Standard Chartered Bank Botswana Limited

Half Year Unaudited Financial Results for Period ended 30th June 2022

The directors have pleasure in announcing the Group (Standard Chartered Bank Botswana and its subsidiaries*) unaudited financial results of the Bank for the Period ended 30 June 2022 together with comparative figures for 2021

Economic Environment

Global & Regional Economy

The global economy is going through unprecedented times with recession risks rising in the US and Europe disrupting global growth in 2022/23. Cost pressures have risen following Russia's invasion of Ukraine, while supply disruptions have failed to ease significantly. Heightened and persistent inflation has put pressure on central banks to act decisively. High inflation is weighing on households and businesses, yet in many economies, the pandemic-related build-up of government debt limits scope for fiscal support to offset spiralling food and energy bills. Global GDP is forecast to grow to 3.0% in 2022 and 2.9% in 2023. The US and Euro area are expected to enter recession later in 2022. Squeezed real incomes, the swift removal of policy accommodation, and very weak household and business confidence look set to take growth negative in Q4-2022 and Q1-2023.

While growth in Sub-Saharan Africa (SSA) surprised positively in Q1-2022, the good news is unlikely to last. The region's central banks have embarked on a more pronounced monetary tightening cycle in response to faster tightening in developed economies, along with increasing price pressures domestically. This is likely to offset the post-COVID normalisation of activity that boosted Q1 growth. Elevated food and energy prices are a severe headwind to SSA economies; increased fuel subsidies and measures to cushion the impact of high food prices are burdening government finances. Even Africa's large oil exporters have not benefited much from the oil rally this year, as they are unable to meet OPEC quotas because of underinvestment and are facing higher import bills for refined products.

Local Economy

Botswana's economic recovery will likely remain diamond-driven in H2-2022. Robust diamond output and trading is expected, buoyed by demand for alternatives to Russian diamond supply. Strong diamond-sector growth should largely offset a probable softening of the domestic recovery as elevated inflationary pressures erode household real incomes. The GDP growth is forecasted to moderate to 4.8% in 2022 and 3.8% in 2023 from a high expansion of 11.4% in 2021.

Headline inflation reached 14.3% y/y in July, a 14-year high, following a further hike to domestic fuel prices in June (transport accounts for 23.4% of the CPI basket). Inflation will remain in double digits throughout H2-2022, mainly on revised domestic fuel price assumptions. A faster-than-expected increase in administered prices would pose upside risks to our inflation forecasts. The Bank of Botswana (BoB) projects that inflation will fall within the objective range from the third quarter of 2024. In response to rising general prices, BoB raised its policy rate by 50bps to 2.65% in August bringing the total cumulative tightening since the introduction of the new policy rate in April 2022 to 151bps.

Business Performance

The Bank delivered a strong set of results for the first half of the year in a complex operating environment. The surge in funding costs on the back of reduced market liquidity impacted performance in the first quarter.

Revenue growth was significantly higher than cost growth resulting in strong positive jaws of 1,400 basis points. Income grew by 11% y/y underpinned by growth across all segments. Net interest income was a drag on performance in the first quarter due to pressure on margins. However, the second quarter saw a strong rebound, benefiting from improved margins. Non funded income is on upward trajectory, growing by 14% y/y supported by momentum of economic recovery, with transactional activity recovering to pre-pandemic levels. Our Corporate Commercial and Institutional Banking (CCIB) registered 41% income growth driven by strong H1 momentum, with broad based revenue drivers.

In the Consumer, Private and Business Banking (CPBB) segment, the priority has been to deliver efficiencies, continue to digitise in our personal segment, and progress with investment solutions into our affluent segment while continuing to serve our Business Banking clients with liquidity and FX solutions. With this focus CPBB' was able to deliver 2 per cent income growth year-on year.

Operating expenses were down 3% y/y, largely attributable to sustained cost discipline across functions. Cost to income ratio improved from 85% to 75% year on year. Expense efficiency is core to enabling the Bank to create positive operating leverage, whilst creating capacity to continue investing into strategic initiatives. Improving cost to income (CIR) ratio will continue to be a key focus area.

Asset quality remained resilient in the half, with stable underlying credit metrics despite a year-on year increase in the impairment charge. Credit impairment reflective of the loan portfolio quality with a loan loss ratio of only 0.4% and BWP30m impairment charge.

