Standard Chartered Bank Botswana Limited

Condensed Unaudited Consolidated Interim Financial Results for Period ended 30th June 2023

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 2023 together with comparative figures for 2022

Standard Chartered Bank Botswana Limited
Condensed Unaudited Consolidated Interim Financial Results for Period ended 30th June 2023

Key Financial highlights

P523m — Operating income up 30%

P241m — Profit before tax up 239%

P191m — Profit after tax up 230%

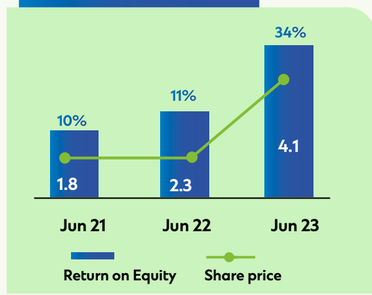
26% — Positive income-to-cost jaws

15% — Customer loans and advances grew 15%; CCIB customer assets up 207%

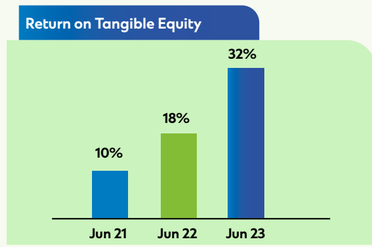
34% — Annualised ROE 34% (17%-Dec 2022)

17.1% — Capital Adequacy Ratio (CAR) at 17.1% against the regulatory requirement of 12.5%

Return on Equity and share price



Return on Tangible Equity



Economic Environment

Global & Regional Economy

Recessionary conditions are probable in some of the major economies; the US, UK and the Euro area starting in the Q4:2023 and Q1-2024. The Federal reserve paused its aggressive series of interest rate hikes in June but raised key interest rate by 0.25% in July as it continues to fight persistent inflation. For the Eurozone, weak global trade poses a risk and if trade does not recover in the coming months, Europe could face a higher risk of slipping back into recession. The European Central Bank (ECB) raised interest rates by 25 bps during its July meeting. China's recovery has lost momentum in recent months, after a strong start to the year as pent-up consumer demand was unleashed. Unlike China's previous recoveries, which were fuelled by real-estate and investment activity, this one is driven mainly by consumer spending and services. The People's Bank of China (PBoC) cut key policy rates for the second time in three months, at the August meeting, highlighting that the authorities are ramping up monetary easing efforts to boost the economy.

Growth across Sub-Saharan Africa remains sluggish, dragged down by uncertainty in the global economy, the underperformance of the continent's largest economies, high inflation, and a sharp deceleration of investment growth.

Local Economy

The economy expanded by 5.4% in the first quarter of 2023, largely supported by mining output which grew by 10.8%. Diamond production, which is the largest mining contributor, grew by 12% year-on-year, being the highest level since 2016. Despite the strong start of the year, the economy is likely to be tested in the second half of the year due to the potential risks to global diamond demand.

Headline inflation decelerated quickly to below the objective range at 1.5%, the lowest since August 2020, after peaking to 14.6% in August 2022. The aggressive decline in inflation is largely driven by the base effects and easing transportation costs. The Monetary Policy Committee projects that inflation will remain within the 3-6% objective range into the medium term.

Business Performance

The bank continues to deliver an improving financial performance with strong top line and returns trajectories. Profit before tax up by 239% to P241m, our highest half year profit since 2016. This was achieved through solid income performance, growing by 30% year on year with the growth coming from both underlying business momentum particularly in Corporate, Commercial and Institutional Banking (CCIB) and improving interest rate environment.

Gross interest income closed at P561.4m, up 41% annually reflecting the benefits of growth in the corporate book (P1.3bn asset growth) and asset portfolio price alignment (151bps increase).

We maintained a resilient liquidity position over the period with a strategic focus on optimal deposit mix. Low cost deposit mobilisation is expected to gradually reduce the holding of expensive deposits.

