Stanbic Bank Botswana Limited

ABRIDGED AUDITED FINANCIAL STATEMENTS ANNOUNCEMENT

For the year ended 31 December 2023

Stanbic Bank Botswana currently employs over **645 members of staff** and has a national footprint comprising **13 branches**. We offer a comprehensive Card Acquiring solution set with **3,208 stand-alone point-of-sale** (POS) devices, **121 eCommerce merchants,** and **891 integrated POS tills.** The Bank also serves customers through a network of **79 ATMs** countrywide.

11.3% Profit before indirect tax (Pm)	3.6% Loans and advances (Pb)	3.6% Deposits (Pb)	1.2% Net interest margin (%)	0.68% CAR (%)	1.3% Return on equity (%)	0.7% Credit loss ratio (%)	5.4% Cost-to-Income ratio (%)
P661	P19.3	P21.2	4.6	19.92	21.6	60bps	52.8
2022: P594 million	2022: P20.1 billion	2022: P20.5 billion	2022: 3.4%	2022: 19.24%	2022: 22.9%	2022: 1.3%	2022: 58.2%

Overview – Economic landscape

Thinking globally

The global economic landscape has been marred by growing geo-political tensions, particularly in the Euro-Asia region, which has created far-reaching instability around the world: disrupted supply chains, inflation, currency fluctuation and volatile commodity markets. The US Dollar has also strengthened against most currencies.

The World Economic Outlook (WEO) projects a slowdown of global economic growth to 2.9% with a modest rebound in 2024, albeit lower than the historical average of 3.8%. WEO also suggested that monetary policy tightening across the markets will help to cool down demand and inflation, but the full impact to economic activity is yet to be felt.

We are pleased, however, to note the following commentary, also provided by the WEO: 'Banking sector stress has receded, though tilted to the downside.'

Local economic performance

The local economic landscape was not immune to these imported pressures. The first quarters of the year saw persistently high inflation for the second year in a row, well above the Bank of Botswana's objective range despite the tightening of monetary policy.

By mid-year of 2023, inflation had rapidly fallen to within the objective range, providing a measure of relief to both households and businesses.

The country's mining activity has been heavily affected by the global landscape as well as growing acceptance of lab-grown diamonds. This turmoil has had a deep impact on Botswana's GDP.

Regulatory interventions by the Non-Bank Financial Institutions Regulatory Authority (NBFIRA) have resulted in a review of the Pension Fund Regulations (PFR2), culminating in the localisation of some pension fund investments. This is expected to boost liquidity and economic activity within the financial services sector through development of new products to sustain the pension industry's returns.

Operating model

Stanbic Bank Botswana Limited (SBBL) has actively and consistently invested in the upskilling of our people. Ensuring that we deploy the right people in the right places has prepared us for the future. To achieve this, SSBL has realigned it's operating model and optimised its investment in technology.

The Bank also reviewed its product structures and client segments to ensure that every client has access to a suite of products that fit their needs. The result? The birth of new partnerships and improved segmentation. Optimising this experience for our clients is key to client satisfaction.

The facelifting of our voice branch and self-service channels has created additional opportunities to surpass client expectations once more. Our data optimisation journey, which is a product of intense data science training, enables the most precise decision making. It allows the bank to cater to every client need including those of the underbanked and unbanked.

Financial Performance

The Board of Directors and leadership have reviewed the structures and strategies that will rapidly propel the bank on its digital journey.

Our years-long focus on refreshing our technology architecture, and, alongside the Standard Bank Group, reorganising our internal structures give the bank an operational backbone to support the platform journey and reposition us beyond the traditional provision of financial services.

Cost optimisation efforts are also starting to bear fruits: in 2023 the bank's profits grew by 9.0% from P444 million in 2022 to P484 million in this reporting period.

The bank's profitability is driven across its segments, as outlined below.

Corporate and Investment Banking (CIB)

CIB posted a profit of P263 million, a 34% year-on-year growth rate largely attributable to balance sheet optimisation strategies as well as a continued improvement in its asset book credit risk management. The segment has maintained a healthy credit loss ratio of 0.02%.

Business and Commercial Banking (BCB)

BCB posted a reduction in total profitability largely on the back of the once-off credit recovery in 2022. Despite this, the segment has continued to improve book quality and closes the year with a credit loss ratio of 2.3%. The optimisation of the balance sheet as well the development of cost management initiatives have resulted in a 53.0% improvement in net interest income and a marginal growth in operating expenses at 2.1%.

Personal and Private Banking (PPB)

The use of data analytics has resulted in improved net interest income growth of 6.0% despite increased borrowing costs. Asset book quality continues to be well-managed, with a credit loss ratio of 0.7%. Optimisation of cost structures has reduced operating expenses by 5.8%.

