

ABRIDGED AUDITED FINANCIAL STATEMENTS ANNOUNCEMENT

for the year ended 31 December 2022

Mohembo Bridge, Okavango River, Botswana.

Project financed by Stanbic Bank Botswana.

Stanbic Bank Botswana currently employs over 600 members of staff and has a national footprint comprising 13 branches, 77 ATMs, 1 489 Merchants and over 3 293 Point of Sale (POS) machines.

Economic Climate

Global economy

The year 2022 marked the restoration of optimism in the post COVID-19 era as most economies relaxed their pandemic restrictions due to emergence of less dangerous COVID-19 variants. However, the Russia-Ukraine conflict quickly disrupted the recovery journey, impacting international trade, leading to a quick rise in inflation in most markets as fuel and commodity prices frequently increased. In addition, prolonged COVID-19 restrictions in China further exacerbated the tension in the movement of goods across the globe. As a result, global economic GDP expected to slow down in 2022 at 3.6% from a recovery growth of 6.1% last year. As inflation grew across the markets it was met by mitigation from central banks through increase in interest rates to slow down demand and bring down prices. Though still showing growth, global economy is expected to moderate at 3.6% in 2023, at the back of anticipated recessionary impacts as most economies struggle to rebound.

Local economy

Like most economies, Botswana was hugely impacted by the Russia-Ukraine conflict as well as the prolonged China COVID-19 restrictions, which resulted in an increase in inflation to 12.4% in December 2022, driven by a rise in fuel and commodity prices. GDP growth has been revised up to 6.7% in Q4 2022 from a projected 4.2%, supported by the continued pickup in economic activity and diamond trading, a successful COVID-19 vaccine rollout, and full implementation of the Government's Economic Recovery and Transformation Plan (ERTP). Rough diamonds demand gained traction with relaxation of COVID-19 travel restrictions which had impeded the sight holder calendar.

A rebound in economic activity is being realised with January 2023 posting a GDP growth of 9.3% owing to a slowdown in contribution in transport, although reservations continue at the back of anticipated recessions as well as the grey listing of South Africa by the Financial Action Task Force (FATF) in February 2023. Due to inflation remaining above the Bank of Botswana (BOB) objective range of 3-6% throughout 2022, the Central Bank Monetary Policy Committee increased the policy rate by a cumulative 151 basis points in 2022. With inflation expected to fall within BOB objective range in Q3 of 2024, tighter monetary policy is expected to continue in order to curb the impact.

Financial Performance of the Bank

The Bank's financial performance continues to demonstrate resilience and its activities and client focus are testament to the Bank's continued improvements in efficient activities. The Bank's focus on supporting its clients and their businesses especially following a difficult business environment post COVID-19 restrictions, show a positive recovery story. Our client engagements, employee focus, risk management practices as well as focus on our control environment have improved efficiencies in the business and have strengthened the Bank's financial performance. The Bank's focus on developing our employees as well as the support extended to customers have ensured a satisfactory Bank/Client relationship, echoing our "Happy employee = Happy client" commitment.

To support the people behind the relationships, the Bank further continues to address gaps and needs in the technology infrastructure, enhance its processes, as well as train our people. The increase in the client's need for convenient banking has seen the Bank carry out the much-needed enhancements to its self-service platforms as well as an investment in enhancing the technology and people in its Voice Branch to allow our clients to be able to transact anytime, anywhere for their personal and business needs. The growing changes in the business landscape accelerated by COVID-19 have prompted the Bank to structure its activities and technologies to ensure its clients' growth strategies are supported effectively.

To respond to its clients' needs, the Bank has also had to reposition itself and how it structures itself to be able to serve the 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, with new and enhanced technologies taking a priority.

The Bank's financial performance is evidence of these changes and continued agility by the Bank to respond timely to economic and market needs.

Balance sheet

The result of all these investments and efforts are seen in the Bank's financial performance for 2022, which saw the balance sheet grow by 13.3% largely driven by the growth in loans and advances, specifically placement with other banks.

Advances to customers were muted, growing by only 1.6%, a deliberate move by the Bank to optimise the loan book as well as to deploy funds in platform enhancements in response to customer needs for more capabilities to grow their businesses.