Non-Funded income (NFI) down 8% year-on-year to close at P153.0m. The year-on-year decline is largely attributed to thin margins on FX sales driven by heightened competitive pricing in the market and subdued Personal loan sales with a direct impact on insurance commission.

Positive income-to-cost jaws of 26% resulted in an improved Cost to income ratio (CIR), from 75% to 60% 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 CIR will continue to be a key focus area.

Credit impairment normalized to P31m and the portfolio remains resilient with lower loan loss ratio.

Asset book increased 15% year -on -year largely due to facility utilisation. The Banks strategic intention to drive short term loans and targeted campaigns are expected to sustain asset book growth.

Net Interest Income and margin

	30 Jun 23 P'000	30 Jun 22 P'000
Net Interest Income	370,080	235,975
Average Interest-earning Assets	15,162,106	14,911,125
Average Interest-bearing Liabilities	11,885,691	11,818,871
Gross Yield (%)	7.4	5.4
Rate Paid (%)	3.2	2.8
Net Yield	4.2	2.6
Net Margin (%)	4.9	3.2

Net interest income increased by 57% to P370m, with average interest earning assets growing by 2%. The growth in net interest income was also supported by strengthening margins, with net margin improving to 4.9% from 3.2%.

Credit Quality

	30 Jun 23 P'000	30 Jun 22 P'000
Gross loans and Advances to customers	9,258,172	8,092,213
Of which Stage 1 and 2	9,095,982	7,864,710
Of which Stage 3	162,190	227,503
Expected Credit loss provisions	206,007	193,655
Of which Stage 1 and 2	93,398	104,973
Of which Stage 3	112,610	88,682
Net loans and Advances to customers	9,052,165	7,898,558
Of which Stage 1 and 2	9,002,584	7,759,737
Of which Stage 3	49,580	138,821
Collateral	1,176,536	2,614,502
Stage 1 and stage 2 exposures	1,121,731	2,275,636
Stage 3 exposures	54,805	338,866

Stage 1 and 2 ECL provisions increased by a modest 16% peddled by growth in the CPBB portfolio and CCIB asset book. Stage 3 impaired exposures decreased by 29% on the back of portfolio management strategies.

Balance Sheet and Liquidity

	30 Jun 23 P'000	30 Jun 22 P'000
Assets		
Loans and advances to banks	70,328	43,545
Due from related parties	3,948,439	4,371,653
Loans and advances to customers	9,052,165	7,898,558
Other assets	3,170,219	3,293,846
Total assets	16,241,151	15,607,602
Liabilities		
Deposits from other banks	827,711	502,062
Due to related parties	590,477	204,109
Deposits from customers	12,665,950	12,854,728
Other liabilities	1,025,085	1,012,949
Total liabilities	15,109,223	14,573,847
Equity	1,131,928	1,033,755
Advances-to-deposits Ratio (%)	73	61
Liquid Assets Ratio (%)	15.3	16.4

Total Loans and advances to customers increased by 14.6% to P9.1bn. Significant increase largely due to trade facility utilisation in CCIB. There were positive signs of recovery for CPBB asset volumes in the second quarter after a slow start to the year. CPBB assets relatively flat year-on-year, with marginal growth in Personal loans offsetting a decline in mortgages.

Customer deposits (excl banks) down 2% year-on-year to P12.7bn. Decline is due to 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 (RWA)

By Risk Type	30 Jun 23 P'000	30 Jun 22 P'000
Credit	7,428,748	7,572,061
Market	28,880	187,424
Operational	767,987	753,413
Total RWAs	8,225,615	8,512,898

Total RWA down by P131m (2%) ending first half of the financial year at P8,2bn largely driven by Credit Risk RWA which closed at P7.4bn from P7.6bn and recording an improved capital adequacy ratio at 17.1% culminating from RWA optimisation initiatives over the period.