Balance sheet

Balance sheet structure

As a result of the review of the operating model, the bank's balance sheet grew by 4.2%. The growth was led largely by a restructure of deposits which saw a 3.6% growth and loans and advances to customers increasing marginally by 0.5%.

2023 presented us with a liquidity-constrained environment, however the bank's focus on financial literacy, attracting younger clients and the informal sector via the Youth Account, Unayo and enhanced self-service channels, resulted in a noticeable growth in household deposits.

The bank's balance sheet structure comes from its focus on risk management and prudent utilisation of its liquidity pool, also evidenced by a growth in financial investments by 26.1%.

Liquidity and Capital management

We ensure the optimal utilisation of our capital. Stanbic Bank Botswana Limited remains well capitalised, closing the financial year with Capital Adequacy Ratio (CAR) of 19.92%. Consequently, the bank was able to declare dividends of P310 million to its shareholder during the year 2023.

The bank's leadership, through its Assets and Liabilities Committee (ALCO), is charged with the management of liquidity. The bank's loan to deposit ratio improved from 71% to 69% in 2023. A notable improvement is in the growth in household deposits as a result of the focus on the underbanked and unbanked. Our technology enhancements make it easier for clients to access our products and services, playing a key role in the maintenance of liquidity.

Income Statement

Total Operating income

In addition to the 151pbs rate increase in 2022, the bank's strategies and effectiveness of its balance sheet structures have resulted in a 30.6% growth in net interest income. Fees and commissions income saw marginal growth of 1.2% due to data sanitisation strategies.

The growth in fees and commissions expense has prompted the bank to review its partnerships to optimise costs related to revenue generating activities. Trading income continues to experience a squeeze which we attribute to currency volatility and the challenges of living, working and doing business in the post COVID-19 environment.

Credit Impairments

In 2023, the portfolio showed great resilience to economic headwinds. Total impairment charges closed at P109 million against a release of P12 million in the previous year including a once-off credit recovery. The impairment is in line with the 2022 normalised charge of P110 million (adjusted for the once off P98 million recovery in 2022) despite customer book growth of P100 million.

The bank continued to leverage from its investment in people and risk management strategies implemented in 2022 in terms of credit origination, portfolio management, rehabilitations and recoveries. Credit loss and non-performing loans ratios closed at 0.6% and 3.6% respectively with the PPB and CIB significantly driving the performance.

Though non-performing loans (NPL) increased in 2023, they were largely driven by a single customer in the BCB Portfolio. The bank is fully collateralised on this exposure and expects to recover in full. This has led to the increase in NPL ratios from 2.1% in December 2022 to 3.6% in December 2023.

The bank continues to enhance its credit management strategies. Predelinquency management strategies were implemented in the Rehabilitations and Recoveries (R&R) Unit to maximise collections before charge-off. More focused external debt collector management and early litigation were implemented. Staff training also remains a priority.

The use of data and analytics have become a critical piece in predictive and behavioral profiling, allowing for early detection of distress and early intervention measures that are effective.

Operating expenses

The bank's operating expenses grew by 5.6%, largely driven by the 19.4% growth in staff costs at the back of the reorganisation exercise the bank embarked on.

With an aim to ensure that its people remain focused on servicing clients **(Happy staff = Happy client)** the bank is attentive to the real inflationary environment and has aligned salary adjustments accordingly. Other operating costs declined by 3.6% as a result of the ongoing optimisation of our cost structure to align to our strategic focus areas as well as to improve our cost to serve.

Despite the once off reorganisation costs, the bank was able to reduce the Cost to income ratio to 52.8% from 58.3%. The cost of compliance continues to rise, and the bank continues to make investments in its structures to ensure our platforms protect our clients as well as give them the freedom and peace of mind to do business anytime, anywhere.

Outlook

The operating landscape is expected to continue on a tough terrain with the rate of recovery in the diamond sector uncertain. Other mining sectors are expected to face challenges of their own. We do, however, expect an acceleration in economic growth between 2025 and 2028 driven by the services and mining sectors despite the expected challenges.

The continued greylisting of our neighbouring countries and trading partners by the Financial Action Task Force (FATF) is also expected to shake up the region in the medium term as governments embark on the necessary remedial efforts.

SBBL continues its transformation agenda, leading the way as a changemaker not just in the industry, but in our community. Our investments in technology architecture, skills development as well as deepening client relations set the bank up to respond to the rapidly changing global economy and client makeup.

