Stanbic Bank Botswana Limited

UNAUDITED RESULTS ANNOUNCEMENT

for the year ended 31 December 2021

▼ 33%
Profit after tax
(Pm)
204
2020: P302 million

▲ 18%
Loans and advances
(Pb)
18.0
2020: P15.3 billion

▲ 14.6%
Deposits
(Pb)
18.2
2020: P15.9 billion

▲
Jaws
(%)
2.4
2020: (20.7%)

▲ 0.38%
CAR
(%)
17.30
2020: 16.92%

▼ 8.4%
Return on equity
(%)
12.3
2020: 20.7%

▼ 1%
Credit loss ratio
(%)
1.3
2020: 0.3%

▲ (1.4%)
Cost-to-income ratio
(%)
57.7
2020: 59.1%

"Our strategy is simply anchored on the fundamental ethos: **Happy, capable employees = Happy, profitable clients.** Everything else that follows is either a conduit to enable this, or an outcome thereof. Our priority remains to instil a culture deeply rooted in delivering exceptional client experience."

CHOSE MODISE, CHIEF EXECUTIVE

#UNAYOEVERYWHERE

Economic Climate

Global economy

The persistence of COVID-19 infections across the globe in 2021 saw corporations continue to grapple with the economic impact of this pandemic. Governments continued with interventions to reduce the impact on communities and businesses. The first half of the year felt the most impact as restrictions were still prevalent, with travel to most countries restricted and low vaccination rates slowing down re-opening of economies. This was also heightened by the fast mutation of the virus making governments very strict on controlling movement in and out of regions. H2 of 2021 saw a slow recovery as most economies started to open up and return to normalcy, albeit at a slow rate. The IMF projects global GDP growth to shrink from 5.9% in 2021 to 4.4% in 2022.

Most countries dropped several Covid-19 restrictions resulting in a rush to reinstate business activities. This saw a quick boost in trades across the globe which gave a positive outlook to a return to normalcy and uptick in GDP forecasts across most markets.

Local economy

Following the easing of restrictions throughout 2021 and the lifting of the State of Emergency (SOE) at the end of September 2021, improvement in economic activity was evident, creating expectations of a rebound in economic growth. The World Bank expects an 8.5% expansion at the back of improved diamond activity, evidenced by increase in global demand. The easing of restrictions has also boosted activity in the transport and tourism industries which were the hardest hit. An uptick in administered prices is still expected to challenge the landscape amid rising inflation.

Financial Performance of the Bank

The operating landscape posed a difficult environment for businesses, requiring the Bank to adapt and respond with agility as well as making sure clients and partners are supported to stay afloat throughout the year. The Bank upgraded and transformed its digital platforms to enable clients to continue operations even throughout the toughest restrictions.

Further, the Bank quickly deepened its Love Your Customer (LYC) principles in embodying an empathetic role, to motivate staff as well as to assist clients largely affected by the COVID-19 pandemic. The Bank did this by extending interventions in the credit space that enabled businesses to focus on survival with appropriate moratoria on some credit covenants.

The interventions applied saw the Bank demonstrate growth in its balance sheet and remain profitable as summarised below.

Revenue

Total revenue posted a healthy growth of 6.5% on prior year despite the subdued economic environment in the first half of the year, on the back of Covid-19 restrictions. This growth was driven by a healthy balance sheet growth and increased customer transaction volumes. Net interest income (NII) grew by a respectable 3%, despite systemic liquidity pressures and loan-book yield reductions, while non-interest income surged up by 13%, mainly driven by fees and commissions income scale.

Despite double-digit growth in the Bank's balance sheet (18% in loans and advances, 15% in deposits), NII only saw a 3% growth, the muted growth being a subset of an increase in interest expense (1.9% cost of funds for the year under review, compared to 1.6% in the preceding year) evidencing the resultant liquidity pressures of a post Covid-19 economic landscape. Loan book growth was driven by the Consumer and High Net Worth (CHNW) segment as the Bank improved its value proposition for the more secure Employee Value Banking (EVB) subsegment, which delivers better margins as well as a notable growth in the Corporate and Investment Banking (CIB) book. The Bank continues to yield net positive margins as a result of the focus on margin management as well as focus on driving scale.

