

Standard Chartered Bank Botswana Limited

Unaudited Abridged Consolidated Financial Results for Period ended 30th June 2021

The directors have pleasure in announcing the Group (Standard Chartered Bank Botswana and its subsidiaries*) Half Year Unaudited Financial Results for the period ended 30 June 2021 together with comparative figures for 2020.

Economic Environment

Global & Regional Economic Review

Global economic growth is estimated to rebound to 5.8% in 2021 from -3.3% in 2020 as economies reopen and vaccination rollouts gain momentum. Two key downside risks may negatively impact the outlook:

- A more extensive resurgence of pandemic cases resulting from new variants, which could force the extension or re-imposition of restrictions; and
- Sustained surge in inflation that damages consumer confidence and forces tightening of monetary policy.

The two risks are linked, as current supply-chain pressures and related costs could worsen if a COVID-19 resurgence disrupts global production again.

Following the outbreak of COVID-19 more than a year ago, advanced economies that have attained herd immunity are rapidly moving towards normalization of economic activity while countries with low vaccination rates, Sub-Saharan Africa included, are at risk of sluggish growth and resurgent outbreaks. The recent increased focus on improving vaccine access is positive, as this creates a firm foundation for sustained growth from 2022.

Local Economy

Despite a strong resurgence of COVID-19 cases in the first half of 2021, Botswana's economy remains on track for a strong growth rebound, spurred by robust diamond demand, improved diamond prices and sales. The reopening of key consumer markets has boosted diamond sales and helped Q1-2021 GDP growth by 0.7% year on year, turning positive earlier than initially expected. Diamond sales have remained robust which, together with a low base, should buoy growth in the next quarters and likely to result in higher GDP growth. Initial growth estimates could however represent the best-case scenario range bound at 8.8%, moderating to 5.5% in 2022.

Botswana's medium-term financing plans will be a key focus. The pandemic has significantly weakened public finances, accelerating the erosion of fiscal savings, and pushing up public debt. Financing needs will likely remain elevated in H2 2021. With domestic bond yields increasing significantly on higher government borrowing, greater use of external funding options, including international capital markets, could help ease financing pressures.

The economy is experiencing elevated inflationary pressures mainly on higher-than-expected passthrough from new revenue measures. Nonetheless, monetary policy is expected to remain accommodative to support the domestic recovery while the spike in inflation is largely transitory.

Business Performance

Statement of Profit or Loss

	30 Jun 21 P'000	30 Jun 20 P'000
Net Interest Income	216,465	250,795
Other Income	145,964	133,470
Operating Income	362,429	384,265
Operating Expenses	(309,847)	(308,408)
Profit before Impairment and Taxation	52,582	75,857
Credit loss expense on financial assets	22,659	(14,569)
Liability written off	-	48,049
Profit before Taxation	75,241	109,337
Taxation	(16,553)	(19,286)
Profit for the period	58,688	90,051

It is encouraging that our operating environment is gradually improving, emerging from the worst of the Covid pandemic. Downside risks remain however, due to uncertainties brought about by the resurgence of cases and new variants. The business environment remains challenging, characterised by low interest rates. Income was down 6% year on year reflecting the drag caused by low interest margins. Net fees and commissions are up 9% on the back of improved sales as economic activity improves compared to prior year.

Segment Performance

	30 Jun 21 P'000	30 Jun 20 P'000
Consumer, Private & Business Banking	276,185	260,679
Corporate Commercial & Institutional Banking	86,244	123,586
Operating Income	362,429	384,265
Consumer, Private & Business Banking	76,885	37,693
Corporate Commercial & Institutional Banking	(1,644)	71,644
Operating Profit Before Tax	75,241	109,337

Consumer, Private & Business Banking (CPBB)

Consumer, Private & Business Banking segment continued the path of consistent financial performance, despite the challenging market conditions, and headwinds from COVID-19. The segment remained resilient and delivered an income growth of 6% year-on-year. Income remained well diversified by client segment, product, and demography. During the year, the business managed risks and maximised returns, whilst continuing to optimise and protect the balance sheet to deliver positive returns. CPBB increased investment in the distribution network, by launching the 4th 'Digital only' smart branch, the Express Banking Centre (EBC) in Lobatse. The business continues to drive the digitisation agenda through the introduction of more self-service functionalities.

