



Consolidated and separate financial statements
for the year ended 31 December 2022

Contents	Page
General information	2
Directors' report	3
Directors' responsibilities and approval	4
Independent auditor's report	5 - 9
Consolidated and separate statements of financial position	10
Consolidated and separate statements of profit or loss and other comprehensive income	11
Consolidated and separate statements of changes in equity	12
Consolidated and separate statements of cash flows	13
Accounting policies	15
Notes to the annual financial statements	33-92

Access Bank Botswana Limited
Consolidated and separate annual financial statements
for the year ended 31 December 2022

General information

Board of Directors

Mrs. Lorato Nthando Mosethanyane	Motswana (Chairperson)
Mr. Mooketsi Jacob Motlhabane	Motswana
Mr. Joshua Benjamin Galeforolwe	Motswana
Mr. Boiki Matema Wabo Tema	Motswana
Mrs. Ntoti Mosetlhe	Motswana
Mr. John Bosco Sebabi	Motswana
Mr. Robert Michael Yorwerth Giles	British
Mr. Oluseyi Kolawole Kumapeyi	Nigerian
Ms. Lynda Mataka**	Zambian
Mr. Kgotso Bannalotlhe*	Motswana
Mrs. Ratang Icho-Molebatsi*	Motswana

**Executive director*

***appointed 1 July 2022*

Company Secretary

Mrs. Thato Mmile

Management

Mr. Kgotso Bannalotlhe	Managing Director
Mrs. Musonda Chishimba	Deputy Managing Director
Mrs. Ratang Icho-Molebatsi	Finance Director
Mrs. Segametsi Sethantsho	Chief Risk Officer
Mr. David Reetsang	Chief Operating Officer (Acting)
Mrs. Pauline Motswagae	Head of Commercial Banking
Mrs. Kagiso Grace Setlhare-Mankanku	Head of Retail Banking
Mrs. Prescilla Gower	Head of Human Capital
Mr. Ngoni Chikore	Chief Information Officer
Mrs. Polelo Kilner	Head of Marketing and Communications
Ms. Ontibile Baakile	Head of Internal Audit
Mr. Allec Tainton	Head of Conduct and Compliance
Mrs. Thato Mmile	Head of Legal & Company Secretary

Administration

Registered Office:	Access House Plot 62433 Fairgrounds Office Park Gaborone Botswana
Telephone:	3674300
Fax:	3902131

Auditors	Main Bankers
PriceWaterHouseCoopers	Standard Bank of South Africa Limited
Plot 64289	Standard Chartered Bank New York
Tlokweng Road	Citibank New York
P O Box 1519	Commerz Bank
Gaborone	First Rand

Directors' report

The directors have pleasure in submitting the financial statements of Access Bank Botswana Limited for the year ended 31 December 2022, which comprise the statements of financial position as at 31 December 2022, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, as set out on pages 12 to 84, and other information contained in this report.

Activities

The Bank was licensed as a commercial bank on 28 August 2009 and is trading as "BancABC" until October 2021. On 11 October 2021, the Bank ceased trading as a subsidiary of ABC Holdings Limited and became a subsidiary of Access Bank PLC, following a shareholder transaction where Access Bank PLC acquired a majority 78.1% shareholding in the Bank from ABC Holdings Limited. The Bank now trades as Access Bank Botswana Limited. Its principal activities include treasury activities, corporate and small medium enterprise (SME) banking, trade finance, investment banking and retail banking, which includes micro lending and emerging business banking. The Bank registered an insurance agency on 18 January 2012. The insurance agency was registered as Kaleu Pty Ltd, trading as Access Insurance Agency. Kaleu Pty Ltd is 100% owned by the Bank.

Stated capital

The issued share capital of the bank comprised of 725 000 000 (2021: 725 000 000) ordinary shares at the end of the year.

Capital adequacy and dividend declaration

A dividend of 20.7 thebe (2021: 2.2 thebe) per share was declared and paid during the year 2022. This dividend is considered final and there will be no further dividends for the 2022 financial year.