Profit before tax declined by 6% y/y to BWP71m due to non- recurrence of a significant ECL release recorded in H1 2021, mainly from the CPBB portfolio.

Net Interest Income and margin

	2022 P'000	2021 P'000
Net Interest Income	235,975	216,465
Average Interest-earning Assets	14,911,125	14,130,060
Average Interest-bearing Liabilities	11,818,871	10,953,049
Gross Yield (%)	5.4	5.1
Rate Paid (%)	2.8	2.6
Net Yield	2.6	2.5
Net Margin (%)	3.2	3.1

Net interest income increased by 9% to BWP236m, with average interest earning assets growing by 6%. The growth in net interest income was also supported by strengthening margins, with net margin improving to 3.2% from 3.1% on the back of rising interest rates.

Credit Quality

	2022 P'000	2021 P'000
Gross loans and Advances to customers	8,092,213	8,835,547
Of which Stage 1 and 2	7,864,710	8,623,150
Of which Stage 3	227,503	212,397
Expected Credit loss provisions	193,655	173,533
Of which Stage 1 and 2	104,973	65,870
Of which Stage 3	88,682	107,663
Net loans and Advances to customers	7,898,558	8,698,423
Of which Stage 1 and 2	7,759,737	8,593,689
Of which Stage 3	138,821	104,734
Collateral	2,614,502	3,901,886
Stage 1 and stage 2 exposures	2,275,636	3,507,903
Stage 3 exposures	338,866	393,983

Stage 1 and 2 ECL provisions increased by 59% due to increased credit risk on the back of a challenging macro-economic environment and growth in the CPBB portfolio. Increased credit risk stems from anticipated impact of Ukraine/Russia war on the loan book.

Balance Sheet and Liquidity

	2022 P'000	2021 P'000
Assets		
Loans and advances to banks	4,415,199	2,357,279
Loans and advances to customers	7,898,558	8,698,423
Other Assets	3,293,845	3,691,476
Total assets	15,607,602	14,747,178
Liabilities		
Deposits from other banks	706,171	242,755
Deposits from customers	12,854,728	12,302,807
Other Liabilities	1,012,948	1,140,110
Total liabilities	14,573,847	13,685,672
Equity	1,033,755	1,061,506
Advances-to-deposits Ratio (%)	61	71
Liquid Assets Ratio (%)	16.4	17.2

Total Loans and advances to customers declined by 9% to BWP7.9bn. There were positive signs of recovery for asset volumes in the second quarter after a slow start to the year. CPBB assets relatively flat y/y, with marginal growth in Personal loans offsetting a decline in mortgages. CCIB assets declined by P0.7bn to P0.6bn, the balance sheet drop was a function of the segment's balance sheet composition, which is predominantly short term and transactional hence achieving efficiency in capital allocation.

Customer deposits up 4% y/y to BWP12.8bn. The growth was primarily driven by call accounts, registering 61% y/y growth on the back of the strategy to optimise the funding mix. The strategic funding plan remains robust underpinned by Current & Savings accounts (CASA) opportunities in the CCIB segment.

Risk Weighted Assets

	2022 P'000	2021 P'000
By Risk Type		
Credit	7,572,061	7,156,449
Market	187,424	34,709
Operational	753,413	728,720
Total RWAs	8,512,898	7,919,878

Total RWA increased by 7% to P8.5bn, largely driven by Credit Risk RWA which closed at P7.6bn from P7.2bn due to an increase in corporate term loans. Through the RWA optimisation initiatives, the bank aims to further improve the capital adequacy ratio going forward.

Capital Base and ratios

	2022 P'000	2021 P'000
CET1 Capital	528,192	544,012
Additional Tier 1 Capital (AT1)	400,000	400,000
Tier 1 Capital	928,192	944,012
Tier 2 Capital	390,768	456,206
Total Capital	1,318,960	1,400,218
Capital adequacy ratio (%)	15.5	17.7
Regulatory Threshold (%)	12.5	12.5

Capital ratios remain within regulatory limits with Capital Adequacy Ratio (CAR) ending H1 at 15.5% against temporary CAR relief of 12.5%; Tier 1 ended H1 at 11% against regulatory limit of 7.5%.

No capital concerns anticipated.