The bank launched Bank2Wallet functionality in partnership with Mascom, having previously partnered with Orange and BTC. Clients can now send funds directly from any of the Standard Chartered bank accounts or Credit Cards to any mobile wallet and vice versa (MyZaka, Orange Money, and BTC Smega). The bank continues to invest in other payment capabilities which will be launched in the near future. The business will continue to drive its Non-Funded Income (NFI) agenda through continued focus on the Affluent Segment and improved digital capabilities.

Under a challenging environment, the business delivered positive highlights noted below;

- Revenue growth of 6% year on year
- Expenses were contained registering a 3% drop compared to prior year
- Client assets grew by 9% year on year
- Deposits grew by 4% year on year

Interest income declined by 4% as a result of low interest compressed margins. Tactical actions are in progress to strengthen our margins and portfolio returns.

The innovations in our digital platforms are bearing fruit, our cost of acquisition and servicing are declining. CPBB has also invested time and effort on partnerships with third party service providers to ensure ease of access for clients, these have also started to garner momentum.

Despite some headwinds expected to continue during 2021, the business remains well-resourced and positioned to face the challenges and deliver a strong performance again. Our clients remain central to our business and the Bank continues to focus on delivering quality products and a great client experience. In addition, an enhanced client value proposition will be introduced, pivoted on personalised wealth solutions to help clients grow and manage their wealth. The segment will continue to drive the digitisation agenda through the introduction of more self-service offerings which will accelerate growth into the future.

Corporate Commercial and Institutional Banking (CCIB)

The Corporate Commercial and Institutional Banking segment performance was impacted by the slow recovery of the economy. Positive signs of economic recovery have however shown in the latter part of the period, led by a strong bounce back of the upstream segment of the diamond sector. Our key product differentiators in Security Services are also setting us apart resulting in the business attracting business for big pension fund mandates in the market. Other sectors such as construction and financial services have started to show signs of recovery though in the latter part of the first half. This is fuelling asset recovery as reflected in the approved pipeline.

The Bank continues to invest in digital channels by adding more features to our Straight2Bank next gen platform such as a Digital Trade Counter which allows clients to upload trade documents and request financing anytime, anywhere. Trade Track IT, a new functionality allows clients to monitor the status of their financing request and a Straight2Bank mobile app to allow full access for our Corporate clients on-the-go. Digital transformation continues across our Financial Markets platform as we migrate our clients into S2BFx to provide a seamless digital experience. These investments will return a sustainable pay off into the future.

Sustainability is at the core of our strategy and we are working on supporting clients on key sustainability metrics as we work towards eliminating carbon emissions. Our sustainability agenda has seen us launch the first fully functional solar powered express Banking Centre in Lobatse, whilst also looking at ways to reduce our own carbon footprint.

Income, though impacted has maintained good quality with non-funded income dominating the income mix. It is expected that the segment will begin a positive growth trajectory in the second half of the year.

Net Interest Income and Margins

	30 Jun 21 P'000	30 Jun 20 P'000
Net Interest Income	216,465	250,795
Average Interest earning Assets	14,130,060	13,629,069
Average Interest bearing Liabilities	10,953,049	10,335,757
Gross Yield (%)	5.1%	5.7%
Rate paid (%)	2.6%	2.7%
Net Yield	2.5%	3.0%
Net margin	3.1%	3.7%

Net Interest Income ('NII') declined by 14% and average interest earning assets grew 4%, reflecting the impact of margin compression. Gross yield was down by 60 bps, and balance sheet optimisation resulted in a stable funding base with rate paid down 10bps year on year. Although margins are down, the strategies around asset growth are on track to offset the effect by year end.

Credit Quality

	30 Jun 21 P'000	30 Jun 20 P'000
Gross loans and Advances to customers	8,835,547	8,550,039
Of which Stage 1 and 2	8,623,150	8,363,712
Of which Stage 3	212,397	186,327
Expected Credit loss provisions	173,533	187,403
Of which Stage 1 and 2	65,870	91,637
Of which Stage 3	107,663	95,767
Net loans and Advances to customers	8,698,423	8,362,636
Of which Stage 1 and 2	8,593,689	8,272,076
Of which Stage 3	104,734	90,560
Collateral	3,901,886	4,659,638
Stage 1 and stage 2 exposures	3,507,903	4,193,832
Stage 3 exposures	393,983	465,806

The loan book remains resilient despite the difficult operating environment occasioned by sustaining pandemic impacts in H1 2021. Stage 1 and 2 assets grew by 3% (BWP259m), while Stage 3 impaired exposures increased by 14% (BWP26m), concentrated mainly in small to medium entities, where recovery efforts are progressing well with adequate individual loan impairments held against net at risk. The sustained drop in Expected Credit Loss (ECL) provisions for the good book is reflective of improved overall quality. Non-performing loans remained flat at 2%. The Bank continues to subject the loan book to stress tests and validation of its ECL models to ensure IFRS 9 ECL is based on 'forward looking' risk measures considering the uncertain business outlook for economies despite nascent recovery.