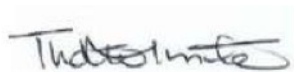
Directorate

During the year, Ms. Lynda Mataka was appointed to the Board on 1 July 2022 as an Independent Non-Executive Director.

Events after the reporting date

Access Bank Botswana Limited has a 100% owned subsidiary, Kaleu Proprietary Limited t/a Access Insurance Agency ("the Subsidiary"). Due to continued growth over the years, the Subsidiary has had to reassess its capital requirements by reference to the minimum regulatory capital as promulgated by the Insurance Industry Regulations. As such, the Subsidiary resolved to raise additional capital through issuance of one additional share for P2 million per share. The directors of the Bank resolved to purchase the one additional share through a Resolution of the Board of Directors, dated 13th May 2022.

The transaction was completed on the 27th of February 2023 when the cash payment of P2 million was made to Kaleu (Pty) Ltd. From that date, the issued number of shares in Kaleu (Pty) Limited increased from 100 to 101, whilst the total value of the investment in subsidiary increased from P100 to P2,000,100.



Mrs. Thato Mmile
Company Secretary

Directors' responsibilities and approval

The directors are required in terms of the Companies Act, 2003 to maintain adequate accounting records and are responsible for the content and integrity of the consolidated and separate annual financial statements and related financial information included in this report. It is their responsibility to ensure that the consolidated and separate annual financial statements fairly present the state of affairs of the group as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards and the Companies Act, 2003. The external auditors are engaged to express an independent opinion on the consolidated and separate annual financial statements.

The consolidated and separate annual financial statements are prepared in accordance with International Financial Reporting Standards and the Companies Act, 2003 and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the group and all employees are required to maintain the highest ethical standards in ensuring the group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the group is on identifying, assessing, managing and monitoring all known forms of risk across the group. While operating risk cannot be fully eliminated, the group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints. The group's system of controls includes controls over the security of the website and specifically establishing and controlling the process for electronically distributing annual financial statements and other financial information to shareholders.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated and separate annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the group's cash flow forecast for the year to December 31, 2022 and, in light of this review and the current financial position, they are satisfied that the group has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the group's consolidated and separate annual financial statements. The consolidated and separate annual financial statements have been examined by the group's external auditors and their report is presented on pages 5 to 9.

The consolidated and separate annual financial statements set out on pages 10 to 92, which have been prepared on the going concern basis, were approved by the board of directors on March 27, 2023 and were signed on their behalf by:



Mrs. Lorato Nthando Mosetlhanyane
Chairperson



Mr. Kgotsi Bannalotlhe
Managing Director

Independent auditor's report

To the Shareholders of Access Bank Botswana Limited

Our opinion

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Access Bank Botswana Limited (the "Company") and its subsidiaries (together the "Group") as at 31 December 2022, and of its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

What we have audited

Access Bank Botswana Limited's consolidated and separate financial statements set out on pages 10 to 92 comprise:

- the consolidated and separate statements of financial position as at 31 December 2022;
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended;
- the consolidated and separate statements of changes in equity for the year then ended;
- the consolidated and separate statements of cash flows for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) issued by the International Ethics Standards Board for Accountants and other independence requirements applicable to performing audits of financial statements in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and other ethical requirements applicable to performing audits of financial statements in Botswana.

Our audit approach

Overview



Overall group materiality

- Overall materiality: BWP3 510 000, which represents 5% of consolidated profit before tax.

Group audit scope

- The Company and its fully owned subsidiary are financially significant components of the Group based on the consolidated profit before taxes of the Group.
- We performed a full scope audit of the Company and its subsidiary.

