

Audited Results for the Year Ended 30 June 2020

Chairman's message

June 2020 marked the end of our three-year strategy cycle and I am happy to say that we achieved our goals. The board has actively shaped the new AsOne 2023 strategy to be more customer-centric as we focus on delivering enhanced value for Batswana.

The financial year under review brought with it difficulties no one could ever have imagined. COVID-19 inspired a new way of doing business and I commend my fellow Bank Gaborone Citizens for their resilience during this difficult time as they continue to deliver superior service despite the obstacles. We endeavoured to meet our customer's needs by launching a centralised branch administration centre. In addition, we opened a new branch in the Central Business District in Gaborone using our "bank of the future" format. The Bank launched a mobile banking app as well as expanded its POS (Point of Sale) footprint to enable a secure and efficient payment solution for businesses. This will translate to an overall improvement in our client experience.

The COVID-19 pandemic brought with it many challenges and it is imperative that as a Bank we engage with various stakeholders to contribute towards the fight against the pandemic. Bank Gaborone contributed P472,000 to support Government and the vulnerable, those affected by gender based violence and rolled out an awareness campaign on the pandemic and financial literacy. To assist in the mitigation of the adverse impact that COVID-19 is having on the people of Botswana, the bank implemented relief initiatives for its customers which included zero-rated fees on all digital channels and cash-flow relief solutions such as three months payment holidays for both individual and business clients. The health and safety of our employees remained a key focus and we implemented measures such as regular disinfection of Bank Gaborone branches to ensure a safe environment for staff, provision of sanitisers, masks and gloves and unfettered access to health care professionals. We are committed to being "Connectors of Positive Change" and we will continue to explore ways to help mitigate the effects of the pandemic on Batswana.

The pandemic continues to have a far-reaching impact on all banks. However, as we move forward with our AsOne 2023 strategy, I am confident that our dedicated management and staff will continue to achieve the Bank's ambitious objectives.

Financial performance

The COVID-19 pandemic caused a substantial financial strain during the last three months of the financial year, with a significant increase in impairments due to the financial pressures on various clients.

The Bank achieved a profit after tax of P39.1m, a 10.9% decrease from the previous year profit after tax of P43.8m. This was attributed to a much higher than anticipated credit impairment charge as a result of the impact of COVID-19 in the forward looking economic assumptions required by IFRS 9.

Net interest income

Net interest income increased by 29.1% to P247.9m (2019: P192.0m) with an increase in market share from 7.0% to 7.5%. The net income increase is attributable to the growth in interest earning assets by 13.0% as well as the decrease in cost of funding due to the diversification of the deposit book.

Impairment charges

Impairment charge for the year increased by 391.6% (from P10.1m to P49.9m) compared to a decline experienced in the prior year. The growth is attributable to the inclusion of forward looking information in-line with IFRS 9. The forward looking information for the reporting period took into account overlays of COVID-19 which raised the impairment to almost twice the amount.

Non-interest income

Non-interest income increased by 8.9% to P53.7m (2019: P49.3m). The positive performance is attributable to an increase in fees which is in line with the increase in the number of loans and deposits and use of electronic channels. There was also an increase in the forex trading income.

Operating expenses

Operating expenses increased by 14.1% to P195.7m (June 2019: P171.5m) a steady growth from the prior year. Main contributors to the increase include among others, staff costs which grew by 10.6%, technology costs, which grew by 40.3%. Technology costs incurred were in-line with management strategy to strengthen this area. Other costs incurred related to COVID-19 are donations made, purchase of health products for staff and fumigation of office areas.

Loans and advances

Loans and advances grew by 10.7% to P4.5bn (June 2019: P4.1bn). This increase is mainly due to the growth in Overdrafts by 36% to P509.2m (2019: 375.6m), Article finance by 23% to P282.9m (2019: P230m), Commercial loans by 11% to P1.7bn (2019: P1.5bn), Mortgage loans by 11% to P1.8bn (2019: 1.7bn) and individual loans by 15% to P371.2m (2019: P323.5m).

The bank has put together strategies aimed at reducing current and post COVID-19 defaulters, such strategies include a prudent vetting of new customers and a reinforced credit department to ensure closer engagement with customers and allow for early detection of challenges.

Impairment provision including the impact of COVID-19, increased by 37.8% to P164.0m (2019: P119.0m).

Funding increase

Total funding increased by 2% to P5.04bn (June 2019: P4.95bn) attributable to the growth in Notice deposits that grew by 59% to P47.5m (2019: P29.9m), demand deposits grew by 27% to P856.0m (2019: P672.2m), current accounts grew by 10% to P515.7m (P469.1m), savings accounts grew by 7% to P149.1m (2019: 139.2m) and a decrease in fixed deposits of 5% to P3.5bn (2019: P3.6bn). The mix was driven by the bank's strategy and appetite.

