

Stanbic Bank Botswana Limited
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
ANNOUNCEMENT



for the half year ended 30 June 2022

▲ 14%
 Profit after tax (Pm)
147
 2021: P129 million

▲ 23%
 Loans and advances (Pb)
19.4
 2021: P15.8 billion

▲ 22%
 Deposits (Pb)
19.6
 2021: P16.0 billion

▼ (1.16%)
 CAR (%)
16.18
 2021: 17.34%

▲ 0.2%
 Return on equity (%)
17.0
 2021: 16.8%

▲ 0.4%
 Credit loss ratio (%)
0.5
 2021: 0.9%

▼ 4.5%
 Cost-to-income ratio (%)
60.9
 2021: 56.4%

Economic Climate
Global economy

The beginning of 2022 welcomed the world to renewed hope of recovery from the impact of the Covid-19 pandemic, evidence of which was registered in the latter part of 2021. The eruption of the Russia-Ukraine conflict towards the end of Q1 2022 quickly put pressure on this recovery resulting in acceleration in inflation driven by rapid fuel and commodities prices increase. In response, the western world levied sanctions on Russia which exacerbated shortage of supplies and hence the resultant inflation across most nations. The tightening global financial conditions also came with the rise in the US dollar rate as the Federal Reserve Bank aggressively hiked rates to curb the inflation, a move most reserve banks across the globe also implemented in order to control consumption. According to the IMF, the Global economy is thus projected to grow by 3.6% for 2022 from 6.1% in 2021 on the back of the inflation forecasts with advanced and emerging and developing markets reporting rates of 5.7% and 8.7% respectively.

Local economy

Botswana real GDP growth rate for Q1 2022 came in at 7% compared to 1% for the same quarter in the previous year, driven by a continued recovery in the mining sector which grew by 23.2% as diamond and coal activities increased by 24% and 6% respectively. Inflation continues to put pressure on the economic recovery with June inflation at 12.7%, also driven by increase in fuel and food prices. Due to inflation being outside of the objective range of 3-6%, the Central Bank Monetary Policy Committee increased the policy rate by a cumulative 101 basis points by June 2022. We expect inflation to still remain outside of the objective range for the remainder of year with increased risk of tighter monetary policy in order to curb consumption.

Financial Performance of the Bank

The Bank has made great strides in helping its clients recover post the Covid-19 pandemic impact, with a lot of effort in engaging with distressed customers to remediate performance challenges following a 2-year long spell of sporadic economic and business activity. This has seen the Bank continue restructuring as well as repurposing some of the client's facilities to allow clients to re-position themselves for a totally transformed way of doing business.

To respond to its client's needs, the Bank has also had to reposition itself and how it structures itself to be able to serve all its stakeholders with the changes accelerated by the Covid-19 pandemic. This has meant the Bank has had to look at how it deploys its balance sheet and other resources to ensure sustainable delivery and profitability.

The result of the Bank's realignment has meant we had to be deliberate about diversifying away from reliance on traditional means of banking as well as how we harness our resources, from our people to how we use our data and technology.

Revenue

With business and economic activity in full swing, the Bank has responded by extending credit for expansion and restructuring of business models to its customers, resulting in a growth in our loan book and deposits of 23% and 22% over the 12 months from June 2021. This growth has enabled the Bank to diversify its income drivers to ensure sustainability in revenue generation away from the loan book which is susceptible to interest rate changes. As a result, our NIR contribution has improved from 39% to 43% and a noted total revenue improvement of 6%. Our non-interest income drivers improved significantly as customers resumed transactions and trade, coupled with our restored focus on client centricity. Our engagements with customers resulted in an increase in our fees and commissions by 10%. Further, our enhanced deployment of data insights allowed for improved and proactive customer

engagements, resulting in our Global markets trading income posting a healthy 35% growth, a promising testimony of the world returning to normalcy and pre-Covid trading trends.

The loan book growth was driven primarily by our business segments Business and Commercial Clients (BC) and Corporate and Investment Banking (CIB), while Consumer and High Net Worth (CHNW) focused its efforts on assisting its customers to recover and improve the quality of the book performance following a devastation by rising inflation at the back of an increase in commodity prices globally. On the other hand, at the back of the faster recovery in the business segments, our liquidity position was driven largely by our business clients as they started seeing inflows of cash as business activity continued to improve.