Key Audit Matters

- Expected credit losses ("ECL") on loans and advances.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	BWP 3 510 000
How we determined it	5% of consolidated profit before tax.
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% rule of thumb, which is consistent with quantitative materiality thresholds used for profit-oriented companies in this industry.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of the Company and one wholly owned subsidiary. Our scoping assessment took into consideration the financial significance of each component to the Group. We concluded the Company and its subsidiary to be financially significant components in the Group based on the its contribution to the consolidated profit before taxes of the Group.

We performed a full scope audit for the Company and its subsidiary. All testing was performed centrally by the group audit team. By performing the procedures outlined above, we obtained sufficient and appropriate audit evidence regarding the financial information of the Group to provide a basis for our opinion on the consolidated financial statements as a whole.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current year. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="102 353 837 439">Expected credit losses ("ECL") on loans and advances (this key audit matter refers both to the Consolidated and separate financial statements)</p> <p data-bbox="102 470 837 526">Refer to the following notes to the consolidated and separate financial statements for disclosure relating to this key audit matter:</p> <ul data-bbox="124 528 837 728" style="list-style-type: none"> • note 1.3 (Significant judgments and sources of estimation uncertainty - Measurement of expected credit loss); • note 1.17 (Financial instruments - Expected credit losses); • note 3.1.6 to 3.1.8 (Financial risk management - Credit risk); • note 7 (Loans and advances to customers); and • note 21 (Impairment credit on financial assets). <p data-bbox="102 757 837 842">As at 31 December 2022, gross loans and advances to customers amounted to BWP 6 820 608 000, against which a provision for ECL of BWP 202 413 000 was recognised.</p> <p data-bbox="102 873 837 1014">The measurement of the ECL for financial assets measured at amortised cost requires the use of complex models and significant assumptions about future economic conditions and credit behaviour. Statistical models have been developed to support the quantification of credit risk.</p> <p data-bbox="102 1043 837 1099">Key areas of significant management judgement and estimation applied in the measurement of ECL on loans and advances include:</p> <ul data-bbox="124 1102 837 1388" style="list-style-type: none"> • Assessing criteria for significant increase in credit risk; • Determining appropriate Probabilities of Default ("PD"), Loss Given Default ("LGD") and Exposure at Default ("EAD") applicable to loans and advances; • Choosing appropriate models and assumptions for the measurement of ECL; and • Establishing the number and relative weightings of forward-looking scenarios for the associated ECL. • Establishing groups of similar financial assets for the purposes of measuring ECL. <p data-bbox="102 1417 837 1503">In addition to the above, judgement is also applied to determine whether any management overlays are required for credit risk elements which are not captured by the models.</p> <p data-bbox="102 1532 837 1648">We considered the ECL on loans and advances to be a matter of most significance to our current year audit due to the degree of judgement and estimation applied by management in determining the ECL, and the magnitude of the ECL recognised as at 31 December 2022.</p>	<p data-bbox="850 353 1493 383">Our audit addressed the key audit matter as follows:</p> <p data-bbox="850 412 1493 528">For a sample of loans and advances, we agreed the loans and advances information included in the models to underlying data, accounting records and other information such as loan agreements and noted no exceptions.</p> <p data-bbox="850 557 1493 642">Utilising our actuarial expertise, we reperformed and assessed the reasonableness of the ECL calculation by performing the following procedures:</p> <ul data-bbox="873 645 1493 1444" style="list-style-type: none"> • We obtained a detailed breakdown of loans and advances by product type and independently calculated the risk stage for each loan. No material differences were noted when compared with management's classification of loans and advances into the various risk stages; • Assessed the appropriateness of the model used by the Group and the Company with reference to the requirements of IFRS 9 – Financial Instruments, and ensured that the model was consistently applied to all loans and advances portfolios. We noted no matters requiring further consideration and there were no inconsistencies in the manner that it was applied across the loans and advances portfolios; • We evaluated the reasonableness of key judgemental inputs used in the model, including: <ul data-bbox="895 1072 1493 1301" style="list-style-type: none"> -the PDs applied; -the LGDs applied; -the EADs applied; and -the definition and application of SICR by recalculating these assumptions and comparing to management's assumptions applied in the ECL. Based on our procedures performed, we noted no matters requiring further consideration in regard to these assumptions; • We developed an independent estimation of the ECL on loans and advances by calculating a base case ECL, which incorporated our independently determined SICR adjustments, before incorporating forward-looking indicators. <p data-bbox="850 1473 1493 1559">We evaluated the reasonableness of the management overlays by performing the following procedures and noted no material exceptions based on our procedures performed:</p> <ul data-bbox="873 1561 1493 1700" style="list-style-type: none"> • Obtained management's calculations in support of the overlays and assessed the reasonability of management assumptions by agreeing the overlays to the underlying information supporting the calculations; and • Tested the mathematical accuracy of the calculations.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Access Bank Botswana Limited Consolidated and Company Annual Financial Statements for the year ended December 31, 2022", which we obtained prior to the date of this auditor's report, and the document titled 'Access Bank Botswana Limited annual report for the year ended 31 December 2022', which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation of the consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in a dark blue or black ink.