NIR similarly benefited from improved business activity, as well as synergies created by the Bank's digital transformation journey and a Universal Financial Services Organisation (UFSO) client service approach to deliver a 13% year on year increase. The ending of the national State of Emergency, and the lifting of travel and trading hours restrictions benefited sectors across the economy, thus delivering a 22% increase in net fee and commission income. This was further supported by key investments in systems (Core Banking system upgrade, plus the launch of the Bank's informal segment, omni-channel payments and remittances platform, Unayo) and increased point of representation (POR) footprint point of sales (POSs), and automated teller machines (ATMs). Foreign exchange (FX) revenue reflected slight growth (6%) from improved business activity, boosted by activity in the latter part of the year, new business opportunities and strategic focus in market-differentiating structured solutions.

Credit impairment charges

Credit risk management has remained a key focus area in the midst of the disruption caused by Covid-19, and the prolonged corporality and continued mutations have made recovery by most businesses difficult as restrictions persisted into most of 2021 up to mid Q3. The Bank continued to support clients through extension of moratoria as well as through reviewing and re-extending some restructures as timing of re-opening of the economy became uncertain. However, credit impairments grew at a reasonable rate with the exception of a once off incident involving a group of companies that hit our impairments with a P94 million impact. As a result of this event, our impairments grew by more than 100% and the Credit loss ratio closed at 1.3% (2020: 0.3%), but still within our risk appetite. With the economy re-opening at the end of Q3, signs of recovery were noted in the tourism industry; impairments started to show a slower growth rate as a result. The impact of much anticipated retrenchments was minimal and a much healthier, higher quality advances growth is expected in upcoming years due to our engagement and credit origination strategies.

Operating expenses

Due to the muted growth in revenues, cost optimisation drives were enhanced to ensure efficiencies and optimisation of benefits from our cost base. Focus on platforms to drive future ready operations saw our IT investments increase, albeit negated by a reduction of costs in other areas. Investment was also made into improving efficiencies in our processes to focus on ease of doing business with our clients as well as to focus our people's energies on more value adding engagements to partner with our clients and other third parties. A well-managed 4% growth in our costs, totaling P666m for the year (2020: P640m) is reflective of these drives despite the challenges posed by Covid-19. It is expected that, due to the investments made in 2021, our ability to partner with more players as well as provide more business opportunities for our clients, to carry them along our growth journey, will be significantly enhanced. The upgrade in our core banking platform is the first of these investments, enabling more capabilities in future.

Capital and liquidity management

The Bank remains adequately capitalised, posting a strong capital adequacy ratio, of 17.30% (2020: 16.92%), well above the minimum regulatory requirement of 12.5% (2020: 12.5%) and well within internal risk appetite. Capital management remains a strong key measure and the Bank invests in an efficient capital allocation and consumption strategy.

Amidst the liquidity challenges posed by the reduced levels of business activity over the past two years, the Bank managed to close with a strong liquidity position well above the approved risk appetite and tolerance limits. The prudential liquidity measure closed at 12.67% in 2021, exceeding the minimum regulatory requirements of 10.0%. Other liquidity metrics such as the internal stress testing and net stable ratios remain in excess of internal requirements.

Outlook

The easing of COVID-19 infections and improving vaccination rates have made for easier global economic activity, with most borders opening across the world. With the end of SOE locally, making for a revival of the economic landscape, most businesses are back to trading. The World Bank projects a rebound in economic growth. With the emergence of the Russia–Ukraine conflict, there are growing uncertainties across the world; at this point, the situation is developing and impact on economic activity is being assessed. However, this geopolitical strain and risk is already evident in the surge in oil prices, in addition to concerns around global food supply. Inflation is expected to be on the rise at the back of these developments.

