-
Cashflow before changes in working capital	(135,320)	(400,323)	(253,381)
Change in investment securities	624,487	1,636,671	650,516
Change in loans and advances to customers	33,766	236,260	(98,928)
Change in other assets	114,591	348,521	236,872
Change in deposits from other banks	95,214	(831,599)	(354,455)
Change in deposits from other customers	(533,622)	(1,131,249)	101,732
Change in other liabilities	(1,444,571)	379,663	87,474
Cash (used in) / generated from operations	(1,245,455)	237,944	369,830
Tax refund received	-	2,216	10,217
Tax paid	(4,415)	(15,650)	(16,450)
Interest paid	(304,050)	(191,300)	(277,017)
Interest received	663,972	434,430	662,821
Net cash (used in) / generated from operating activities	(889,948)	467,640	749,401
Cash flow from investing activities			
Acquisition of property and equipment	(134,092)	(2,970)	(1,464)
Proceeds from sale of property	140	-	-
Acquisition of intangibles	(813)	(5,610)	(8,526)
Net cash used in investing activities	(134,765)	(8,580)	(9,990)
Cash flow from financing activities			
Issue of subordinated capital security	-	-	400,000
Subordinated capital securities distribution	(15,318)	-	-
Repayment of senior and subordinated debt	(247,260)	-	-
Cash lease payments	(1,469)	-	-
Interest paid on subordinated debt	(19,667)	(20,029)	(36,099)
Net cash (used in) / generated from financing activities	(283,714)	(20,029)	363,901
Net (decrease) / increase in cash and cash equivalents	(1,308,427)	439,031	1,103,312
Cash and cash equivalents:			
Cash and cash equivalents at 1 January	4,650,686	3,547,374	3,547,374
Cash and cash equivalents at the end of the period	3,342,259	3,986,405	4,650,686

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

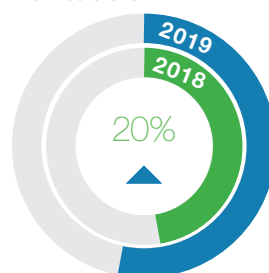
** Cash and cash equivalents are cash balances and balances held with Central Bank and other financial institutions with maturity of 0 - 3 months.

KEY FINANCIAL HIGHLIGHTS

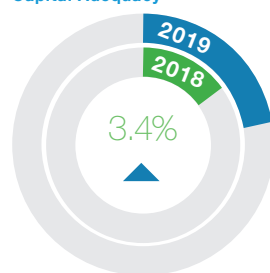
Total Balance sheet growth



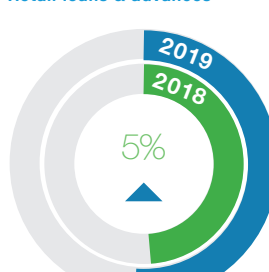
Profit before tax



Capital Adequacy



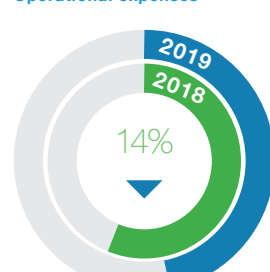
Retail loans & advances



Dividends declared



Operational expenses



CONSOLIDATED STATEMENT 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)
For the period ended 30 June 2019								
As at 1 January 2019	179,273	23,691	19,152	494,881	428,213	(31,566)	6,282	1,119,926
Total comprehensive income for the period	-	-	-	27,043	-	-	-	27,043
Profit for the period	-	-	-	-	-	-	-	-
Fair value adjustment: items measured at fair value through other comprehensive income	-	-	-	-	-	-	3,924	3,924
Transaction with owners to the bank								
Dividend to equity holders - declared	-	-	-	(23,844)	-	-	-	(23,844)
Subordinated capital securities distribution	-	-	-	(15,318)	-	-	-	(15,318)
Balance at 30 June 2019	179,273	23,691	19,152	482,762	428,213	(31,566)	10,206	1,111,731
For the period ended 30 June 2018								
Balance as at 1 January 2018 as previously reported	179,273	23,691	19,152	542,789	28,213	(31,566)	16,928	778,480
Impact of correction of errors***	-	-	-	(7,276)	-	-	-	(7,276)
IFRS 9 transition adjustment	-	-	-	(64,476)	-	-	-	(64,476)
Restated balance as at 1 January 2018	179,273	23,691	19,152	471,037	28,213	(31,566)	16,928	706,728
Total comprehensive income for the period	-	-	-	22,701	-	-	-	22,701
Profit for the period	-	-	-	-	-	-	-	-
Fair value adjustment: items measured at fair value through other comprehensive income	-	-	-	-	-	-	(6,284)	(6,284)
Restated balance at 30 June 2018	179,273	23,691	19,152	493,738	28,213	(31,566)	10,644	723,145