PricewaterhouseCoopers
Firm of Certified Auditors
Practicing member: Sheyan Edirisinghe (CAP 0042022)

30 March 2022
Gaborone

Access Bank Botswana Limited

Consolidated and separate statements of profit or loss and other comprehensive income for the year ended 31 December 2022

	Note(s)	Group		Company	
		2022	2021	2022	2021
		P'000	P'000	P'000	P'000
Effective interest and similar income		810,717	700,284	810,717	700,284
Effective interest expense and similar charges		(407,566)	(299,554)	(414,954)	(303,622)
Net interest income	20	403,151	400,730	395,763	396,662
Impairment (loss)/credit on financial assets	21	20,002	(21,391)	20,002	(21,391)
Net interest income after impairment credit on financial assets		423,153	379,338	415,765	375,271
Net trading income	22	32,560	38,332	32,560	38,332
Net fee and commission income	23	119,744	100,974	93,533	78,020
Fee and commission income		135,826	133,613	109,615	110,659
Fee and commission expenses		(16,082)	(32,639)	(16,082)	(32,639)
Income from operations		575,457	518,645	541,858	491,623
Personnel expenses	24	(182,991)	(164,742)	(181,541)	(163,664)
General and administrative expenses	25	(179,589)	(183,566)	(180,089)	(181,731)
Depreciation and amortisation expenses	26	(68,351)	(46,252)	(68,351)	(46,252)
Impairment of other financial assets		-	(21,247)	-	(21,247)
Other operating expenses	27	(74,327)	(81,994)	(74,327)	(77,718)
Total operating expenses		(505,258)	(497,801)	(504,308)	(490,612)
Profit before tax		70,199	20,844	37,550	1,011
Income taxation expense	28	(61,991)	(4,089)	(55,634)	381
Profit /(loss) for the year		8,208	16,755	(18,084)	1,392
Other Comprehensive Income					
Items that will not be reclassified subsequently to profit or loss					
Gain on revaluation of land and buildings		210	(1,091)	210	(1,091)
Deferred tax on revaluation of land and buildings	28.3	(46)	241	(46)	241
Other comprehensive income for the year		164	(850)	164	(850)
Total comprehensive income / (loss) for the year attributable to owners of the parent		8,372	15,905	(17,921)	542
Earnings per share					
Basic and diluted earnings per share (thebe)	29	1.1	2.3		

The notes on pages 15 to 92 are an integral part of these financial statements.