Our work also protects the financial services industry, the economy as a whole, as well as our clients and future clients. The bank forges forward with much optimism, aligning our strategic focus to the National Agenda, supporting local business growth, in line with our purpose: **Botswana is our home. We drive her growth.**

Chairman
Dr TTK Matome

Chief Executive
C. Modise

Statements of profit or loss and other comprehensive income

For the year ended 31 December 2023

	Group 2023 P000's	2022 P000's
Interest income	1 757 799	1 370 282
Interest expense	(646 405)	(519 034)
Net interest income	1 111 394	851 248
Fee and commission income	411 021	374 614
Fee and commission expense	(135 677)	(102 577)
Net fee and commission income	275 344	272 037
Net trading income	224 685	247 357
Other income	20 159	26 927
Net non-interest income	520 188	546 321
Total net-income	1 631 582	1 397 569
Credit impairment charges	(109 303)	11 891
Net income before operating expenses	1 522 279	1 409 460
Staff costs	(427 911)	(358 358)
Other operating expenses	(433 270)	(456 996)
Total operating expenses	(861 181)	(815 354)
Profit before indirect tax	661 098	594 106
Indirect tax	(32 628)	(25 199)
Profit before direct tax	628 470	568 907
Direct tax	(144 542)	(125 059)
Profit for the year	483 928	443 848
Other comprehensive income after taxation	-	(240)
Items that may not be subsequently reclassified to profit or loss	-	(240)
Net change in fair value of equity financial assets measured at FVOCI	-	(240)
Total comprehensive income for the year	483 928	443 608

Statements of financial position

At 31 December 2023

	Group 2023 P000's	2022 P000's
Assets		
Cash and balances with the Central Bank	1 466 490	544 879
Derivative assets	1 377	12 163
Trading portfolio assets	3 212	-
Financial investments	3 805 364	3 018 080
Loans and advances	19 323 952	20 055 089
Loans and advances to banks	5 990 721	6 790 157
Loans and advances to customers	13 333 231	13 264 932
Other assets	133 977	87 540
Current tax asset	54 934	29 631
Intangible assets	102 921	123 359
Property, equipment and right of use assets	142 752	150 649
Deferred tax asset	12 621	20 546
Total assets	25 047 600	24 041 936
Liabilities		
Derivative liabilities	-	15 464
Trading portfolio liabilities	3 412	27 175
Deposits	21 200 521	20 472 874
Deposits from banks	1 060 094	1 011 054
Deposits from customer accounts	20 140 427	19 461 820
Accruals, deferred income and other liabilities	500 609	383 293
Debt securities in issue	1 016 440	990 440
Total liabilities	22 720 982	21 889 246
Equity		
Stated capital	390 177	390 177
Reserves	1 936 441	1 762 513
Equity - attributable to ordinary shareholders	2 326 618	2 152 690
Total liabilities and equity	25 047 600	24 041 936

Statements of changes in equity

For the year ended 31 December 2023

Group	Stated capital P000's	Statutory credit reserve P000's	Retained earnings P000's	Total equity P000's
Balance at 1 January 2023	390 177	154 474	1 608 039	2 152 690
Total comprehensive income for the year	-	-	483 928	483 928
Profit for the year	-	-	483 928	483 928
Dividends paid	-	-	(310 000)	(310 000)
Balance at 31 December 2023	390 177	154 474	1 781 967	2 326 618

Group	Stated capital P000's	Statutory credit reserve P000's	Fair value through OCI reserve P000's	Retained earnings P000's	Total equity P000's
Balance at 1 January 2022	390 177	154 474	240	1 164 191	1 709 082
Total comprehensive income for the year	-	-	(240)	443 848	443 608
Profit for the year	-	-	-	443 848	443 848
Net change in fair value of equity financial assets measured at FVOCI	-	-	(240)	-	(240)
Balance at 31 December 2022	390 177	154 474	-	1 608 039	2 152 690

Statements of cash flows

For the year ended 31 December 2023

	Group 2023 P000's	2022 P000's
Net cash flows from operating activities	1 252 011	106 164
Cash flows generated/ (utilised) in operations	293 746	(630 883)
Interest received	1 734 828	1 346 504
Interest paid	(585 286)	(474 952)
Indirect tax paid	(32 628)	(25 199)
Direct tax paid	(158 649)	(109 306)
Net cash flows used in investing activities	(29 892)	(11 954)
Net cash flows (used in)/ from financing activities	(300 508)	19 182
Net movement in cash and cash equivalents	921 611	113 392
Cash and cash equivalents at beginning of the year	544 879	431 487
Cash and cash equivalents at end of the year	1 466 490	544 879