Total risk-based capital adequacy ratio

The banks' capital adequacy ratio (CAR) increased to 16.10% (June 2019: 15.54%) mainly due to the P100m Tier II capital injected during the year in the form of preference shares and P3.8m capital injected by the shareholder as Tier I. Bank of Botswana revised the Banks' CAR to 12.5% from 15% as part of COVID-19 intervention which was effective April 2020.

Outlook

We anticipate difficult conditions to persist, amplified by economic challenges and the widespread impact of COVID-19. This calls for enhanced engagement with our clients on all aspects of their financial needs and continuously finding ways to mitigate market and credit risks for all stakeholders. We will keep building on the speed and efficiency of our executions and agility that is well ingrained in the business. We will continue to exploit opportunities and further improve our service and product offerings. We are positive that the Bank will remain resilient and continue to deliver sound results. By delivering on our strategy and keeping our focus on operational excellence, we will be able to continue creating value and contributing to positive change.

HIGHLIGHTS OF THE FINANCIAL RESULTS (SALIENT FEATURES)

	June 2020	June 2019
Net interest income increased by	29.1%	3.5%
Advances net of impairments increased by	10.7%	13.6%
Non-interest income increased by	8.9%	28.7%
Net profit after tax decreased by	-10.88%	9.53%
Return on Equity ratio	8.89%	11.06%
Return on Assets ratio	0.6	0.8

Net interest income increased by	Advances net of impairments increased by	Non-interest income increased by	Net profit after tax decreased by	Return on Equity ratio	Return on Assets ratio
June 2020 29.1% ↑	June 2020 10.7% ↑	June 2020 8.9% ↑	June 2020 -10.88% ↓	June 2020 8.89% ↓	June 2020 0.6 ↓

SUMMARY OF KEY RATIOS

	2020	2019
Cost to Income (excl Tax & impairments)	64.9%	71.7%
Staff Cost (Excl Training) % of total costs	51%	51.7%
Non-Interest income % of total income	17.79%	25.65%
Capital Adequacy Ratio	16.10%	15.54%

STATEMENT OF COMPREHENSIVE INCOME for the year ended 30 June 2020

	2020 P'000	2019 P'000
Interest and similar income	433,475	381,670
Interest and similar expense	(185,488)	(189,637)
Net interest income	247,987	192,033
Impairment charges on loans and advances	(49,871)	(10,144)
Net interest income after loan impairment charges	198,116	181,889
Non-interest income	53,659	49,266
Fee and commission expense	(2,287)	(1,385)
Operating expenses	(195,678)	(171,530)
Profit before income tax	53,810	58,240
Taxation	(14,748)	(14,408)
Profit for the year	39,062	43,832
Other comprehensive income	-	-
Total comprehensive income for the year	39,062	43,832

STATEMENT OF FINANCIAL POSITION as at 30 June 2020

	2020 P'000	2019 P'000
ASSETS		
Cash and balances with the Central Bank	59,223	261,354
Bank of Botswana Certificates	171,857	399,965
Due from other banks and other financial institutions	1,237,091	765,528
Loans and advances to customers	4,544,973	4,103,902
Investment in equity instruments	3,037	2,506
Other assets	49,193	28,503
Intangible assets	6,960	7,825
Property, plant and equipment	115,497	41,326
Deferred tax asset	-	762
Current tax	2,299	6,944
Total assets	6,190,130	5,618,615
LIABILITIES		
Due to other banks	164,515	-
Deposits from customers	5,037,170	4,944,593
Other borrowings	59,031	-
Other liabilities	174,054	61,604
Current tax liability	131	-
Debt securities in issue	316,000	216,000
Total liabilities	5,750,901	5,222,197
EQUITY		
Stated capital	233,750	230,000
Retained earnings	205,479	166,418
Total shareholder's equity	439,229	396,418
Total equity and liabilities	6,190,130	5,618,615

INDEPENDENT AUDITORS REPORT


The complete set of financial statements from which these summarised results were extracted have been audited by PricewaterhouseCoopers, who issued an unqualified audit opinion. This summary itself is not audited or reviewed.

The annual financial statements comprise the Statement of Financial Position as at 30 June 2020, Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year ended 30 June 2020 and supporting explanatory notes. The audit report on the annual financial statements is available for inspection at the Bank's registered office.

BASIS OF PRESENTATION

The audited financial statements of Bank Gaborone Ltd for the year ended 30 June 2020, from which this information is derived, have been prepared in accordance with International Financial Reporting Standards. The announcement of these results is the responsibility of the directors and is extracted from the audited financial statements. The annual financial statements of Bank Gaborone were approved by the Board of Directors on 14 September 2020.


S Coetsee
Managing Director


PCG Collins
Chairman