Access Bank Botswana Limited
Consolidated and separate statements of financial position
as at 31 December 2022

	Note(s)	Group		Company	
		31 December 2022	31 December 2021	31 December 2022	31 December 2021
		P'000	P'000	P'000	P'000
ASSETS					
Cash and balances with the Central Bank	5	217,678	258,979	217,678	258,979
Balances with other banks	6	823,011	1,391,705	823,011	1,391,705
Balances due from related parties	12.1	397,736	975	398,195	975
Derivative financial assets	8	20,838	67,915	20,838	67,915
Investment securities	9	876,333	567,960	876,333	567,960
Loans and advances to customers	7	6,618,195	6,508,695	6,618,195	6,508,695
Current tax receivable	13.1	2,666	8,609	2,666	7,197
Other assets	14	119,730	88,255	118,545	76,694
Property and equipment	10	158,516	102,705	158,516	102,705
Intangible assets	11	76,172	75,627	76,172	75,627
Deferred tax asset	13.3	-	39,234	-	39,234
Investment in subsidiary*	32	-	-	-	-
Total Assets		9,310,875	9,110,659	9,310,150	9,097,686
LIABILITIES					
Balances due to related parties	12.2	6,097	5,680	6,097	5,680
Deposits from banks	15	191,565	364,021	191,565	364,021
Deposits from customers	15	7,276,718	6,607,881	7,481,974	6,786,575
Derivative financial liabilities	8	20,302	64,809	20,302	64,809
Other liabilities	17	164,467	196,108	165,267	184,008
Current tax payable	13	921	-	-	-
Borrowings	16	618,021	686,024	618,021	686,024
Deferred tax liability	13.3	4,275	-	4,275	-
Total liabilities		8,282,366	7,924,523	8,487,501	8,091,117
EQUITY					
Stated capital	18	222,479	222,479	222,479	222,479
Retained earnings	19.1	791,330	949,121	585,471	769,554
Revaluation reserve	19.2	8,609	8,445	8,609	8,445
Other reserves	19.3	6,091	6,091	6,091	6,091
Capital		1,028,509	1,186,136	822,650	1,006,569
Total Equity and Liabilities		9,310,875	9,110,659	9,310,150	9,097,686

*Nominal amount of Investment in subsidiary is P100 (2021: P100).

The notes on pages 15 to 92 are an integral part of these financial statements.

Access Bank Botswana Limited
Consolidated and separate statements of changes in equity
for the year ended 31 December 2022

Group	Notes	Stated capital P'000	Revaluation reserve P'000	Other reserve P'000	Total reserve P'000	Retained earnings P'000	Total equity P'000
Balance at 1 January 2021		222,479	9,295	6,091	15,386	932,366	1,170,231
Profit for the year		-	-	-	-	16,755	16,755
Revaluation of land and buildings	19.2	-	(1,091)	-	(1,091)	-	(1,091)
Deferred tax on revaluation of land and buildings	19.2	-	241	-	241	-	241
Total comprehensive income		-	(850)	-	(850)	16,755	15,905
Balance at 31 December 2021		222,479	8,445	6,091	14,536	949,121	1,186,136
Balance at 1 January 2022		222,479	8,445	6,091	14,536	949,121	1,186,136
Profit for the year		-	-	-	-	8,208	8,208
Revaluation of land and buildings			210		210		210
Deferred tax on revaluation of land and buildings			(46)		(46)		(46)
Total comprehensive income		-	164	-	164	8,208	8,372
Other movements in reserves							
Dividend declared and paid		-	-	-	-	(165,999)	(165,999)
Total other movements in reserves		-	-	-	-	(165,999)	(165,999)
Balance at 31 December 2022		222,479	8,609	6,091	14,700	791,330	1,028,509

Company	Notes	Stated capital P'000	Revaluation reserve P'000	Other reserve P'000	Total reserve P'000	Retained earnings P'000	Total P'000
Balance at 1 January 2021		222,479	9,295	6,091	15,386	768,162	1,006,027
Profit for the year		-	-	-	-	1,392	1,392
Revaluation of land and buildings			(1,091)				
Deferred tax on revaluation of land and buildings	19.2	-	241	-	241	-	241
Total comprehensive income		-	(850)	-	(850)	1,392	542
Balance at 31 December 2021		222,479	8,445	6,091	14,536	769,554	1,006,569
Balance at 1 January 2022		222,479	8,445	6,091	14,536	769,554	1,006,569
Profit for the year		-	-	-	-	(18,084)	(18,084)
Revaluation of land and buildings			210		210		210
Deferred tax on revaluation of land and buildings			(46)		(46)		(46)
Total comprehensive income		-	164	-	164	(18,084)	(17,921)
Other movements in reserves							
Dividends paid		-	-	-	-	(165,999)	(165,999)
Total other movements in reserves		-	-	-	-	(165,999)	(165,999)
Balance at 31 December 2022		222,479	8,609	6,091	14,700	585,471	822,650

