AFRICAN BANKING CORPORATION OF BOTSWANA LIMITED

SUMMARISED CONSOLIDATED AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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Revenue

P554.6m

F2018: 569.9 million

Expenses

P402.3m

F2018: 404.5 million

PAT

P121.8m

F2018: 128.2 million

Gross Loans

P6,738.9m

F2018: P6,123.7 million

Customer Deposits

P6,973.8m

F2018: P7,192.5 million

Total Equity

P1,076.4m

F2018: P972.8 million

Economic Developments

Botswana's economy continued to indicate growth aspects as real GDP growth for the third quarter of 2019 came in at 3.7% on a year on year comparison. However, it is worth noting that the economic growth was lower than the 5% recorded in the corresponding prior year, mainly as a result of sluggish output growth in the mining sector which grew only 1.6% against 4.1% in 2018. This decline was driven by the diamond industry, which remains the largest contributor within the mining sector. A modest 4% year on year growth was achieved in the non-mining sector compared to 5.1% in the corresponding period the prior year. The regress in growth was as a result of slower expansion in the trade and hospitality sectors which were adversely affected by the decline in performance of the diamond industry. Sectors that contributed positively to growth included General Government, Social and Personal Services, Finance and Business Services as well as Transport and Communications.

Domestic credit growth maintained good growth as at December 2019. A marked deceleration in growth of lending to businesses was notable in comparison to 2018. Household credit growth was therefore much stronger in 2019 driven by annual salary increments ranging between 6% - 10% by the Botswana Government which is the highest employment contributor in the country. Household credit, which has had a 60% - 65% share in overall credit since 2017, continued to be driven largely by personal unsecured lending.

Financial Performance

BancABC Botswana full year results shows a rebound from the much slower first half performance for 2019 to end the year with a profit after tax (PAT) of P122 million. The Bank had much stronger growth across most income lines in the second half of the year. Although PAT is a modest 5% lower than in the previous financial year, net interest income remained flat (1% movement in comparison to 2018, despite declining yields exacerbated by a reduction in policy rates of 25 basis points in the second half of the year. Interest Expense remained flat, although still elevated based on historic trends. Significant growth was achieved in customer assets, while deposit growth was adequate considering buffer liquidity taken at prior year end.

This performance validates the success of the bank in combating the challenging operating environment while remaining headstrong in building sustainable underlying revenue growth and operating income with the aim of maximizing medium term value for our shareholders. To achieve this, the Bank has continued to invest in its transformation journey,with amendments only required to ensure we continue to deliver acceptable returns to our shareholders. The Bank's return on equity remained flat to that of the previous year at 12%, as a lot of effort was expended in talent acquisition, improving governance structures, processes and strengthening the enterprise risk framework. The Bank's control environment is consequently stronger.

Total Income

Net interest income closed the year at P412 million which was 1% shy of the prior year's performance. This was despite an 11% growth rate in loans and advances. The Bank of Botswana reduced the Bank Rate by 25 basis points in August 2019. Year on year interest expense has remained largely unchanged with a slight 0.4% movement against 2018, despite loan book growth being fully funded by the Bank's deposits.

Non-interest revenue (NIR) of P127 million was marginally lower on the back of weaker trading income. This was supported by a strong growth in fees and commissions linked to lending activities. Transactional fees, which comprise 27% of overall NIR declined by P4 million year on year as a result of the introduction of more restrictive account dormancy rules in order to ensure inactive account are closed faster.

Impairments

Impairment in loans and advances resulted in an impairment release of P15 million during the year, emanating from the improvement in expected credit loss coverage ratios which declined by 0.52% in comparison to the prior year, reflecting improved quality of the overall lending book. A better quality of inputs has allowed the business to continue to refine its IFRS9 model towards a less punitive methodology over time.

The Group changed from using the more punitive single default definition to a combination of single and technical default definition in recognition of expected credit losses. Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon.

Operating Expenses

Total operating expenses of P402 million were 1% below prior year. Operational costs declined by P13 million due to management focus on cost containment. This was offset by a P11 million increase in human capital costs driven by exits and new appointments, as well as employee upskilling initiatives. Information technology costs registered a significant increase in line with investments made into technology infrastructure.

Balance Sheet

Average deposits from customers for the year were P6.7 billion against the prior year's P6.6 billion. The Bank's deposit mix continues to be skewed more on term deposits, however there was an improvement in the mix relative to 2018 as transactional deposits increased. Progress towards a more even deposit mix is expected following the introduction of the BancOnline digital banking platform that will mainly focus on Commercial Banking.