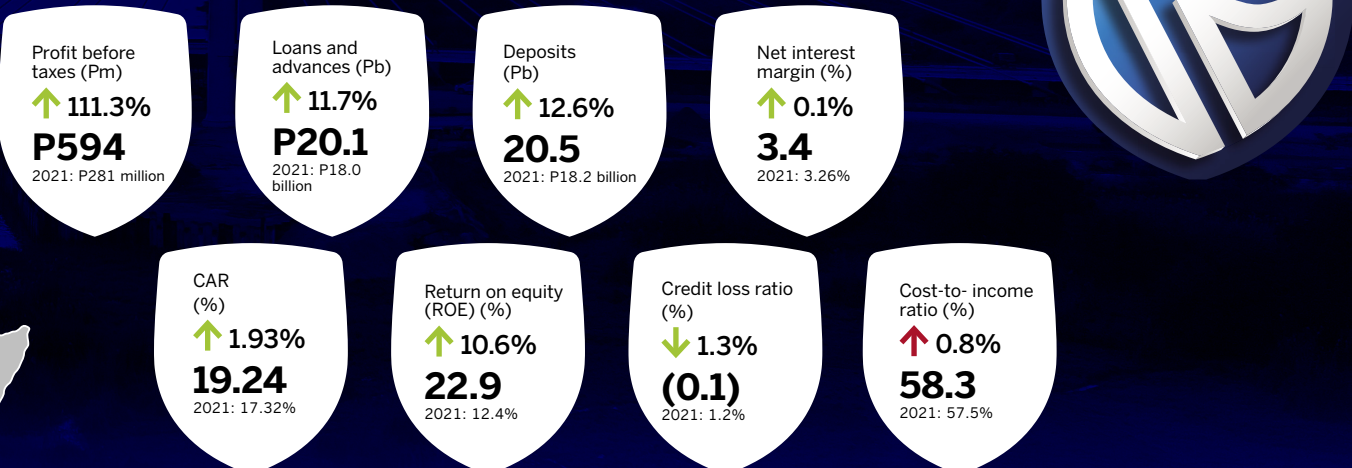
Profitability

The Bank's profit before taxes also grew by 111%, from P281 million to P594 million, at the back of technological advances as well as use of data insights. Also adding to the growth is an insurance claim recovery of P98 million at the back of an impairment provision raised in 2021 of P94 million.

Revenue

The rebound in economic activity has seen an impressive recovery in the Bank's revenue activities, seeing net interest income (Nil) growing by 20.7% driven by the Bank's focus on balance sheet optimisation. The Central Bank's monetary policy response to inflation by increasing interest rates has also had an impact on the growth in Nil. The balance sheet optimisation efforts have seen an impressive growth in Nil despite a 1.6% growth in customer loans. This is a strong demonstration on the Bank's focus which continues to yield positively despite the market liquidity challenges in 2022. Customers changing needs have also meant that the balance sheet demands have been muted as the focus was largely on platform banking requirements. This saw a demand largely in the Corporate and Investment Banking (CIB) book posting a growth of over 20% compared to a flat growth in the Consumer and High Net Worth (CHNW) book.

The changing business needs are evident in the growth of non-interest revenue (NIR) wherein platform banking has been a focus area. This, coupled with the Bank's growing use of data have seen an improvement in NIR of 22.4%. The rebound in economic activity has also contributed to the growth in trading revenue by 34.4% as the Bank continues to support its clients trade, both regional and international. This is achieved through the Global Markets business as well as the Africa China trade partnership led by the Business and Commercial Clients (BCC) segment. Improvement in client engagements, which have been led by data insights allowing the Bank to engage through predictive analytics have seen an uplift in revenue by P40 million in 2022 alone.



Our strategy is anchored on our compelling Purpose and strong set of Values. Our Purpose, Botswana is Our Home, We Drive her Growth exemplifies our commitment to the well-being and sustainability of this country. Our strategic principle is a simple one, defined through an equation; Transforming Client Experience + Executing with Excellence = Driving Sustainable Growth and Value.

Credit impairment charges

The Bank invested a lot of resources in training its people on risk management policies and practices to improve the risk management strategies, as well as supported by enhancing its technologies in the risk management functions. Coupled with predictive data analytics, which improve the ability to identify potential distress in clients' behaviour, the Bank saw an improvement in its customers' credit profiles, as well as being able to manage impairments ahead of events. The Bank also enhanced the quality of processes and staffing in its Rehabilitation and Recoveries (R&R) unit. These efforts saw well managed impairments in 2022. The Bank has also through its R&R unit, been able to claw back P98 million through its insurance indemnity cover for an impairment raised in 2021. As a result, the Bank posted a net credit recovery of P12 million compared to an expense of P209 million in the prior year. The prior year impairment charge included a once off incident of P94 million. The impairments across the segments have also shown resilience in the balance sheet management practices, especially in the CHNW portfolio which improved by 23.4%, BCC remaining flat and a slight increase in CIB from P4 million in 2021 to P5 million in 2022.