Credit impairment charges

A continued benefit of our enhanced data monetisation strategy has resulted in an acceleration of the Bank's focus on helping its clients recover, and a renewed hope in the quality of our asset book. This resulted in a reduction of 52% in credit impairments, especially in the BCC space, that were hard hit by the pandemic during the 2020 and 2021 financial years. This represents an improvement in our credit loss ratio from 0.9% in June 2021 to 0.5% in June 2022. The Bank continues to employ a risk managed approach to credit extension, to ensure its clients are not burdened by servicing their facilities and are able to absorb shocks especially now in a hyperinflationary economic climate.

Operating expenses

In response to the new ways of work, the Bank continues to invest in a future ready culture, by focusing its energies in developing its people, seeing at least half of its staff going on extensive training programs to upskill in line with the investments

made by the Bank on its platforms to position the Bank for a fast-moving digital world. As a result, the Bank has increased its spend on staff development programs, future ready recruitment, as well as on decommissioning investments that are not a fit for the future Bank, while also investing in new technologies to better serve its evolving client expectations. The expected results of these investments are enhanced efficiencies, improved customer experience, increase in productivity as well as an increase in new revenue streams.

Capital and liquidity management

The Bank continues to have a strong Capital base with the Capital Adequacy ratio at 16.18% (2021: 17.34%), well above the minimum capital requirement of 12.5% (2021: 12.5%) and our internal risk appetite. The reduction in capital position was driven by a redemption of P200m in Tier II Capital in June 2022 however, an additional P215m in new Tier II notes issued in July 2022 which is expected to further improve the capital adequacy position. The Bank has a robust capital risk management framework and will continue to manage the utilisation and allocation in line with the strategy to ensure optimal capital consumption. Despite the liquidity compression experienced since the start of the Covid-19 pandemic, the Bank continues to have a healthy liquidity position with the prudential Liquid Asset Ratio closing the reporting period at 12.10%, above the minimum regulatory limit of 10% and our internal risk appetite.

Outlook

Botswana GDP growth for 2022 is expected at 3.9% year on year lower than the IMF forecast of 4.3% impacted by ease in domestic demand. Diamond production is expected to continue to post strong growth, assuming that the additional supply that is needed to substitute for probable low supply from Russia

outweighs less spending on luxury items. The Russia-Ukraine conflict will continue to put pressure on fuel and food prices with inflation expected to remain at double digits by year end and the Central bank expecting inflation to come within the objective range by Q3 2024. As a result, further monetary policy tightening probable into 2023.

The Bank continues to engage clients to ascertain how they want us to show up and to understand their needs in our quest to remain relevant and ensure our strategies are client driven. Our investments are in response to our clients' voice, and we continue to partner with corporates and individuals alike to create business opportunities and support Botswana's growth. The Bank has seen a move to self-service channels by most of our clients, a positive response to our digitisation journey. This will drive the desired diversification from traditional banking products to digital and more inclusive solutions. Echoed in our purpose "Botswana is our home, and we drive her growth".

C.A. Granville
Chairman
C.A. Granville

C. Modise
Chief Executive
C. Modise



#UNAYOEVEERYWHERE

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half year ended 30 June 2022

Group	Half year ended	
	30 June 2022	30 June 2021
	P000's	P000's
Interest income	592 699	521 417
Interest expense	(232 538)	(162 444)
Net interest income	360 161	358 973
Fee and commission income	180 256	156 740
Fee and commission expense	(45 403)	(32 611)
Net fee and commission income	134 853	124 129
Net trading income	121 145	89 487
Other income	10 804	16 352
Non-interest income	266 802	229 968
Total income	626 963	588 941
Credit impairment charges	(39 808)	(82 788)
Net income	587 155	506 153
Staff costs	(167 388)	(142 968)
Other operating expenses	(214 548)	(188 980)
Total operating expenses	(381 936)	(331 948)
Profit before indirect tax	205 219	174 205
Indirect tax	(14 081)	(9 523)
Profit before direct tax	191 138	164 682
Direct tax	(44 188)	(35 294)
Profit for the period	146 950	129 388
Other comprehensive income after taxation for the period	-	1 077
Items that may not be subsequently reclassified to profit or loss	-	1 077
Net change in fair value of equity financial assets measured at FVOCI	-	1 077
Total comprehensive income for the period	146 950	130 465