Segment performance

Consumer, Private and Business Banking

Consumer, Private & Business Banking remained resilient and delivered modest growth in the first half of the year despite a challenging operating environment characterised by high inflation and reduced market liquidity. Revenue increased by 2% year on year on the back of improved interest income and trading in foreign exchange.

In our efforts to digitise to drive growth and improve client experience and service, the business has achieved a digital acquisition rate of 99% and 73% digital utilisation/adoption respectively with a target to reach utilisation of more than 80% by December 2022. Following the successful launch of digital initiatives such as Cardless Cash functionality, Bank2Wallet functionality and our Digital only smart branches (Express Banking Centres), the business has been recognised with two digital banking awards this year.

The bank continues to invest in its digital and sustainability agenda in our aim to be the most sustainable bank in Botswana. As part of our sustainability agenda, we opened the "First Ever Solar Powered" branch. We are also actively supporting our clients to acquire solar installations through partnerships with leading providers in the market.

As the only international bank in Botswana with investment advisory and multi asset investment platform, we continue onboarding additional mutual funds to offer a diversified portfolio to our clients. A new foreign exchange delivery capability allowing clients to transfer Chinese Yuan was also officially introduced to the market to continue to drive the Non-Funded Income (NFI) agenda through continued focus on the Affluent and Business Banking segments. We successfully relaunched our Affluent Segment in the first half which saw us increase our Relationship Management team and refresh our client value proposition for the segment. This area will continue to be an area of focus, and growth for the bank going forward.

Strategic Priorities

- **Digitise to drive growth and improve client experience**
- **Differentiate through our offering for the Affluent segment**
- **Turnaround non-profitable products and segments**
- **Improve efficiency and achieve a well-controlled environment**

Under a complex operating environment, the business delivered positive highlights noted below:

- Launched a new foreign exchange delivery capability for Chinese Yuan in March 2022.
- Digital CX awards: Best Hybrid Customer Experience- Branch 2022 (April 2022)
- Digital CX award: Excellence in Omni-Channel Customer Experience (April 2022)
- Revenue growth of 2% year on year
- Expenses were contained registering a 3% drop compared to prior year

Corporate, Commercial and Institutional Banking

The CCIB business segment posted a resilient performance despite the volatile macro environment.

Profit before tax grew to P27.8mn year on year from a negative of P1.6m in the prior year. We are also pleased with the strong underlying business momentum and the early progress we have made against the four strategic pillars we outlined at the beginning of the year – building a sustainable business; becoming a truly digital bank; developing trade corridors; and streamlining our focus to key market segments to improve returns and differentiation. This is yielding positive results in terms of quality of the balance sheet and income mix.

Our top line grew by 41% recording improved performance across each reporting line. Deposits from clients have shown resilience despite the portfolio re-alignment completed in the prior year and posted a 7% growth, indicating that the fundamental base of the segment is strong. The drop in advances to clients is a function of the segment's balance sheet composition, which is predominantly short term and transactional in nature hence achieving efficiency in capital allocation. As a result, credit impairment charge was contained at 1% of total revenue.

To drive our China corridor business, we launched a comprehensive suite of onshore renminbi (RMB) financial services. This is another first in the Botswana market and provides our client access to onshore RMB current accounts, trade facilities, foreign exchange spot and forward solution, investment solutions such as Bond connect, CIBM Direct and corporate loans, amongst others.

The investments we have been making in our digital platforms to deliver digital transformation continues to yield results with costs on a down trajectory. The digital strategy aims to avail a full end to end digital experience to our clients.

The recent geopolitical events have strengthened the outlook for rates, albeit making the outlook for the pace of economic recovery less predictable. Consequently, we anticipate near-term headwinds and continue to focus on long-term fundamentals to build a sustainable business.

Outlook

This year the Bank is celebrating 125years in Botswana and continues to be the Bank of many firsts. In line with our sustainability agenda, in the month of April 2022, we launched the installation of a solar system at our flagship branch in Main Mall which will displace 10.4 tons of Carbon Dioxide per year. This is another first by the Bank and is a true embodiment of our brand promise "Here for Good".