The Bank's loan book closed the year at P6.4 billion, a P630million uplift from the prior year. This growth was predominantly from the retail banking segment which saw a 15% growth in its loan book. This growth was diluted by commercial banking, which recorded a loan book decline of 14% year on year. Investments in securities have significantly declined year on year by 45%, highlighting a more efficient use of available liquidity into earning assets.

Capital Adequacy

The Bank's unimpaired capital and risk weighted assets stood at P1.3 billion and P 7.1 billion respectively resulting in a capital adequacy ratio of 18.6%. The current capital base and forecast profits are sufficient to meet the 2020 Bank's growth prospects.

Outlook

The Bank achieved a modest performance in 2019, which was slightly lower than that of the previous financial year, albeit with a significant improvement in performance in the second half of the year. The project roll out for key transactional platforms has already started in earnest, as it is a key driver in transforming the Bank's balance sheet and future growth capacity. The Bank will focus on accelerating momentum in order to continue to deliver returns to its investors.

Acknowledgement

We extend our sincere gratitude to our customers, the board, management and the entire BancABC team for all the support during the year 2019.

Mrs. Lorato Nthando Mosetlhanyane
Chairperson

Mr Kgotso Bannalotlhe
Managing Director

Summarised Consolidated Audited Statements of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2019

	2019 P'000	2018 P'000
Effective interest and similar income	744,306	748,923
Effective interest expense and similar charges	(332,381)	(330,931)
Net interest income	**411,925**	417,992
Loan impairment charges	15,658	18,906
Net interest income after loan impairment charges	**427,583**	436,898
Net trading income	12,860	14,865
Net fee and commission income	114,214	118,138
Total net revenue	**554,667**	569,901
Personnel expenses	(156,351)	(144,979)
General and administrative expenses	(128,202)	(159,391)
Depreciation and amortisation expenses	(38,116)	(26,422)
Other operating expenses	(79,692)	(73,063)
Total operating expenses	**(402,361)**	(404,485)
Profit before tax	**152,296**	165,416
Tax expense	(30,499)	(37,234)
Profit for the year	**121,797**	128,182
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss		
Gain on revalution of property	1,090	4,440
Income tax on gain on revaluation of property	(240)	(977)
Other comprehensive income for the year	**850**	3,463
Total comprehensive income for the year	**122,647**	131,645
Earnings per share		
Basic and diluted earnings per share (thebe)	**17**	204
Headline Earnings per share		
Basic and diluted headline earnings per share (thebe)	**17**	204

Summarised Consolidated Audited Statements of Financial Position

as at 31 December 2019

	2019 P'000	2018 P'000
Assets		
Cash and balances with the Central Bank	77,138	424,734
Balances with other banks	904,537	845,788
Balances due from related parties	633,118	528,780
Derivative financial assets	60,487	62,755
Debt instruments	642,818	1,162,700
Loans and advances to customers	6,443,556	5,809,123
Other assets	62,359	53,100
Current tax assets	18,124	12,544
Deferred tax asset	28,220	50,553
Intangible assets	104,347	110,833
Property and equipment	129,860	69,705
Total assets	**9,104,564**	9,130,615
Liabilities		
Deposits from banks	66,844	16,321
Deposits from customers	6,973,892	7,192,452
Derivative financial liabilities	59,618	59,173
Balances due to related parties	17,662	54,201
Other liabilities	147,014	92,787
Borrowed funds	763,172	742,880
Total liabilities	**8,028,202**	8,157,814
Equity		
Stated capital	222,479	222,479
Retained earnings	838,497	735,786
Revaluation reserve	9,295	8,445
Other reserves	6,091	6,091
Total equity	1,076,362	972,801
Total equity and liabilities	**9,104,564**	9,130,615