CONDENSED STATEMENT OF FINANCIAL POSITION

At 30 June 2022

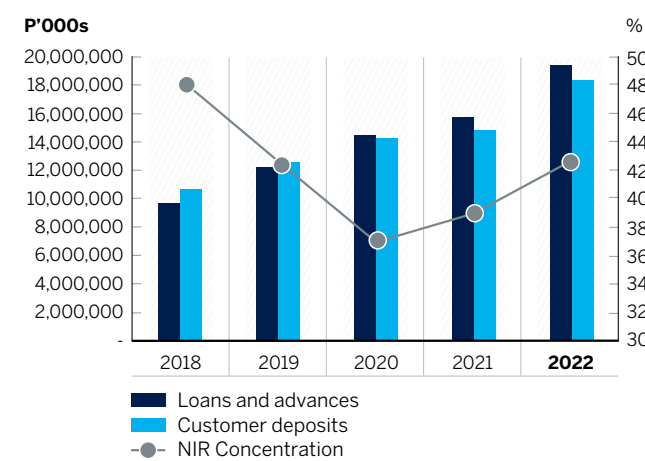
Group	Half year ended	
	30 June 2022	30 June 2021
	P000's	P000's
Assets		
Cash and balances with the Central Bank	567 261	196 595
Derivative assets	27 517	7 258
Trading portfolio assets	7 079	7 065
Financial investments	2 353 352	2 436 246
Loans and advances	19 420 218	15 797 687
Loans and advances to banks	6 184 663	3 544 577
Loans and advances to customers	13 235 555	12 253 110
Other assets	1 903	168 131
Current tax asset	30 745	47 925
Intangible assets	135 538	159 894
Property, equipment and right of use assets	131 657	158 426
Deferred tax asset	21 722	22 929
Total assets	22 696 992	19 002 156
Liabilities and equity		
Derivative liabilities	16 558	4 506
Trading liabilities	125 276	-
Deposits	19 569 727	16 047 997
Deposits from banks	1 742 939	1 594 148
Deposits from customer accounts	17 826 788	14 453 849
Accruals, deferred income and other liabilities	370 919	357 765
Debt securities in issue	758 720	958 720
Liabilities	20 841 200	17 368 988
Equity		
Stated capital	390 177	390 177
Reserves	1 465 615	1 242 991
Equity - attributable to ordinary shareholders	1 855 792	1 633 168
Total liabilities and equity	22 696 992	19 002 156

CONDENSED STATEMENT OF CASH FLOWS

For the half year ended 30 June 2022

Group	Half year ended	
	30 June 2022	30 June 2021
	P000's	P000's
Net cash flows from operating activities	307 259	(111 038)
Cash flows generated from operations	(7 334)	(430 654)
Interest received	592 699	521 417
Interest paid	(232 538)	(162 444)
Indirect tax paid	(14 081)	(9 523)
Direct tax paid	(31 487)	(29 834)
Net cash flows in investing activities	28 515	(2 233)
Net cash flows in financing activities	(200 000)	(110 000)
Net movement in cash and cash equivalents	135 774	(223 271)
Cash and cash equivalents at beginning of the period	431 487	419 866
Cash and cash equivalents at end of the period	567 261	196 595

BALANCE SHEET EFFICIENCY

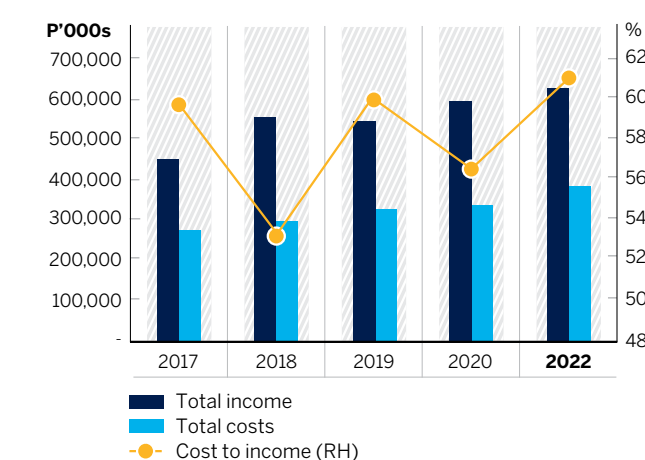


"As Stanbic Bank Botswana, we are committed to driving sustainable and inclusive economic growth, as reflected in our purpose – Botswana is our home, we drive her growth. We recognise the impact of business activities on the society, economy and environment (SEE) in which we operate, as such our SEE efforts are embedded into our corporate strategy and day-to-day decisions, as we work to drive tangible impact to improve lives. We strongly believe that our long-term profitability depends on the stability and wellbeing of our country. It is up to us all to proactively help shape a stronger inclusive future, and for this, we are wholly committed."