Operating expenses

Through listening to our clients, we undertook a lot of restructuring of our technologies, processes and platforms in 2022. A noticeable change in our client behaviours identified through the use of data, client engagements and feedback sessions, compelled us to take an agile stance, and move with the data and evolving market trends. This saw us upgrading our technologies, training our people and consolidating processes and functions as well as investing in automating processes. This, supported by our previous investments in realigning our direction to our future ready structures. The realignment resulted in a growth in our expenses by 22.9% in 2022 and a cost to income ratio of 58.3% ahead of prior year's 57.5%. This position is expected to improve in the medium as investments in the platform banking slowdown. The benefits of these investments have been seen largely in the growth in trading income and the improvement in credit impairments, where focus was directed in 2022, as well as the balance sheet optimisation resulting in the improved yields in our loan book. More benefits are anticipated in 2023 and beyond.

The impact of inflation in 2022 has also seen a significant contributor to the increase in our operating costs, especially in the procurement of services as most vendors aligned their pricing to the inflationary impact during COVID-19, as well as the 2022 hyperinflation. Localisation of services, as well as smart procurement are focus areas to manage these costs going forward.

Capital and liquidity management

The Bank continues to periodically review its balance sheet and capital management practices to ensure optimal capital consumption. The balance sheet has proven resilient during the year as well as through the COVID-19 pandemic, and into 2022, with the Bank continuing to be adequately capitalised. The Bank closed the year with a strong capital base, recording a Capital Adequacy Ratio (CAR) of 19.24% compared to 17.34% in 2021, well above the minimum statutory requirement of 12.5%. The 2022 financial performance also improved the capital position, driven by the growth in profit. In June 2022 the Bank had a redemption of P200 million in tier II capital and replaced it with a P215 million issuance in July 2022 to maintain a good capital base.

The Bank's balance sheet management focus is preceded largely by liquidity management to ensure the Bank is able to meet its operational demands, as well as to meet prudential requirements, especially now in a constrained market. We continue to maintain a healthy internal risk appetite which has enabled the Bank to maintain resilience in a volatile environment. The Bank also continues to approach product development in a very innovative manner to ensure we are able to grow our liquidity base as well as optimise our consumption in an effective and optimal manner. The Bank has met all prudential requirements and employs strict monitoring practices, as well as the use of data to be able to predict liquidity flows, coupling this with close client relationship management to be able to manage customer behaviours. Economic activities are also closely monitored to be able to anticipate shocks and prepare adequately for such.

Outlook

The operating landscape as well as global economic activity are expected to continue to be stressed in the short to medium term, at the back of the anticipated global recession as well as the recent grey listing of South Africa by the FATF. Engagements

with counterparts and regulators are closely managed with regards to the grey listing and an impact analysis has been done for the Bank, with immediate risks closely monitored and mitigating actions adequately documented.

Botswana GDP growth for 2023 is expected at 4.2%, a slowdown from the revised 2022 growth of 6.7%. The slow-down in 2023 is at the back of the expected reduction in diamond trade owing to reduced demand resulting in a 1% and 7% contraction in production and trade respectively. The contraction is expected as a result of a decline in consumer spending and reduced demand for diamond jewellery owing to pressure on real income. However, demand for other minerals is expected to offset the impact of the demand for diamonds, evidenced by plans to ramp-up production by copper and coal mines at the back of increased demand.

On the Bank's front, there is much optimism in opportunities for the Bank at the back of the Government's plans as presented by the Minister of Finance at the budget speech for the financial year 2023/24. The Bank is engaging clients and other stakeholders to position itself to be able to participate in economic activities, especially to respond to its commitment of financial inclusion in Botswana, as we partner with state and private sector alike to grow this economy, in alignment with our purpose "Botswana is our home, we drive her growth".

Chairman C.A. Granville and Chief Executive C. Modise.

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Group 2022 P000's	2021 P000's
Interest income effective interest method	1 370 282	1 067 739
Interest expense	(519 034)	(362 343)
Net interest income	851 248	705 396
Fee and commission income	374 614	330 578
Fee and commission expense	(102 577)	(78 238)
Net fee and commission income	272 037	252 340
Net trading income	247 357	184 085
Other income	26 927	13 653
Non-interest income	546 321	450 078
Total income	1 397 569	1 155 474
Credit impairment charges	11 891	(208 542)
Net income	1 409 460	946 932
Staff costs	(358 358)	(293 785)
Other operating expenses	(456 996)	(371 175)
Total operating expenses	(815 354)	(664 960)
Profit before indirect tax	594 106	281 972
Indirect tax	(25 199)	(19 371)
Profit before direct tax	568 907	262 601
Direct tax	(125 059)	(56 462)
Profit for the year	443 848	206 139
Other comprehensive income after taxation for the year	(240)	240
Items that may not be subsequently reclassified to profit or loss	(240)	240
Net change in fair value of equity financial assets measured at FVOCI	(240)	240
Total comprehensive income for the year	443 608	206 379