Balance Sheet and Liquidity

	2021 P'000	2020 P'000
Assets		
Loans and advances to banks	2,357,279	2,995,488
Loans and advances to customers	8,698,423	8,362,636
Other Assets	3,691,476	3,619,481
Total assets	14,747,178	14,977,605
Liabilities		
Deposits from other banks	242,755	757,168
Deposits from customers	12,302,807	11,603,514
Other Liabilities	1,140,110	1,488,773
Total liabilities	13,685,672	13,849,455
Equity	1,061,506	1,128,150
Advances-to-deposits Ratio (%)	71%	72%

Total financial position remained stable during the period and marginally down by 2% driven by reduction on loans and advances to banks. Loans and advances to customers grew by 4% on the back of a solid 9% growth in the Retail book. Despite the volatile liquidity environment, customer deposits grew by 6% year on year.

Risk Weighted Assets (RWA)

	2021 P'000	2020 P'000
By Risk Type		
Credit	7,156,449	6,419,463
Market	34,709	42,819
Operational	728,720	745,329
Total RWAs	7,919,878	7,207,611

Total Risk Weighted Assets increased by 10% primarily driven by Credit RWA in line with the growth in client assets.

Capital Base and Ratios

	2021 P'000	2020 P'000
CET1 Capital	544,012	569,994
Additional Tier 1 Capital (AT1)	400,000	400,000
Tier 1 Capital	944,012	969,994
Tier 2 Capital	456,206	505,498
Total Capital	1,400,218	1,475,492
Capital Adequacy Ratio (%)	17.7%	20.5%
Regulatory Threshold (%)	12.5	12.5

The Bank's CET ratio remains within regulatory limit at 17.7%, but down 280 bps compared to H1 2020. The drop in CET was primarily driven by the dividend and Additional Tier 1 Capital distribution payments during first half of the year.

Outlook

The business remains resilient despite elevated risks in the operating environment and continues to build on the strong business momentum recorded in 2020. The path to recovery from the COVID-19 pandemic remains uncertain as it is hinged on efforts to ensure the country achieves herd immunity along with recovery of our key trading partners. Despite these challenges, economic activity is gaining momentum and expected to positively drive business performance benefiting the Banking sector.

Our H1 results reflect progress made in building a strong and resilient balance sheet. This is as a result of reviewing the product offering, reorganization of our operating model and continued acceleration our digitization agenda. The business is optimistic of an overall positive outcome for the year.

Appreciation

The Board of Standard Chartered Botswana extends its sincere appreciation to both the Management and staff for the continued hard work in driving the business. To our valued clients, we thank you for walking the journey with us as we continue to navigate these uncertain times.

By order of the Board



Doreen Khama
Chairperson



Mpho Masupe
Managing Director

Gaborone

11 August 2021

Key Financial highlights

4%

Loans and Advances up 4% to P8.7 billion.

6%

Total Income down 6% impacted by low margins and COVID-19

9%

Net Fees and Commission up 9%

31%

Overall Profit before Tax P75.2 million; down 31%

23%

Underlying Profits are up 23% (net- off once off item)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	30 Jun 21 P'000	30 Jun 20 P'000
Interest revenue calculated using the effective interest method	361,122	388,194
Interest expense calculated using the effective interest method	(144,657)	(137,399)
Net interest income	216,465	250,795
Fee and commission income	118,468	99,725
Other income	39,136	49,586
Less: Commission expense	(11,640)	(15,841)
Net fee and commission income	145,964	133,470
Net operating income	362,429	384,265
Operating expenses		
Staff expenses	(119,953)	(113,075)
Other expenses	(189,894)	(195,333)
Total operating expenses	(309,847)	(308,408)
Profit before impairment losses	52,582	75,857
Credit loss expense on financial assets	22,659	(14,569)
Profit before impairment	75,241	61,288
Liability written off	-	48,049
Profit before income tax	75,241	109,337
Income tax expenses	(16,553)	(19,286)
Total comprehensive income for the period	58,688	90,051
Number of ordinary shares in issue during the period at 100 thebe per share	298,350,611	298,350,611
Headline EPS	19.67	30.18
Basic and diluted earnings per share (thebe)	19.67	30.18
Dividend per share (thebe) - declared and paid during the period	16.00	7.99