Capital Base and ratios

	30 Jun 23 P'000	30 Jun 22 P'000
CET1 Capital	490,881	528,192
Additional Tier 1 Capital (AT1)	400,000	400,000
Tier 1 Capital	890,881	928,192
Tier 2 Capital	519,796	390,768
Total Capital	1,410,677	1,318,960
Capital adequacy ratio (%)	17.1%	15.5%
Regulatory Threshold (%)	12.5%	12.5%

Capital ratios remain within regulatory limits with Capital Adequacy Ratio (CAR) ending first half of the financial year 2023 at 17.1% and as such no capital concerns are anticipated into full year 2023.

Segment performance

Consumer, Private and Business Banking

Consumer, Private & Business Banking delivered a strong financial performance in first half of the financial year 2023, underpinned by a solid revenue growth and excellent returns. first half of the financial year 2023 Revenue grew by 17% year-on-year to P329m. This notable growth was mainly driven by a substantial increase in interest income, growing by 30% year-on-year supported by the higher interest rate environment.

However, this was partly offset by a decline in fee income. Fee revenue decreased by 3% year-on-year largely due to subdued wealth management income as momentum was impacted by market headwinds and competitive pricing.

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. In pursuit of improving client experience and service agenda, we have further migrated clients to our self-service digital platforms. Digital adoption improved from 75% at the end of 2022 to 78.5% at the end first half of financial year 2023.

Strategic Priorities

- **Be the leading bank for the Affluent leveraging our international footprint and expertise to provide them with the best in class local and international banking services.**
- **Build a profitable mass segment enabled by partnerships, data and digital infrastructure.**
- **Digitise and automate processes to offer exceptional end-to-end client experiences and drive efficiency**
- **Be the market leader in offering personalised and well-researched wealth propositions with digital enabling wider participation of all clients in investment solutions.**

Corporate, Commercial and Institutional Banking (CCIB)

CCIB net operating income recorded a 60% year-on-year growth. This represents consecutive annual growth following the strategic refocus of the business on specific business segments. This is in line with our differentiation strategy to leverage our international banking expertise and local knowledge to introduce value adding financial solutions to our clients. During the period, the business continued to introduce innovative derivative products to mitigate risks and improve the yield for our clients.

We have also continued in our digital transformation journey becoming the first bank in Botswana to process end to end trade financing and disbursement to clients on our platform. This in turn is improving cost efficiency. The uptake and appetite is encouraging. We are going further to introduce and incubate new products into the market working closely with our clients.

The balance sheet remains strong and the underlying fundamentals driving growth are solid. Impairment recorded a net release of P15.6m as a result of portfolio management initiatives to optimize the book. Total assets increased 300%. Liabilities recorded a 6% drop as the business took tactical measure to optimize the deposit mix to avoid increasing cost of funding due to the tightening liquidity experienced in the market.

Our focus on return on tangible equity yielded growth in profit before tax which is 4 times the previous reporting period (4x) demonstrating that our strategy is driving positive outcomes for the business.

Strategic priorities

- **Financial markets. Deepening of our derivative business focusing on financial institutions and corporates.**
- **Introducing our investment banking product: Mergers and acquisitions, Credit Advisory, Capital Structuring, Debt Capital Markets (local and Eurobonds), Leverage finance.**
- **Sustainable Finance to help clients transition to net zero carbon emissions.**
- **Digital banking. Process integration to migrate existing manual processes to end-to-end digital experience for our clients.**

We remain cognisant of changing macroeconomic variables in the local and international markets as we focus on long-term fundamentals to reinforce our differentiation strategy of building a sustainable business.

People & Culture

Standard Chartered bank's takes the experience of all colleagues journeys with the organization very seriously. The bank believes that here for good means promoting a work environment that is safe and doing work that is both meaningful and purpose-led. To ensure that this aspiration is achieved, the bank implemented a fair pay charter in 2020. Fair pay charter is the bank's commitment to its employees and clients that supports prosperity, fairness & psychological safety.