The Bank is making good headway towards the delivery of the 2022 strategy given the dynamic economic environment both locally and internationally. As the Bank continues to manage the remnants of covid, the pandemic has cemented digital as the preferred channel, therefore making our unique digital capabilities a source of competitive advantage. Our corporate and individual clients are beneficiaries of our award-winning digital platforms wherein we have added digital partnerships and enhanced functionalities with the aim to deliver more in H2 2022.

Steady progress is being made towards the delivery of one of our strategic pillars being Affluent and growth is anticipated in this area, which will be driven by our unique personalized investment products and a refreshed cohort of relationship managers that have received extensive training to offer client centric service. There is clear focus towards the delivery of the Banks other strategic pillars, and as we execute our strategy, we will continue to put our clients at the centre of everything we do.

We remain confident that we will deliver a sustainable performance in 2022 leveraging of economic tailwinds and adequate management of possible headwinds.

By order of the Board

Doreen Khama
Chairperson

Mpho Masupe
Managing Director

Gaborone
03 August 2022

Key Financial highlights

2% Profit after tax down 2% to P58 million

6% Total balance sheet grew 6%

14% Net fees and commission up 14% driven by improved business volumes

6% Profit before tax down 6% to P71 million

15.5% Capital Adequacy Ratio (CAR) at 15.5% against the regulatory requirement of 12.5%

4% Customer deposits up 4% year on year

11% Operating income up 11% to P403 million

13% Interest expense up 13%, due to reduced liquidity environment

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	30 Jun 22 P'000s	30 Jun 21 P'000s
Interest revenue calculated using the effective interest method	398,953	361,122
Interest expense calculated using the effective interest method	(162,978)	(144,657)
Net interest income	235,975	216,465
Fee and commission income	131,948	118,468
Other income	44,706	39,136
Less: Commission expense	(9,667)	(11,640)
Net fee and commission income	166,987	145,964
Net operating income	402,962	362,429
Operating expenses		
Staff expenses	(114,105)	(119,953)
Other expenses	(187,945)	(189,894)
Total operating expenses	(302,050)	(309,847)
Profit before impairment losses	100,912	52,582
Credit loss expense on financial assets	(29,985)	22,659
Profit before income tax	70,927	75,241
Income tax expenses	(13,182)	(16,553)
Total comprehensive income for the period	57,745	58,688
Number of ordinary shares in issue during the period at 100 thebe per share	298,350,611	298,350,611
Headline EPS	19.35	19.67
Basic and diluted earnings per share (thebe)	19.35	19.67
Dividend per share (thebe) - declared and paid in the year	20.21	16.00

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 Jun 22 P'000	30 Jun 21 P'000
Assets		
Cash and balances with central bank	503,202	346,551
Loans and advances to banks	4,415,199	2,357,279
Investment securities	2,399,615	3,011,495
Loans and advances to customers	7,898,558	8,698,423
Other assets	221,141	176,771
Tax refundable	12,729	15,936
Property and equipment	89,882	82,122
Intangible Assets and goodwill	44,882	37,011
Deferred taxation	22,394	21,590
Total assets	15,607,602	14,747,178
Liabilities		
Deposits from other banks	706,171	242,755
Deposits from customers	12,854,728	12,302,807
Unsettled Treasury bills	75,000	-
Other liabilities	223,072	389,830
Restructuring provision	-	23,205
Taxation payable	2,310	14,509
Senior and subordinated debt	712,566	712,566
Total liabilities	14,573,847	13,685,672
Equity		
Stated capital	179,273	179,273
Additional Capital Contribution	428,213	428,213
Reserves	426,269	454,020
Total equity	1,033,755	1,061,506
Total liabilities and equity	15,607,602	14,747,178