The notes on pages 15 to 92 are an integral part of these financial statements.

Access Bank Botswana Limited
Consolidated and separate statements of cashflows
for the year ended 31 December 2022

	Notes	Consolidated		Company	
		2022	2021	2022	2021
		P'000	P'000	P'000	P'000
Cash flows from operating activities					
Profit before tax		70,199	20,844	37,550	1,011
Adjusted for:					
Depreciation and amortisation	26	68,351	46,252	68,351	46,252
Impairment losses/(credit) on financial assets***	21	(11,463)	42,638	(11,463)	42,638
Net exchange losses on borrowings	16.1	16,676	42,427	16,676	42,427
Currency revaluations	22	(29)	(4)	(29)	(4)
Net interest income	20	(403,151)	(400,730)	(395,763)	(396,662)
Fair value adjustment on derivatives		(32)	-	(32)	-
Cash flows from operating activities before changes in operating assets and liabilities		(259,449)	(248,573)	(284,710)	(264,339)
Movements in operating assets/liabilities:		362,453	123,452	392,488	135,806
Loans and advances to customers		(190,243)	(535,624)	(190,243)	(535,624)
Balances due from related parties		821	487,210	362	487,210
Other assets*		116,668	(149,368)	106,292	(157,650)
Derivative financial assets**		47,077	(7,346)	47,077	(7,346)
Deposits from customers and banks		480,953	336,980	508,922	514,890
Other liabilities		(48,733)	(4,996)	(35,833)	(8,240)
Derivative financial liabilities**		(44,507)	5,142	(44,507)	5,142
Balances due to related parties		417	(8,546)	417	(162,577)
Interest received		877,091	698,991	877,091	698,991
Interest paid		(395,088)	(304,652)	(403,867)	(308,721)
Taxation (paid)/received	13.1	(10,240)	(28,057)	(7,015)	(20,577)
Net cash from operating activities		572,780	241,161	572,001	241,160
Cash flows from investing activities					
Purchase of property and equipment	10	(62,749)	(2,136)	(62,749)	(2,136)
Purchase of intangibles assets	11	(52,895)	(9,091)	(52,895)	(9,091)
Additions to Investment securities		(584,222)	(150,153)	(583,297)	(150,153)
Disposal of Investment securities	9	-	107,000	-	107,000
Net cash used in investing activities		(699,866)	(54,380)	(698,941)	(54,380)
Cash flows from financing activities					
Dividend paid		(165,999)	-	(165,999)	-
Proceeds from Borrowings	16.1	150,000	-	150,000	-
Repayments on Borrowings	16.1	(241,366)	(115,410)	(241,366)	(115,410)
Payment of principal on lease liabilities	35.2	(8,132)	(5,644)	(8,132)	(5,644)
Net cash from financing activities		(265,497)	(121,054)	(265,497)	(121,054)
Net increase/(decrease) in cash and cash equivalents		(392,583)	65,727	(392,438)	65,726
Cash and cash equivalents at beginning of year		1,804,365	1,709,413	1,804,365	1,709,414
Effect of exchange rate fluctuations on cash and cash equivalents held		27,706	29,225	27,561	29,225
Cash and cash equivalents at end of year		1,439,488	1,804,365	1,439,488	1,804,365

Access Bank Botswana Limited
Consolidated and separate statements of cashflows (continued)
for the year ended 31 December 2022