Segment reporting

For the year ended 31 December 2023

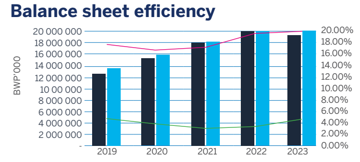
2023 Group	Corporate and Investment Banking P000's	Business and Commercial Clients P000's	Consumer and High Net Worth P000's	Corporate functions P000's	Total P000's
Net non-interest income	433 149	364 063	342 578	(28 396)	1 111 394
Non-interest income	267 494	147 754	173 734	(68 794)	520 188
Net fee and commission income	38 986	147 623	165 528	(76 793)	275 344
Net trading income	224 800	-	-	(115)	224 685
Other income	3 708	131	8 206	8 114	20 159
Total net-income	700 643	511 817	516 312	(97 190)	1 631 582
Credit impairment charges	(3 249)	(44 990)	(61 064)	-	(109 303)
Net income before departing expenses	697 394	466 827	455 248	(97 190)	1 522 279
Total operating expenses	(348 758)	(298 976)	(306 423)	92 976	(861 181)
Staff costs	(63 931)	(44 663)	(137 196)	(182 121)	(427 911)
Other operating expenses	(284 827)	(254 313)	(169 227)	275 097	(433 270)
Net income before indirect tax	348 636	167 851	148 825	(4 214)	661 098
Indirect tax	(5 185)	(3 146)	(16 693)	(7 604)	(32 628)
Profit /(loss) before direct tax	343 451	164 705	132 132	(11 818)	628 470
Direct tax	(80 196)	(35 155)	(30 431)	1 240	(144 542)
Profit / (loss) after tax	263 255	129 550	101 701	(10 578)	483 928
Operating information					
Total assets	14 290 671	2 681 963	7 831 380	243 586	25 047 600
Total liabilities	13 440 055	2 367 394	7 047 803	(134 720)	22 720 982
Other information					
Depreciation and amortisation	3 192	3 556	56 798	5 719	69 265

2022 Group	Corporate and Investment Banking P000's	Business and Commercial Clients P000's	Personal and Private Banking P000's	Corporate functions P000's	Total P000's
Net interest income	304 398	238 098	323 280	(14 528)	851 248
Non-interest income	183 694	176 179	198 850	(12 402)	546 321
Net fee and commission income	(71 728)	173 603	170 866	(704)	272 037
Net trading income	252 673	-	-	(5 556)	247 117
Other income	2 749	2 576	27 984	(6 142)	27 167
Total income	488 092	414 277	522 130	(26 930)	1 397 569
Credit impairment charges	5 034	75 389	(68 532)	-	11 891
Income after credit impairment charges	493 126	489 666	453 598	(26 930)	1 409 460
Total operating expenses	(234 249)	(292 835)	(325 361)	37 091	(815 354)
Staff costs	(44 832)	(41 722)	(90 022)	(181 782)	(358 358)
Other operating expenses	(189 417)	(251 113)	(235 339)	218 873	(456 996)
Net income before indirect tax	258 877	196 831	128 237	10 161	594 106
Indirect tax	(2 085)	(2 971)	(6 385)	(13 758)	(25 199)
Profit / (loss) before direct tax	256 792	193 860	121 852	(3 597)	568 907
Direct tax	(60 979)	(39 433)	(20 926)	(3 721)	(125 059)
Profit / (loss) after tax	195 813	154 427	100 926	(7 318)	443 848
Operating information					
Total assets	13 347 163	1 690 665	8 692 825	312 284	24 042 936
Total liabilities	12 613 071	1 428 343	7 927 934	(79 102)	21 890 246
Other information					
Depreciation and amortisation	666	2 942	23 565	44 591	71 764

1. The Group's performance includes Stanbic Bank Botswana Limited (the Bank) and its subsidiaries. The Bank makes up a significant portion of the Group's results.
2. The Bank's subsidiaries are included in the segment reports, segmented in accordance with internal segmentation rules.

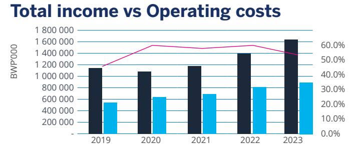
Member of the Deposit Insurance Scheme of Botswana.

Balance sheet efficiency



The bank's balance sheet has grown by 4,2% driven by a growth in deposits of 3,5%, allowing for a growth of 0,5% on customer loans and advances. The bank remains well capitalised at 19,92%.

Total income vs Operating costs



The bank's cost optimisation strategies are yielding fruit, seeing a cost growth of 5,6%, resulting in an improved cost to income ratio of 52.8%.

AUDITOR'S OPINION ON THE GROUP FINANCIAL STATEMENTS

The auditor, KPMG, has issued an opinion on the consolidated and separate financial statements for the year ended 31 December 2023. The audit was conducted in accordance with International Standards on Auditing. KPMG has issued an unmodified audit opinion. These summarised financial statements have been derived from the consolidated and separate financial statements and are consistent, in all material respects, with the consolidated and separate financial statements prepared on the basis described on the financial statements. A copy of the audit report is available for inspection at the Bank's registered office. Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the Bank's auditors.