Standard Chartered Bank Botswana Limited

Unaudited Condensed Financial Results for the half year ended 30 June 2019

CONSOLIDATED SEGMENTAL REPORTING	Corporate and				Total (P'000)		Corporate and				Total (P'000)
	Retail Banking (P'000)	Institutional Banking (P'000)	Commercial Banking (P'000)				Retail Banking (P'000)	Institutional Banking (P'000)	Commercial Banking (P'000)		
Statement of profit and loss						Statement of profit and loss					
June 2019						June 2018					
Net Interest income	148,266	37,845	14,581		200,692	Net interest income	154,133	55,163	13,715		223,011
Non Funded income	89,884	31,800	15,913		137,597	Non funded income	95,658	31,155	9,692		136,505
Net income before impairment	238,150	69,645	30,494		338,289	Net income before impairment	249,791	86,318	23,407		359,516
Impairment charge	(9,023)	(3,559)	1,192		(11,390)	Impairment charge	9,233	10,983	(10,718)		9,498
Net Interest income after impairment	229,127	66,086	31,686		326,899	Net interest income after impairment	259,024	97,301	12,689		369,014
Operating expenditure	(192,328)	(70,785)	(30,702)		(293,815)	Operating expenditure	(219,253)	(95,180)	(27,071)		(341,504)
Profit / (loss) before taxation	36,799	(4,699)	984		33,084	Profit / (loss) before taxation	39,771	2,121	(14,382)		27,510
Statement of financial position						Statement of financial position					
Inv securities	-	3,421,052	-		3,421,052	Investment securities	-	1,721,768	-		1,721,768
Loans and advances to customers	6,195,055	926,466	235,858		7,357,379	Loans and advances to customers	5,901,318	1,305,165	302,779		7,509,262
Other assets for reportable segments	109,275	3,610,269	3,188		3,722,732	Other assets for reportable segments	23,701	4,127,045	2,844		4,153,590
Total assets for reportable segments	6,304,330	7,957,787	239,046		14,501,163	Total assets for reportable segments	5,925,019	7,153,978	305,623		13,384,620
Deposits from non bank customers	3,780,755	7,123,035	903,249		11,807,039	Deposits from non bank customers	2,996,813	6,753,630	1,357,237		11,107,680
Other liabilities for reportable segments	(41,965)	1,683,125	(58,767)		1,582,393	Other liabilities for reportable segments	10,859	1,536,731	6,205		1,553,795
Total liabilities for reportable segments	3,738,790	8,806,160	844,482		13,389,432	Total liabilities for reportable segments	3,007,672	8,290,361	1,363,442		12,661,475

Prior period errors***

During 2018, the Group identified errors in prior year financial statements relating to revenue recognition and recognition of a contingent asset:

- An account was identified where interest income on an overdraft facility was erroneously not charged since 2014, amounting to P6 155 255 as at 31 December 2016 and P1 297 956 as at 31 December 2017. Revenue was understated whilst deposits from customers were overstated as at 31 December 2016 and 31 December 2017 respectively.
- Fees and commission income in relation to arrangement and custody fees amounting to P6 442 943 were duplicated during the year ended 31 December 2016 and P625 000 during the year ended 31 December 2017. Other liabilities were understated whilst other assets were overstated as at 31 December 2016 and 31 December 2017 respectively.
- A receivable of P7 660 612 was recognised at 31 December 2016 relating to withholding tax (WHT) payments made to Botswana Unified Revenue Services (BURS) on VISA fees. There is an ongoing dispute between the banking industry and BURS as to whether VISA fees are subject to WHT under the act. The amount paid to BURS is considered a contingent asset and should not have been recognised at 31 December 2016.

The errors have been corrected by restating each of the affected financial line item for prior periods.

Notes to the unaudited condensed financial statements for the period ended 30th June 2019

Nature of business

The Group continues to be engaged in the business of commercial banking and provides a wide range of financial services. There are four subsidiaries making up the group, namely Insurance Agency company, an Investment Services company, Botswana Educational Trust and a Custodial Services company. For the purposes of presenting consolidated financial statements, only the results of the Insurance Agency subsidiary and Botswana Education Trust have been consolidated in the Group results, as the other two subsidiaries are dormant or immaterial subsidiaries for consolidation purposes.

Accounting policies

With the exception of IFRS 16 - Leases, IFRS 23 - Uncertainties over Income Tax treatments and IAS 19 - Employee Benefits, Accounting policies remain the same as those adopted in the preparation of financial statements for the financial year ended 31 December 2018. The impact of adopting IFRS 16 is reflected in the condensed Financial Statements.

Basis of preparation

These condensed financial statements have been prepared in accordance with IFRS 34 - Interim Financial Reporting and should be read together with the Group's Financial Statements for the year ended 31 December 2018.

Basis of consolidation

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that are presently exercisable are taken into account. The condensed consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Use of judgement and of estimation uncertainty

In preparing these condensed consolidated interim financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies of the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis.

Segment Reporting

The Group's banking business comprises the following broad reportable segments:

Retail Banking

This segment focuses on the provision of a wide range of banking solutions to individuals (priority and mass banking) as well as to small businesses.

Commercial, Corporate and Institutional Banking

This segment offers innovative and standardised banking solutions to large corporates, financial institutions, public sector and multinational corporations. The segment also extends its services to local corporates and medium sized enterprises.

Segment results include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office assets and expenses, and taxation.