We have set our aspiration to create an inclusive and innovative performance culture underpinned by conduct and sustainability. Creating an environment which is fair in recognising the ability, performance and potential of all our colleagues, is core to that aspiration. Through the charter we have been able to achieve the below highlights on our commitments on fair pay, benefits and wellbeing. This also helps us reflect on where there is still more to do;

- **30 days annual leave for all colleagues in promotion of ensuring staff lead a fulfilled work life balance**
- **20 weeks parental leave for all colleagues irrespective of gender or marital status to also remove any differentiation on gender**
- **9 months prolonged ill-health leave to support rehabilitation**

Outlook

We are proud to be part of a Global Bank that connects the world's dynamic markets and currently operating in 53 countries. The businesses we serve and partner with remain focal in our pursuit to be an innovative bank that meets their banking requirements. Our 2023 to 2025 strategy has adopted the following five strategic actions that support the delivery of the Group Chapter 3 strategy and increase shareholder value.

We aimed to optimize our distribution model through partnerships; drive our brand visibility; enhance employee experience; deliver client centric services and solutions; as well as to maintain high double-digit Return on Tangible Equity (RoTE); 25% by 2025. Great progress has been made in every area as evidenced by our strong financial performance in the first half of 2023.

Eazy Pula, our agent Banking product, was launched in March 2023 is now available at 44 sites across Botswana, ensuring that our brand reaches far places like Shakawe, where we previously had no presence. Through partnerships, our target is to have 100 active agent banking sites, offering everyday banking solutions to the larger population including those in remote areas by end of year. Our diversion away from brick and mortar, and our concerted move into digital, forms part of our strategy to deliver a more efficient and superior client experience.

We wish to reassure you all, that after 126 years of doing business in Botswana, we are even more committed to ensuring that our legacy remains relevant as we increase our footprint and become more visible countrywide. We are continuing to invest in our distribution network, albeit away from the traditional way of banking. Our personal loan value proposition was recently enhanced, offering clients a maximum loan amount of P700,000, to assist clients with major projects and large bills.

We recognize the evolving needs of our market and as the nation aspires to become a high-income economy, we aim to evolve with our clients to achieve this goal. As we continue to anticipate our client's needs, we look forward to a great second half of the year. All our key performance indicators are trending in the right direction and the businesses have in place targeted initiatives to further drive performance into the rest of 2023. The Management Team and Board remain focused on delivering the strategy while creating exceptional long-term value for our shareholders. We look forward to continuing to serve our clients and the country at large in 2023 and beyond.

By order of the Board

Doreen Khama
Chairperson

Mpho Masupe
Managing Director

Gaborone
11 August 2023

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2023

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
Balance at 01 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 period				57,745				57,745
Other movements								
Other comprehensive income								
"Fair value adjustment items measured at fair value through other comprehensive income "							2990	2990
Transactions with owners of the bank								
Dividends to equity holders - paid				(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**
Balance at 01 July 2022	179,273	29,397	19,152	412,127	428,213	(31,566)	(2,841)	1,033,755
Total comprehensive income								
Profit for the period				144,081				144,081
Other movements				1,985				1,985
Other comprehensive income								
" Fair value adjustment items measured at fair value through other comprehensive income "							(8,011)	(8,011)
Transactions with owners of the bank								
Dividends to equity holders - paid								
Distributions to holders of subordinated capital securities				(15,150)				(15,150)
Balance at 31 December 2022	**179,273**	**29,397**	**19,152**	**543,043**	**428,213**	**(31,566)**	**(10,852)**	**1,156,660**
Balance at 01 January 2023	179,273	29,397	19,152	543,043	428,213	(31,566)	(10,852)	1,156,660
Total comprehensive income								
Profit for the year				190,731				190,731
Other movements				(923)				(923)
Other comprehensive income								-
"Fair value adjustment items measured at fair value through other comprehensive income"							2,437	2,437
Transactions with owners of the bank								
Dividends to equity holders - paid				(201,826)				(201,826)
Distributions to holders of subordinated capital securities				(15,150)				(15,150)
Balance at 30 June 2023	**179,273**	**29,397**	**19,152**	**515,875**	**428,213**	**(31,566)**	**(8,415)**	**1,131,928**