STATEMENTS OF FINANCIAL POSITION

At 31 December 2022

	Group 2022 P000's	2021 P000's
Assets		
Cash and balances with the Central Bank	544 879	431 487
Derivative assets	12 163	12 589
Trading portfolio assets	-	421
Financial investments	3 018 080	2 329 503
Loans and advances	20 055 089	18 005 300
Loans and advances to banks	6 790 157	4 948 916
Loans and advances to customers	13 264 932	13 056 384
Other assets	87 540	73 865
Current tax asset	29 631	49 451
Intangible assets	123 359	147 715
Property, equipment and right of use assets	150 649	152 719
Deferred tax asset	20 546	15 232
Total assets	24 041 936	21 218 282
Liabilities and equity		
Derivative liabilities	15 464	12 629
Trading portfolio liabilities	27 175	-
Deposits	20 472 874	18 164 128
Deposits from banks	1 011 054	1 126 827
Deposits from customer accounts	19 461 820	17 037 301
Accruals, deferred income and other liabilities	383 293	373 723
Debt securities in issue	990 440	958 720
Liabilities	21 889 246	19 509 200
Equity		
Stated capital	390 177	390 177
Reserves	1 762 513	1 318 905
Equity - attributable to ordinary shareholders	2 152 690	1 709 082
Total liabilities and equity	24 041 936	21 218 282

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Stated capital P000's	Statutory credit reserve P000's	Fair value through OCI reserve P000's	Retained earnings P000's	Total equity P000's
Group					
Balance at 1 January 2022	390 177	154 474	240	1 164 191	1 709 082
Profit for the year	-	-	-	443 848	443 848
Net change in fair value of equity financial asset measures at FVOCI	-	-	(240)	-	(240)
Total comprehensive income for the year	-	-	(240)	443 848	443 608
Balance at 31 December 2022	390 177	154 474	-	1 608 039	2 152 690
Group					
Balance at 1 January 2021	390 177	139 270	-	1 083 256	1 612 703
Total comprehensive income for the year	-	-	240	206 139	206 379
Profit after tax	-	-	-	206 139	206 139
Other comprehensive income after tax for the year	-	-	240	-	240
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	1 164 191	1 709 082

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2022

	Group 2022 P000's	2021 P000's
Net cash flows from operating activities	93 626	140 961
Cash flows generated from operations	(643 421)	(520 847)
Interest received	1 346 504	1 053 910
Interest paid	(474 952)	(334 681)
Indirect tax paid	(25 199)	(19 371)
Direct tax paid	(109 306)	(38 050)
Net cash flows in investing activities	(11 954)	(19 340)
Net cash flows in financing activities	31 720	(110 000)
Net movement in cash and cash equivalents	113 392	11 621
Cash and cash equivalents at beginning of the year	431 487	419 866
Cash and cash equivalents at end of the year	544 879	431 487

AUDITOR'S OPINION ON THE GROUP FINANCIAL STATEMENTS

The auditor, KPMG, has issued an opinion on the consolidated and separate financial statements for the year ended 31 December 2022. The audit was conducted in accordance with International Standards on Auditing. KPMG has issued an unmodified audit opinion. These consolidated financial statements have been derived from the consolidated and separate financial statements and are consistent, in all material respects, with the consolidated and separate financial statements prepared on the basis described on the financial statements. A copy of the audit report is available for inspection at the Bank's registered office. Any reference to future financial performance included in this announcement, has not been reviewed or reported on by the Bank's auditors.