The Bank is closely monitoring and assessing the potential impact of the Russia-Ukraine conflict to proactively manage any imminent threats. The Bank engages its clients and partners regularly, having held a first stakeholder engagement in March 2022 to assess the developments and available data. This engagement mainly focused on unpacking the international relationships of Russia with Africa and the western world as well as understanding the potential impact of the sanctions imposed on Russia by developed countries. No immediate direct impact on the Bank has been identified yet. The length of the conflict and depth of the sanctions on major supplies by Russia could have an impact especially in the diamond and oil industries, food and fertiliser sectors and on major currencies.

Following the lifting of the SOE, the Bank continues to support its clients by way of restructures and availing facilities to revive business activity, with measures in place to also protect our balance sheet. The Bank looks forward to more business opportunities on the back of the electronic platform developments that were birthed during Covid-19 to improve the ease of doing business with our customers. Opportunities for diversification in our balance sheet, and, effectively, our revenues have made for a positive longer-term outlook.

Chairman
C.A. Granville

Chief Executive
C. Modise

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Group 2021 P000's	Group 2020 P000's
Interest income	1 067 739	941 048
Interest expense	(362 343)	(255 617)
Net interest income	705 396	685 431
Fee and commission income	330 542	262 859
Fee and commission expense	(78 238)	(55 722)
Net fee and commission income	252 304	207 137
Net trading income	184 085	174 491
Other income	12 119	16 419
Other gains and (losses) on financial instruments	-	294
Non-interest income	448 508	398 341
Total income	1 153 904	1 083 772
Credit impairment charges	(208 542)	(39 983)
Net income	945 362	1 043 789
Staff costs	(293 785)	(302 383)
Other operating expenses	(372 516)	(337 587)
Total operating expenses	(666 301)	(639 970
Profit before indirect tax	279 061	403 819
Indirect tax	(19 192)	(19 462)
Profit before direct tax	259 869	384 357
Direct tax	(56 199)	(81 933)
Profit for the year	203 670	302 424
Other comprehensive income after taxation for the year	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	203 910	302 424

STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Group 2021 P000's	Group 2020 P000's
Assets		
Cash and balances with the Central Bank	431 487	419 866
Derivative assets	12 589	430
Trading portfolio assets	421	3 980
Financial investments	2 329 503	2 562 223
Loans and advances	18 005 300	15 263 715
Loans and advances to banks	4 948 916	3 518 567
Loans and advances to customers	13 056 384	11 745 148
Other assets	72 668	117 507
Current tax asset	49 714	49 994
Intangible assets	147 715	166 191
Property, equipment and right of use assets	152 719	174 992
Deferred tax asset	15 232	32 148
Total assets	21 217 348	18 791 046
Liabilities and equity		
Derivative liabilities	12 629	8 040
Deposits	18 164 128	15 855 480
Deposits from banks	1 126 827	1 077 578
Deposits from customer accounts	17 037 301	14 777 902
Accruals, deferred income and other liabilities	373 723	356 103
Debt securities in issue	958 720	958 720
Total liabilities	19 509 200	17 178 343
Equity		
Stated capital	390 177	390 177
Reserves	1 317 971	1 222 526
Equity - attributable to ordinary shareholders	1 708 148	1 612 703
Total liabilities and equity	21 217 348	18 791 046

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

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 2021	390 177	139 270	-	1 083 256	1 612 703
Total comprehensive income for the year	-	-	240	203 670	203 910
Profit after tax	-	-	-	203 670	203 670
Other comprehensive income after tax for the year	-	-	240	-	240
Other reserve movement	-	-	-	1 535	1 535
Increase in statutory credit reserve	-	15 204	-	(15 204)	-
Dividends paid	-	-	-	(110 000)	(110 000)
Balance at 31 December 2021	390 177	154 474	240	1 163 257	1 708 148