CONSOLIDATED STATEMENT OF CASH FLOWS

	30 Jun 22 P'000	30 Jun 21 P'000
Cash flow from operating activities:		
Profit for the period	57,745	58,688
Adjustments for:		
Interest Income	(398,953)	(361,122)
Interest Expense	162,978	144,657
- Taxation	13,182	16,553
- Depreciation	13,947	14,129
- Amortisation on intangibles	5,581	4,583
- Impairment loss on loans and advances	29,985	(22,659)
- Unrealised foreign exchange (gains)/losses	(2,651)	277
- Movement in restructuring provision	-	47
	(118,186)	(144,847)
Change in investment securities	227,048	(903,494)
Change in loans and advances to customers	(212,576)	(649,448)
Change in other assets	(4,289)	(7,964)
Change in deposits from other banks	52,830	144,192
Change in amounts due from customers	236,722	453,197
Unsettled Treasury bills	(124,246)	(29,878)
Change in other liabilities	(51,873)	(59,322)
	5,430	(1,197,564)
Taxation paid	(8,289)	(14,271)
Interest income	398,953	361,122
Interest expense	(162,978)	(144,657)
Net cash generated from / (used in) operating activities	233,116	(995,370)
Cash flow from investing activities		
Acquisition of property and equipment	(7,341)	(20,456)
Acquisition of intangibles	(1,458)	(2,813)
Net cash used in investing activities	(8,799)	(23,269)
Cash flow from financing activities		
Issue of senior unsecured bond notes	-	323,566
Interest paid on subordinated debt	(20,398)	(8,772)
Dividends paid	(60,311)	(47,736)
Lease liability interest payments	(898)	(833)
Lease liability capital payments	(8,598)	(9,127)
Distribution payment to holders of subordinated capital securities	(15,150)	(15,150)
Net cash used in financing activities	(105,355)	241,948
Increase/ (Decrease) in cash and cash equivalents	118,962	(776,690)
Cash and cash equivalents:		
Cash and cash equivalents at 1 January	4,795,983	3,477,463
Net foreign exchange differences	3,456	3,057
Cash and cash equivalents at 30 June	4,918,401	2,703,830

* 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.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

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 2021	179,273	25,696	19,152	447,197	428,213	(31,566)	(7,978)	1,059,987
Total comprehensive income								
Profit for the year	-	-	-	60,311	-	-	-	60,311
Fair value adjustment:								
Items measured at fair value through other comprehensive income	-	3,701	-	-	-	-	2,147	5,848
Transactions with owners of the bank								
Dividends to equity holders - paid	-	-	-	(47,365)	-	-	-	(47,365)
Distributions to holders of subordinated capital securities	-	-	-	(30,300)	-	-	-	(30,300)
Balance at 31 December 2021	179,273	29,397	19,152	429,843	428,213	(31,566)	(5,831)	1,048,481
Balances 1 January 2022	179,273	29,397	19,152	429,843	428,213	(31,566)	(5,831)	1,048,481
Total comprehensive income								
Profit for the year	-	-	-	57,745	-	-	-	57,745
Fair value adjustment:								
Items measured at fair value through other comprehensive income	-	-	-	-	-	-	2,990	2,990
Transactions with owners of the bank								
Dividends to equity holders - paid	-	-	-	(60,311)	-	-	-	(60,311)
Distributions to holders of subordinated capital securities	-	-	-	(15,150)	-	-	-	(15,150)
Balance at 30 June 2022	179,273	29,397	19,152	412,127	428,213	(31,566)	(2,841)	1,033,755

CONSOLIDATED SEGMENTAL REPORTING

	Consumer, Private & Business Banking P'000	Corporate Commercial & Institutional Banking P'000	Total P'000
2022			
Statement of Profit or Loss			
Interest revenue calculated using the effective interest method	168,555	67,420	235,975
Trading Income	16,023	24,726	40,749
Net fee and commission income	96,543	29,695	126,238
Net operating income	281,121	121,841	402,962
Operating expenses	(209,778)	(92,272)	(302,050)
Profit before impairment losses	71,343	29,569	100,912
Credit loss expense on financial assets	(28,281)	(1,704)	(29,985)
Segment profit (loss) before taxation	43,062	27,865	70,927
Income tax expense			(13,182)
Profit for the year			57,745
Statement of financial Position			
Investment securities	-	2,399,615	2,399,615
Loans and advances to customers	7,292,190	606,368	7,898,558
Other assets for reportable segments	168,193	5,141,236	5,309,429
Total assets for reportable segments	7,460,383	8,147,219	15,607,602
Deposits from non bank customers	4,246,579	8,608,149	12,854,728
Other liabilities for reportable segments	(109,898)	1,829,017	1,719,119
Total liabilities for reportable segments	4,136,681	10,437,166	14,573,847
2021			
Statement of Profit or Loss			
Interest revenue calculated using the effective interest method	174,930	41,535	216,465
Trading Income	14,060	22,805	36,865
Net fee and commission income	87,195	21,904	109,099
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 year			58,688
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

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