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2021

Group	Stated Capital P'000	Revaluation reserve P'000	Statutory credit reserve P'000	Retained earnings P'000	Capital contribution P'000	Treasury reserve P'000	Fair value reserve P'000	Total P'000
Balances 1 January 2020	179,273	25,696	19,152	482,171	428,213	(31,566)	4,908	1,107,847
Total comprehensive income								
Profit for the year	-	-	-	49,723	-	-	-	49,723
Other movements	-	-	-	(244)	-	-	-	(244)
Other comprehensive income								
Fair value adjustment:								
Items measured at fair value through other comprehensive income	-	-	-	-	-	-	(12,886)	(12,886)
Transactions with owners of the bank								
Dividends to equity holders - paid	-	-	-	(54,419)	-	-	-	(54,419)
Distributions to holders of subordinated capital securities	-	-	-	(30,035)	-	-	-	(30,035)
Balance at 31 December 2020	179,273	25,696	19,152	447,197	428,213	(31,566)	5,407	1,059,987
Balances 1 January 2021	179,273	25,696	19,152	447,197	428,213	(31,566)	5,407	1,059,987
Total comprehensive income								
Profit for the period	-	-	-	58,688	-	-	-	58,688
Other comprehensive income								
Fair value adjustment:								
Items measured at fair value through other comprehensive income	-	-	-	-	-	-	5,718	5,718
Transactions with owners of the bank								
Dividends to equity holders - paid	-	-	-	(47,736)	-	-	-	(47,736)
Distributions to holders of subordinated capital securities	-	-	-	(15,150)	-	-	-	(15,150)
Balance at 30 June 2021	179,273	25,696	19,152	442,999	428,213	(31,566)	11,125	1,061,506

CONSOLIDATED SEGMENTAL REPORTING

	Consumer, Private & Business Banking P'000	Corporate Commercial & Institutional Banking P'000	Total P'000
2021			
Statement of Profit or Loss			
Interest revenue calculated using the effective interest method	174,930	41,535	216,465
Net fee and commission income	101,255	44,709	145,964
Net operating income	276,185	86,244	362,429
Operating expenses	(216,247)	(93,601)	(309,847)
Profit before impairment losses	59,938	(7,356)	52,582
Credit loss expense on financial assets	16,947	5,712	22,659
Segment profit / (loss) before taxation	76,885	(1,644)	75,241
Income tax expense	-	-	(16,553)
Profit for the period			58,688
Statement of financial Position			
Investment securities	-	3,011,495	3,011,495
Loans and advances to customers	7,365,624	1,332,799	8,698,423
Other assets for reportable segments	161,522	2,875,738	3,037,260
Total assets for reportable segments	7,527,146	7,220,032	14,747,178
Deposits from non bank customers	4,263,967	8,038,840	12,302,807
Other liabilities for reportable segments	(78,295)	1,461,160	1,382,865
Total liabilities for reportable segments	4,185,672	9,500,000	13,685,672
2020			
Statement of Profit or Loss			
Interest revenue calculated using the effective interest method	183,018	70,363	253,381
Net fee and commission income	77,661	53,223	130,884
Net operating income	260,679	123,586	384,265
Operating expenses	(222,196)	(86,212)	(308,408)
Profit before impairment losses	38,483	37,374	75,857
Net impairment loss on financial assets	(790)	(13,778)	(14,569)
Liability written off	-	48,049	48,049
Segment profit / (loss) before taxation	37,693	71,644	109,337
Income tax expense	-	-	(19,286)
Profit for the period			90,051
Statement of financial Position			
Investment securities	-	2,930,144	2,930,144
Loans and advances to customers	6,748,154	1,614,482	8,362,636
Other assets for reportable segments	118,374	3,566,451	3,684,825
Total assets for reportable segments	6,866,528	8,111,077	14,977,605
Deposits from non bank customers	4,084,715	7,518,799	11,603,514
Other liabilities for reportable segments	(54,783)	2,300,724	2,245,941
Total liabilities for reportable segments	4,029,932	9,819,523	13,849,455