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 2020	390 177	110 690	-	809 412	1 310 279
Total comprehensive income for the year	-	-	-	302 424	302 424
Profit after tax	-	-	-	302 424	302 424
Other comprehensive income after tax for the year	-	-	-	-	-
Other reserve movement	-	-	-	-	-
Increase in statutory credit reserve	-	28 580	-	(28 580)	-
Dividends paid	-	-	-	-	-
Balance at 31 December 2020	390 177	139 270	-	1 083 256	1 612 703

STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Group 2021 P000's	Group 2020 P000's
Net cash flows from operating activities	140 962	(85 320)
Cash flows generated from operations	198 204	24 331
Indirect tax paid	(19 192)	(19 462)
Direct tax paid	(38 050)	(90 189)
Net cash flows in investing activities	(19 341)	(72 634)
Net cash flows in financing activities	(110 000)	(30 780)
Net movement in cash and cash equivalents	11 621	(188 734)
Cash and cash equivalents at beginning of the year	419 866	608 600
Cash and cash equivalents at end of the year	431 487	419 866

SEGMENT REPORTING

For the year ended 31 December 2021

2021 Group	Corporate & Investment Banking P000's	Business & Commercial Clients P000's	Consumer & High Net Worth P000's	Corporate functions P000's	Total P000's
Net interest income	215 531	183 542	320 835	(14 512)	705 396
Non-interest income	149 804	150 578	154 636	(6 510)	448 508
Net fee and commission income	43 406	88 669	120 208	21	252 304
Net trading income	105 797	60 942	19 245	(1 899)	184 085
Other income	601	967	15 183	(4 632)	12 119
Total income	365 335	334 120	475 471	(21 022)	1 153 904
Credit impairment charges	3 687	(122 752)	(89 477)	-	(208 542)
Income after credit impairment charges	369 022	211 368	385 994	(21 022)	945 362
Total operating expenses	(162 832)	(258 893)	(270 708)	26 132	(666 301)
Staff costs	(27 937)	(47 968)	(53 693)	(164 187)	(293 785)
Other operating expenses	(134 895)	(210 925)	(217 016)	190 319	(372 516)
Net income before indirect tax	206 190	(47 525)	115 286	5 110	279 061
Indirect tax	(2 612)	(2 931)	(5 443)	(8 206)	(19 192)
Profit / (loss) before direct tax	203 578	(50 456)	109 843	(3 096)	259 869
Direct tax	(43 966)	11 625	(24 551)	693	(56 199)
Profit / (loss) after tax	159 612	(38 831)	85 292	(2 403)	203 670

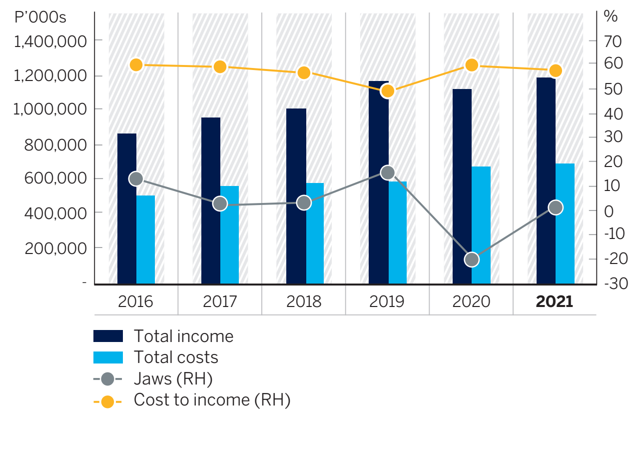
2021 Group	Corporate & Investment Banking P000's	Business & Commercial Clients P000's	Consumer and High Net Worth P000's	Corporate functions P000's	Total P000's
Operating information					
Total assets	10 807 544	1 797 181	8 755 358	(142 735)	21 217 348
Total liabilities	6 835 093	1 491 229	7 965 412	3 217 466	19 509 200
Other information					
Depreciation and amortisation	276	6 830	19 321	48 448	74 875