CHOSE MODISE,
CHIEF EXECUTIVE

Balance sheet optimisation remains to be key in a very competitive market - our customer loans grew by 23% while customer deposits grew by 22%. Margins compressed by liquidity pressures, however the outlook is positive in maintaining desirable margin levels.

TOTAL INCOME VS OPERATING COSTS



The Bank's performance reflects excellent execution of strategic initiatives aimed at transforming foreign based business, improving credit control, investment in technology and people. Income growth of 7% and costs increase at 15% year on year.

SEGMENT REPORTING

For the half year ended 30 June 2022

2022 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	117 855	94 120	156 375	(8 189)	360 161
Non-interest income	94 840	81 611	90 334	17	266 802
Net fee and commission income	(27 272)	79 962	78 789	(58)	131 421
Net trading income	121 190	-	-	-	121 190
Other income	922	1 649	11 545	75	14 191
Total income	212 695	175 731	246 709	(8 172)	626 963
Credit impairment charges	1 240	(7 326)	(33 722)	-	(39 808)
Income after credit impairment charges	213 935	168 405	212 987	(8 172)	587 155
Total operating expenses	(99 931)	(144 938)	(151 523)	14 456	(381 936)
Staff costs	(19 105)	(19 594)	(41 541)	(87 148)	(167 388)
Other operating expenses	(80 826)	(125 344)	(109 982)	101 604	(214 548)
Net income before indirect tax	114 004	23 467	61 464	6 284	205 219
Indirect tax	(818)	(2 045)	(3 845)	(7 373)	(14 081)
Profit / (loss) before direct tax	113 186	21 422	57 619	(1 089)	191 138
Direct tax	(26 982)	(2 878)	(11 410)	(2 918)	(44 188)
Profit / (loss) after tax	86 204	18 544	46 209	(4 007)	146 950

Operating information	Corporate & Investment Banking P000's	Business & Commercial Clients P000's	Consumer & High Net Worth P000's	Corporate functions P000's	Total P000's
Total assets	12 075 870	1 769 588	8 866 329	(14 795)	22 696 992
Total liabilities	13 827 102	5 133 778	1 898 102	(17 781)	20 841 201

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	110 015	90 461	165 968	(7 471)	358 973
Non-interest income	76 813	77 933	75 319	(97)	229 968
Net fee and commission income	(12 964)	71 440	65 750	(97)	124 129
Net trading income	89 509	-	-	-	89 509
Other income	258	6 493	9 569	-	16 352
Total income	186 825	168 394	241 287	(7 568)	588 941
Credit impairment charges	14 430	(23 970)	(73 248)	-	(82 788)
Income after credit impairment charges	201 258	144 424	168 039	(7 568)	506 153
Total operating expenses	(79 829)	(127 478)	(132 696)	8 055	(331 948)
Staff costs	(14 727)	(16 476)	(36 167)	(75 598)	(142 968)
Other operating expenses	(65 102)	(111 002)	(96 529)	83 653	(188 980)
Net income before indirect tax	121 429	16 946	35 343	487	174 205
Indirect tax	(2 234)	(1 708)	(2 765)	(2 816)	(9 523)
Profit / (loss) before direct tax	119 195	15 238	32 578	(2 329)	164 682
Direct tax	(25 358)	(3 015)	(7 433)	512	(35 294)
Profit / (loss) after tax	93 837	12 223	25 145	(1 817)	129 388

Operating information	Corporate & Investment Banking P000's	Business & Commercial Clients P000's	Consumer & High Net Worth P000's	Corporate functions P000's	Total P000's
Total assets	8 489 058	1 802 785	8 331 263	379 050	19 002 156
Total liabilities	11 227 873	4 397 758	1 696 052	47 305	17 368 988

Other information	Corporate & Investment Banking P000's	Business & Commercial Clients P000's	Consumer & High Net Worth P000's	Corporate functions P000's	Total P000's
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