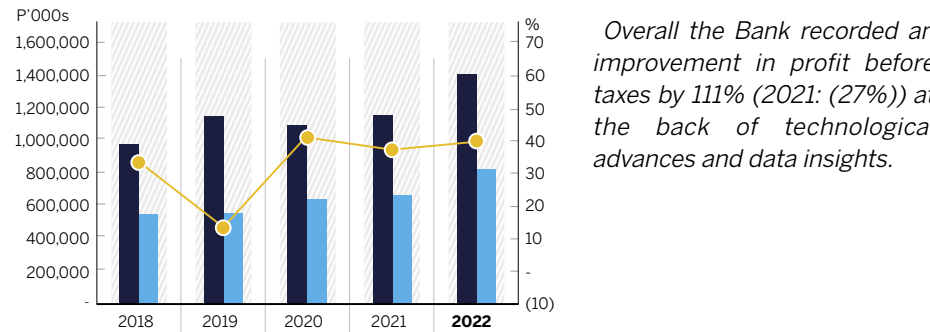
SEGMENT REPORTING

For the year ended 31 December 2022

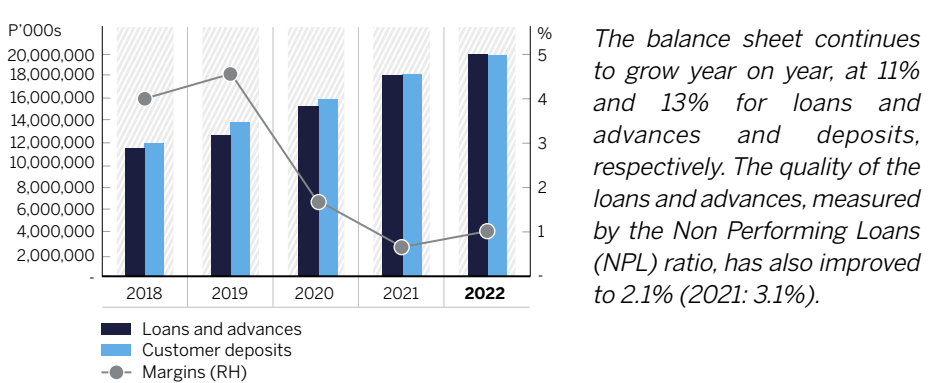
2022 Group	Corporate & Investment Banking P000's	Business & Commercial Clients P000's	Consumer & High Net Worth P000's	Corporate functions P000's	Total P000's
Net interest income	304 398	238 098	323 280	(14 528)	851 248
Non-interest income	183 694	176 179	198 850	(12 402)	546 321
Net fee and commission income	(71 728)	173 603	170 866	(704)	272 037
Net trading income	252 673	-	-	(5 556)	247 117
Other income	2 749	2 576	27 984	(6 142)	27 167
Total income	488 092	414 277	522 130	(26 930)	1 397 569
Credit impairment charges	5 034	75 389	(68 532)	-	11 891
Income after credit impairment charges	493 126	489 666	453 598	(26 930)	1 409 460
Total operating expenses	(234 249)	(292 835)	(325 361)	37 091	(815 354)
Staff costs	(189 417)	(251 113)	(235 339)	218 873	(456 996)
Other operating expenses	258 877	196 831	128 237	10 161	594 106
Net income before indirect tax	258 877	196 831	128 237	10 161	594 106
Indirect tax	(2 085)	(2 971)	(6 385)	(13 758)	(25 199)
Profit / (loss) before direct tax	256 792	193 860	121 852	(3 597)	568 907
Direct tax	(60 979)	(39 433)	(20 826)	(3 721)	(125 059)
Profit / (loss) after tax	195 813	154 427	100 926	(7 318)	443 848
Operating information					
Total assets	13 347 163	1 689 665	8 692 825	312 284	24 041 936
Total liabilities	12 613 071	1 428 343	7 927 934	(79 102)	21 890 246
Other information					
Depreciation and amortisation	666	2 942	23 565	44 591	71 764

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	149 804	320 835	(14 512)	705 396
Non-interest income	149 804	150 578	156 206	(6 510)	450 078
Net fee and commission income	43 406	88 669	120 244	21	252 340
Net trading income	105 797	60 942	19 245	(1 899)	184 085
Other income	601	967	16 717	(4 632)	13 653
Total income	365 335	334 120	477 041	(21 022)	1 155 474
Credit impairment charges	3 687	(122 752)	(89 477)	-	(208 542)
Income after credit impairment charges	369 022	211 368	387 564	(21 022)	946 932
Total operating expenses	(162 832)	(258 893)	(269 367)	26 132	(664 960)
Staff costs	(27 937)	(47 968)	(53 693)	(164 187)	(293 785)
Other operating expenses	(134 895)	(210 925)	(215 674)	190 319	(371 175)
Net income before indirect tax	206 190	(47 525)	118 197	5 110	281 972
Indirect tax	(2 612)	(2 931)	(5 622)	(8 206)	(19 371)
Profit / (loss) before direct tax	203 578	(50 456)	112 575	(3 096)	262 601
Direct tax	(43 966)	11 625	(24 814)	693	(56 462)
Profit / (loss) after tax	159 612	(38 831)	87 761	(2 403)	206 139
Operating information					
Total assets	10 807 544	1 797 181	8 756 292	(142 735)	21 218 282
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

TOTAL INCOME VS OPERATING COSTS



BALANCE SHEET EFFICIENCY



1. The Group's performance