2020 Group	Corporate & Investment Banking P000's	Business & Commercial Clients P000's	Consumer & High Net Worth P000's	Corporate functions P000's	Total P000's
Net interest income	236 479	168 578	289 018	(8 644)	685 431
Non-interest income	144 277	126 576	135 583	(8 095)	398 341
Net fee and commission income	41 329	63 675	102 144	(11)	207 137
Net trading income	101 661	58 737	18 549	(4 456)	174 491
Other income	1 287	4 164	14 890	(3 628)	16 713
Total income	380 756	295 154	424 601	(16 739)	1 083 772
Credit impairment charges	96 403	(7 806)	(128 580)	-	(39 983)
Income after credit impairment charges	477 159	287 348	296 021	(16 739)	1 043 789
Total operating expenses	(162 183)	(247 270)	(255 077)	24 560	(639 970)
Staff costs	(34 467)	(50 189)	(69 026)	(148 701)	(302 383)
Other operating expenses	(127 716)	(197 081)	(186 051)	173 261	(337 587)
Net income before indirect tax	314 976	40 078	40 944	7 821	403 819
Indirect tax	(1 148)	(2 268)	(6 522)	(9 524)	(19 462)
Profit / (loss) before direct tax	313 828	37 810	34 422	(1 703)	384 357
Direct tax	(71 790)	(6 427)	(4 087)	371	(81 933)
Profit / (loss) after tax	242 038	31 383	30 335	(1 332)	302 424

2020 Group	Corporate & Investment Banking P000's	Business & Commercial Clients P000's	Consumer and High Net Worth P000's	Corporate functions P000's	Total P000's
Operating information					
Total assets	9 565 746	1 766 870	7 642 430	(184 000)	18 791 046
Total liabilities	6 528 520	1 526 306	6 868 941	2 254 576	17 178 343
Other information					
Depreciation and amortisation	300	5 940	18 102	40 912	65 254

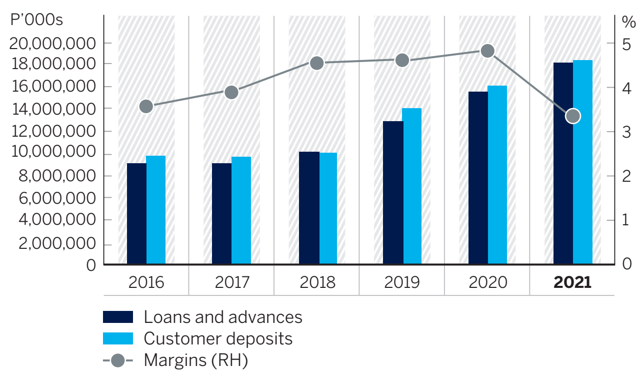
1. The Group's performance includes Stanbic Bank Botswana Limited (the Bank) and its subsidiaries. The Bank makes up a significant performance of the Group's results.
2. During the year, the Bank re-aligned the business to be future ready and client centric. Our business model construct has changed to reflect this; our former Personal and Business Banking (PBB) has now split into Consumer and High Net Worth Clients (CHNW) and Business and Commercial Clients (BCC). The 2020 segment report has been restated to reflect this change.
3. The Bank's subsidiaries are included in the segment reports, segmented in accordance with internal segmentation rules.

TOTAL INCOME VS OPERATING COSTS



The Bank's performance made a turnaround posting improvement in ratios seeing jaws move to 2.4% (2020:- 20.7%), and cost to income ratio improving to 57.7% (2020: 59.1%).

BALANCE SHEET EFFICIENCY



The balance sheet remained resilient, with 18% and 15% growth in loans and advances and deposits, respectively.

Stanbic Bank **IT CAN BE**™