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	30 Jun 23 P'000s	30 Jun 22 P'000s
Interest income	561,410	398,953
Interest expense	(191,330)	(162,978)
Net interest income	**370,080**	**235,975**
Fees and commission income	126,651	131,948
Fees and commission expense	(15,694)	(9,667)
Net fee and commission income	**110,957**	**122,281**
Net trading income	40,475	44,706
Other operating income	1,521	-
Operating income	**523,033**	**402,962**
Staff costs	(118,637)	(114,022)
Premises costs	(230)	(113)
General administrative expenses	(175,885)	(168,386)
Depreciation and amortization	(18,823)	(19,529)
Operating expenses	**(313,575)**	**(302,050)**
Operating profit before impairment losses and taxation	**209,458**	**100,912**
Credit impairment	31,293	(29,985)
Profit before taxation	**240,751**	**70,927**
Taxation	(50,020)	(13,182)
Profit for the year	**190,731**	**57,745**

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 Jun 23 P '000	31 Dec 22 P '000	30 Jun 22 P '000
Assets			
Cash and balances at central banks	831,654	491,618	503,202
Derivative financial instruments	-	770	3,809
Loans and advances to banks	70,328	45,078	43,545
Loans and advances to customers	9,052,165	7,775,324	7,898,558
Investment securities	1,970,515	2,444,488	2,369,415
Other assets	29,981	40,175	55,213
Due from related parties	3,948,439	5,266,269	4,371,653
Current tax assets	-	-	12,729
Prepayments and accrued income	167,989	166,408	162,121
Investments in subsidiary undertakings	-	-	-
Goodwill and intangible assets	57,426	63,150	44,882
Property, plant and equipment	87,613	101,599	89,882
Deferred tax assets	25,061	30,126	22,394
Total assets	**16,241,151**	**16,425,005**	**15,607,602**
Liabilities			
Deposits by banks	827,711	860,239	502,062
Customer accounts	12,665,950	13,024,890	12,854,728
Derivative financial instruments	1,198	469	5,328
Debt securities in issue	323,566	323,566	323,566
Other liabilities	121,172	139,986	218,412
Due to related parties	590,477	377,750	204,109
Current tax liabilities	25,057	20,634	2,310
Accruals and deferred income	161,235	129,366	73,173
Subordinated liabilities	389,000	389,000	389,000
Provisions for liabilities and charges	3,858	2,445	1,159
Total liabilities	**15,109,223**	**15,268,345**	**14,573,847**
Equity			
Stated capital	179,273	179,273	179,303
Retained earnings and other reserves	524,442	549,173	426,239
Total parent company shareholders' equity	703,715	728,446	605,542
Capital contribution	428,213	428,213	428,213
Total equity excluding non-controlling interests	1,131,928	1,156,660	1,033,755
Total equity	**1,131,928**	**1,156,660**	**1,033,755**
Total equity and liabilities	**16,241,151**	**16,425,005**	**15,607,602**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	30 June 23 P '000	31 Dec 22 P '000	30 Jun 22 P '000
Cash flows from operating activities			
Profit for the year	190,731	201,826	57,745
Adjustments for:			
Interest income	(561,410)	(919,289)	(398,953)
Interest expense	191,330	336,140	162,978
Taxation	50,020	51,252	13,182
Depreciation	13,176	28,477	13,947
Amortisation on intangibles	5,647	12,185	5,581
Net impairment loss on loans and advances	(29,651)	1,255	29,985
Unrealised foreign exchange (gains)/losses	(9,922)	(20,034)	(2,651)
Modification gains	(1,521)	(1,878)	-
Movement in provisions	-	-	-
Profit on sale of asset	-	(1,062)	-
Movements before changes in working capital	**(151,600)**	**(311,127)**	**(118,186)**
Change in derivative financial instruments assets	770	20,305	(2,768)
Change in investment securities	473,973	182,059	229,816
Change in loans and advances to customers	(1,247,190)	(58,734)	(212,576)
Change in other assets	10,194	27,013	9,211
Change in prepayments and accrued income	(1,580)	(21)	(13,500)
Change in deposits from other banks	(32,529)	442,584	84,223
Change in Customer accounts	(358,940)	406,884	236,722
Change in other liabilities	(9,887)	(279,901)	(192,033)
Change in derivative financial instruments liabilities	729	(4,142)	1,589
Change in due to related parties	212,727	142,064	(31,393)
Change in accruals and deferred income	31,868	(19,740)	14,325
Change in provisions for liabilities and charges	1,413	717	-
	(1,070,052)	547,960	5,430
Taxation paid	(40,512)	(26,395)	(8,289)
Interest received	561,410	901,525	398,953
Interest paid	(191,330)	(236,137)	(162,978)
Net cash flows from operating activities	**(740,484)**	**1,186,953**	**233,116**
Cash flows from investing activities			
Acquisition of property and equipment	(1,567)	(1,766)	(7,341)
Acquisition of intangibles	(516)	(26,330)	(1,458)
Proceeds from sale of property equipment	-	3,500	-
Net cash used in investing activities	**(2,083)**	**(24,596)**	**(8,799)**
Cash flows from financing activities			
Interest paid on subordinated liabilities	(18,067)	(23,604)	(20,398)
Interest paid on debt securities	(12,677)	(22,550)	-
Lease liability capital payments	(5,142)	(18,778)	(898)
Lease liability interest payments	(1,182)	(2,232)	(8,598)
Dividends paid	(201,826)	(60,311)	(60,311)
Distribution payment to holders of subordinated capital securities	(15,150)	(30,300)	(15,150)
Net cash (used in)/from financing activities	**(254,044)**	**(157,775)**	**(105,355)**
Increase in cash and cash equivalents	**(996,611)**	**1,004,582**	**118,962**
Cash and cash equivalents at 1 January	5,802,965	4,795,980	4,795,983
Net foreign exchange differences	44,067	2,403	3,456
Cash and cash equivalents at the end of the period/year	**4,850,421**	**5,802,965**	**4,918,401**