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited 30 Jun 21 P'000	Unaudited 30 Jun 20 P'000	Audited 31 Dec 20 P'000
Assets			
Cash and balances with central bank	346,551	311,554	975,991
Loans and advances to banks	2,357,279	2,995,488	2,501,471
Investment securities	3,011,495	2,930,144	2,113,719
Loans and advances to customers	8,698,423	8,362,636	8,115,680
Other assets	176,771	159,844	168,809
Tax refundable	15,936	10,198	-
Property and equipment	82,122	118,363	112,720
Intangible Assets and goodwill	37,011	41,481	38,781
Deferred taxation	21,590	47,897	37,534
Total assets	14,747,178	14,977,605	14,064,704
Liabilities			
Deposits from other banks	242,755	757,168	436,471
Deposits from customers	12,302,807	11,603,514	11,849,610
Unsettled Treasury bills	-	799,643	29,878
Other liabilities	389,830	243,553	268,503
Restructuring provision	23,205	-	23,158
Taxation payable	14,509	6,578	8,097
Senior and subordinated debt	712,566	439,000	389,000
Total liabilities	13,685,672	13,849,457	13,004,717
Equity			
Stated capital	179,273	179,273	179,273
Additional Capital Contribution	428,213	428,213	428,213
Reserves	454,020	520,664	452,501
Total equity	1,061,506	1,128,150	1,059,987
Total liabilities and equity	14,747,178	14,977,607	14,064,704

CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited 30 Jun 21 P'000	Unaudited 30 Jun 20 P'000	Audited 31 Dec 20 P'000
Cash flow from operating activities:			
Profit for the period	58,688	90,051	49,723
Adjustments for:			
- Interest Income	(361,122)	(388,194)	(745,154)
- Interest Expense	144,657	137,399	280,891
- Taxation	16,553	19,286	52,397
- Depreciation	14,129	6,432	30,243
- Amortisation on intangibles	4,583	8,903	14,403
- Impairment loss on loans and advances	(22,659)	(55,361)	25,058
- Unrealised foreign exchange (gains)/ losses	277	-	(1,614)
- Liability written off	-	-	(48,049)
- Movement in Restructuring Provision	47	-	23,158
	(144,847)	(176,065)	(318,944)
Change in investment securities	(903,494)	143,954	978,246
Change in loans and advances to customers	(649,448)	(388,048)	(221,511)
Change in other assets	(7,964)	22,668	12,319
Change in deposits from other banks	144,192	(263,760)	(584,457)
Change in amounts due from customers	453,197	(1,272,291)	(1,026,195)
Unsettled Treasury bills	(29,878)	799,643	-
Change in other liabilities	(59,322)	(34,558)	47,206
	(1,197,564)	(1,168,456)	(1,113,337)
Taxation paid	(14,271)	(8,533)	(17,081)
Interest income	361,122	388,194	742,975
Interest expense	(144,657)	(125,146)	(255,886)
Net cash used in operating activities	(995,370)	(913,942)	(643,329)
Cash flow from investing activities			
Acquisition of property and equipment	(20,456)	(10,437)	(11,308)
Acquisition of intangibles	(2,813)	(14,889)	(21,857)
Net cash used in investing activities	(23,269)	(25,326)	(33,165)
Cash flow from financing activities			
Issue of senior unsecured bond notes	323,566	-	-
Redemption of subordinated debt	-	-	(50,000)
Interest paid on subordinated debt	(8,772)	(12,253)	(25,005)
Dividends paid	(47,736)	(54,845)	(54,419)
Lease liability interest payments	(833)	-	(2,184)
Lease liability capital payments	(9,127)	-	(13,210)
Distribution payment to holders of subordinated capital securities	(15,150)	(15,402)	(30,035)
Net cash generated from / (used in) financing activities	241,948	(82,500)	(174,852)
Decrease in cash and cash equivalents	(776,690)	(1,021,767)	(851,346)
Cash and cash equivalents:			
Cash and cash equivalents at 1 January	3,477,463	4,328,809	4,264,337
Net foreign exchange differences	3,057	-	64,472
Cash and cash equivalents at 30 June	2,703,830	3,307,042	3,477,463

* The financial statements of SCB Insurance Agency and Botswana Education Trust have been consolidated using uniform accounting policies for like transactions and other events in similar circumstances.

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



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