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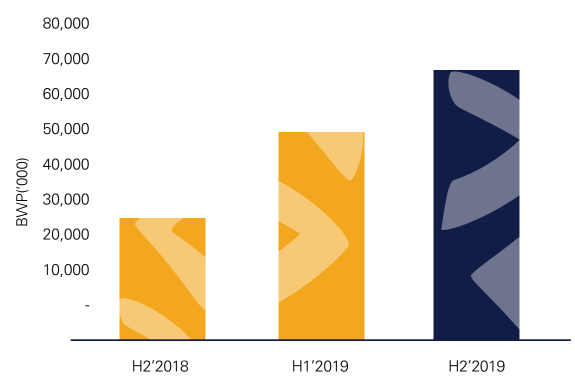
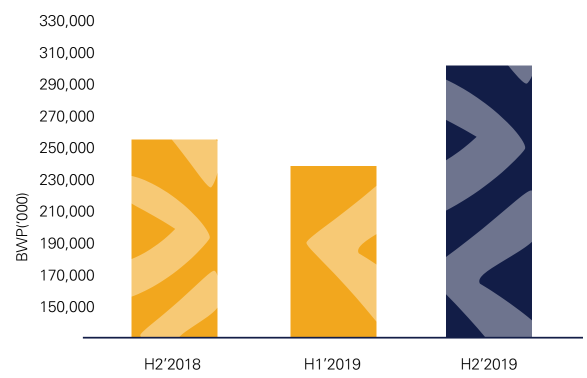
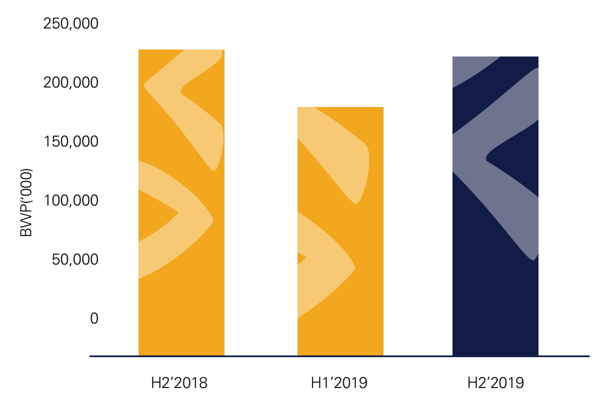
Profit after Tax



Total Revenue



Total Operating Expenses



Summarised Consolidated Audited Statements of Changes in Equity

for the year ended 31 December 2019

	Stated capital P'000	Other reserves P'000	Revalua-tion reserve P'000	Retained earnings P'000	Total P'000
At 1 January 2018	222,479	6,091	4,982	607,604	841,156
Comprehensive income					
Profit for the year	-	-	-	128,182	128,182
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
At 1 January 2019	**222,479**	**6,091**	**8,445**	**735,786**	**972,801**
Comprehensive income					
Profit for the year	-	-	-	121,797	121,797
Dividend declared and paid	-	-	-	(20,526)	(20,526)
Adjustment on initial application of IFRS 16, net of tax	-	-	-	1,440	1,440
Revaluation of land and buildings	-	-	1,090	-	1,090
Deferred tax on revaluation of land and buildings	-	-	(240)	-	(240)
Total comprehensive income	**-**	**-**	**850**	**102,711**	**103,561**
At 31 December 2019	**222,479**	**6,091**	**9,295**	**838,496**	**1,076,362**

Summarised Consolidated Audited Statements of Cash Flows

for the year ended 31 December 2019

	2019 P'000	2018 P'000
Cash flows from operating activities		
Profit before tax	152,296	165,416
Adjusted for:		
Depreciation	19,079	12,216
Amortisation of intangible assets	19,037	14,206
Expected credit losses	(15,658)	(18,906)
Fair value adjustment on derivatives	2,712	(1,192)
Movement in deferred lease liability	-	451
Prior year over/under provision	3,013	-
Taxation paid	(13,986)	(34,715)
Cash flows from operating activities before changes in operating assets and liabilities	**166,493**	137,476
Movement in operating assets / liabilities:		
Loans and advances to customers	(618,774)	(276,093)
Balances due from related parties	(104,338)	99,508
Other assets	397,108	(118,481)
Deposits from customers and banks	(168,037)	1,018,135
Other liabilities	(6,575)	7,894
Balances due to related parties	(36,539)	21,515
Net cash from operating activities	**(370,662)**	889,954
Cash flows from investing activities		
Purchase of property and equipment	(11,242)	(9,448)
Purchase of intangibles assets	(11,167)	(34,698)
Work in progress	(1,384)	-
Net cash used in investing activities	**(23,793)**	(44,146)
Cash flows from financing activities		
Dividend paid	(20,526)	-
Proceeds from borrowed funds	99,922	150,000
Repayments on borrowed funds	(79,630)	(91,026)
Payment of lease liabilities	(3,783)	-
Net cash from financing activities	**(4,017)**	58,974
Net (decrease) increase in cash and cash equivalents	(398,472)	904,782
Cash and cash equivalents at beginning of year	1,778,817	874,035
Cash and cash equivalents at end of year	**1,380,345**	1,778,817
Cash and cash equivalents comprised of:		
Balances with other banks	904,537	845,788
Debt instruments	398,813	815,440
Cash and balances with the Central Bank	76,995	117,589
	1,380,345	1,778,817