CONSOLIDATED SEGMENTAL REPORTING

	Consumer, Private & Business Banking	Corporate Commercial & Institutional Banking	Total
Period ended 30 June 2023			
Profit and Loss			
Interest revenue calculated using the effective interest method	219,676	150,404	370,080
Net fee and commission income	108,876	44,077	152,953
Net operating income	328,552	194,481	523,033
Operating expenses	(224,844)	(88,731)	(313,575)
Profit before impairment losses	103,708	105,750	209,458
Credit loss expense on financial assets	15,762	15,531	31,293
Segment profit (loss) before taxation	**119,470**	**121,281**	**240,751**
Income tax expense			(50,020)
Profit for the year			**190,731**
Statement of financial Position			
Investment securities	-	1,970,515	1,970,515
Loans and advances to customers	7,188,175	1,863,989	9,052,165
Other assets for reportable segments	173,710	5,044,761	5,218,471
Total assets for reportable segments	**7,361,885**	**8,879,265**	**16,241,151**
Deposits from non bank customers	4,508,551	8,157,399	12,665,950
Other liabilities for reportable segments	(135,638)	2,578,911	2,443,273
Total liabilities for reportable segments	**4,372,913**	**10,736,310**	**15,109,223**
Period ended 30 June 2022			
Profit and Loss			
Interest revenue calculated using the effective interest method	168,555	67,420	235,975
Net fee and commission income	112,565	54,421	166,986
Net operating income	281,120	121,841	402,961
Operating expenses	(209,777)	(92,272)	(302,050)
Profit before impairment losses	71,343	29,569	100,912
Credit loss expense on financial assets	(28,280)	(1,704)	(29,985)
Segment profit (loss) before taxation	43,063	27,864	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**