Significant Accounting Policies

for the year ended 31 December 2019

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 condensed financial statements for the year ended 31 Dec 2019 have been approved for issue by the members of the Board on the 30th March 2020. Neither the members of the Board nor others have the power to amend financial statements after issue.

Basis of presentation

Statement of compliance

Accounting policies

The Group's 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 the previous year except on the implementation of new International financial Reporting Standards (IFRS) and on changes in accounting estimates and being:

- IFRS 9 Financial Instruments: During the year the Bank changed the default methodology from using single default methodology to using a combination of both single and technical default.

- IFRS 16 Leases (IFRS 16) – The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

All other amendments 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.

Use of estimates and judgements

The preparation of financial statements in conformity with IFRS 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.

Stated Capital

The issued share capital of the Bank comprises of 725 000 000 ordinary shares which are 78% owned by ABC Holdings Limited and 22% by minority shareholders. There has been no change in the Bank's stated capital during the year.

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period, and the Group had to change its accounting policies and make retrospective adjustments as a result of adopting IFRS 16 Leases.

IFRS 16 – Leases

Rights of use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

Significant Accounting Policies

for the year ended 31 December 2019

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments.

The Group leases properties that are primarily used to house the branch network. These are leased at various tenors and terms.

Remeasurement of lease liabilities

IFRS 16 requires lessees to remeasure lease liabilities when there is a lease modification (i.e., a change in the scope of a lease, or the consideration for a lease that was not part of the original terms and conditions of the lease) that is not accounted for as a separate contract. Lessees are also required to remeasure lease payments upon a change in any of the following:

- The lease term
- The assessment of whether the lessee is reasonably certain to exercise an option to purchase the underlying asset
- The amounts expected to be payable under residual value guarantees
- Future lease payments resulting from a change in an index or rate
- In-substance fixed lease payments

Lessees use a revised discount rate when lease payments are updated for a change in the lease term or a revised assessment of a purchase option. The revised discount rate is based on the interest rate implicit in the lease for the remainder of the lease term. If that rate cannot be readily determined, the lessee uses its incremental borrowing rate. Lessees use the original discount rate when lease payments are updated for a change in expected amounts for residual value guarantees and payments dependent on an index or rate, unless the rate is a floating interest rate.

Lease modifications

A change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease (for example, adding or terminating the right to use one or more underlying assets, or extending or shortening the contractual lease term).

If a lease is modified (i.e., a change in the scope of a lease, or the consideration for a lease, that was not part of the original terms and conditions of the lease), the modified contract is evaluated to determine whether it is or contains a lease. If a lease continues to exist, lease modification can result in:

• A separate lease.
• change in the accounting for the existing lease (i.e., not a separate lease)

The exercise of an existing purchase or renewal option or a change in the assessment of whether such options are reasonably certain to be exercised are not lease modifications but can result in the remeasurement of lease liabilities and right-of-use assets.

Adoption of IFRS 16

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated.

The Group has applied the following transition options available under the modified retrospective approach:

- To calculate the right of use asset equal to the lease liability.
- The remaining term from the date of transition is not more than 12 months
- To use hindsight in determining the lease term if the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of Prime + 2% as of 1 January 2019.

As at 1st January 2019

	2018 P'000	**2019** **P'000**
Operating lease commitments disclosed as at 31 December 2018	27,437	-
Discounted using the incremental borrowing rate at 1 January 2019	-	66,902
Lease liability recognised as at 1 January 2019	-	**66,902**
Analysed into:		
Current lease liabilities	-	10,357
Non-current lease liabilities	-	56,545
Total	-	**66,902**

The associated right-of-use assets for property leases were measured at the amount equal to the lease liability. The recognised right-of-use assets relate to the following types of assets:

	31 Dec 2019 **P'000**	**1 Jan 2019** **P'000**
Land and buildings	58,942	66,902
Total right-of-use assets	**58,942**	**66,902**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- property, plant and equipment – Nil
- right-of-use assets – increase BWP 66,902 thousand
- lease liabilities – increase BWP 66,902 thousand

The net impact on retained earnings on 1 January 2019 was BWP 1,440 thousand

IAS 8 Accounting policies, changes in accounting estimates and errors

During the year, the Bank changed the default measurement methodology under IFRS 9 Financial Instruments from a single default to a combination of technical and single default IFRS 9 expected credit loss impairment model. The allocation of an account to Stages 1, 2 and 3 is dependent on the arrears status classification. The Bank opted to use the technical default definition in conjunction with a single default definition to reduce the conservativeness of the single default definition. The technical default definition is applied after the worst stage client level consideration and is applied on an individual account level basis. The single default definition is then applied after the technical default definition.

Summarised Segmental Reporting

for the year ended 31 Dec 2019

Basis of segmenting

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

Segmental Reporting December 2019

Statement of comprehensive income	**Retail Banking P'000**	**Global Markets P'000**	**Commercial Banking P'000**	**Total P'000**
Net interest income	265,824	49,971	96,130	411,925
Non- interest income	105,858	12,615	8,601	127,074
Total income	**371,682**	**62,586**	**104,731**	**538,999**
Movement in impairment	12,248	-	3,410	15,658
Net income	**383,930**	**62,586**	**108,141**	**554,657**
Operating expenditure	(314,978)	(38,323)	(49,060)	(402,361)
Profit before taxation	**68,952**	**24,263**	**59,081**	**152,296**
Taxation	(13,808)	(4,859)	(11,832)	(30,499)
Profit after tax	**55,144**	**19,404**	**47,249**	**121,797**
Statement of financial position				
Debt instruments	-	642,818	-	642,818
Loans and advances to customers	5,922,740	-	520,816	6,443,556
Total assets for reportable segments	**5,922,740**	**642,818**	**520,816**	**7,086,374**
Deposits from customers	1,076,175	-	5,897,717	6,973,892
Deposits from banks	-	66,844	-	66,844
Total liabilities for reportable segments	**1,076,175**	**66,844**	**5,897,717**	**7,040,736**

Segmental Reporting December 2018

Statement of comprehensive income	**Retail Banking P'000**	**Global Markets P'000**	**Commercial Banking P'000**	**Total P'000**
Net interest income	301,403	66,622	49,967	417,992
Non- interest income	107,493	14,865	10,645	133,003
Total income	**408,896**	**81,487**	**60,611**	**550,995**
Movement in impairment	(5,443)	-	24,349	18,906
Net income	**403,453**	**81,487**	**84,961**	**569,901**
Operating expenditure	(310,674)	(38,532)	(55,279)	404,485
Profit before taxation	**92,779**	**42,955**	**29,682**	**165,416**
Taxation	(20,884)	(9,669)	(6,680)	(37,234)
Profit after tax	**71,895**	**33,286**	**23,001**	**128,182**
Statement of financial position				
Financial assets held for trading	-	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**

Audit opinion

The summarised consolidated financial statements are extracted from the audited annual financial statements by KPMG who expressed an unmodified opinion thereon. The directors take full responsibility for the preparation of the summarised consolidated financial statements and that the financial information has been correctly extracted from the audited annual financial statements. The detailed annual financial statements and audit opinion are available for inspection at the Bank's registered office, ABC House, Plot 62433 Fairgrounds Office Park, Gaborone.

Events after reporting date

On the 11 March 2020 the World Health Organisation declared the Coronavirus COVID 19 outbreak to be a pandemic due to its rapid spread across the globe. The Botswana Government has taken stringent measures ahead of any confirmed cases to help contain the virus such as controlling entrants into the country at the borders, implementing social distancing measures and requiring self- isolation quarantine by those potentially affected. These measures are similar, though at early stage, to those adopted by other countries which has led to weaker economic outlook globally. As a result, the bank will likely experience a decrease in profitability especially by the second quarter of the year due to decline in revenue, possible increase in cost of funding or increased impairments as customers and businesses potentially become affected by the pandemic.

As at date of this report there is no sufficient data to quantify the effects of the pandemic however based on the preliminary assessments the directors and management believe the effect of the pandemic does not have a material impact on the financial statements as at 31 December 2019 based on the current information and does not amount to a material uncertainty over the banks' ability to continue as a going concern.