Cash and cash equivalents comprised of:					
Balances with other banks	6	824,228	1,271,079	824,228	1,271,079
Balances due from related parties	12.1	397,582	-	397,582	-
Investment securities	9.1	-	274,307	-	274,307
Cash and balances with the Central Bank	5	217,678	258,979	217,678	258,979
		1,439,488	1,804,365	1,439,488	1,804,365

*Included in movements in Other Assets are cashflows from settlement of the ABCH exposure in 2022. In 2021, the exposure was deemed to be non-cash and classified under Other Assets for purposes of the statement of cash flows. However, the exposure was classified as Balances with other balances on the statement of financial position. Please refer to note 6 for details.

**Derivates financial assets and derivative financial liabilities have been presented separately on the statement of cash flows whereas in 2021 they were disclosed as part of Other assets and Other liabilities, respectively. The 2021 balances have been updated to reflect this change in presentation

***In 2021, Impairment of financial assets adjustment to PBT related only to ECL on loans and advances whilst ECL relating to Other Assets was netted off against Other Assets. This has been re-presented in the 2022 financial statements. There is no impact on the Net cashflows from operating activities for 2021.

The notes on pages 15 to 92 are an integral part of these financial statements.

General information

Access Bank Botswana Limited ("Access Bank" or "the Bank") provides corporate banking, retail and treasury activities. The company is a limited liability company and is incorporated and domiciled in Botswana (registration number C086/384). A 100% owned subsidiary company of Access Bank, Kaleu (Pty) Ltd was registered as an insurance agency in 2012. The registered address of the Group and company is Plot 62433, Access House, Fairgrounds Office Park, Private Bag 00303, Gaborone. The Group's holding company is Access Bank plc with a shareholding of 78.15%. Access Bank Botswana Limited was listed on the Botswana Stock Exchange on 13 December 2018.

1. Basis of preparation

The consolidated and separate annual financial statements have been prepared on the going concern basis in accordance with, and in compliance with, International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued and effective at the time of preparing these consolidated and separate annual financial statements and the Companies Act, 2003.

The consolidated and separate annual financial statements have been prepared on the historic cost convention, except as modified by the revaluation of financial instruments measured as fair value through profit and loss and property measured at revalued amounts. They are presented in Pula, which is the company's functional currency.

Presentation

The Bank presents its statement of financial position in order of liquidity. Where permitted or required under IFRS, the bank offsets assets and liabilities or income and expenses and presents the net amount in the statement of financial position, the income statement or the statement of other comprehensive income.

Revenue in the form of interest and non-interest income are presented on the statement of profit and loss by their function. This is due to the distinct functions/activities responsible for the generation of this income within the Bank such as Lending activities, Trading and Transactional activities. Expenses are presented in terms of the nature of the expenses rather than by function. This is because the expenses are mainly incurred by the services and support units of the Bank and the expenses cannot be directly attributable to a particular function. As such, the expenses are more accurately monitored and reported by nature e.g. personnel costs, depreciation and amortization, information and technology costs.

These accounting policies are consistent with the previous period.

Going concern basis of accounting

As the global economy emerges and stabilizes from the impact of the Covid-19 pandemic, the positive gains have been dampened by the Russia-Ukraine conflict as evidenced by inflation increasing globally, mostly attributable to high food and energy prices. As such, interest rates are expected to increase to bring inflation back to target levels across the globe after a prolonged period of support from central banks during the Covid-19 pandemic. Increasing inflation poses material risk to the global economy's recovery. In addition, pressure on global diamond prices contributes to additional uncertainty to the domestic market. As such, management judgement has been applied to quantify the impact of the existing and developing stressors on the global and local economy.

The directors reviewed the group and company's budgets and flow of funds forecasts over a 5 year period (2023 – 2027) in light of changing economic circumstances and considered the group and company's ability to continue as a going concern in light of current and anticipated economic conditions. These budgets and flow of funds forecasts took the impact of the above mentioned economic uncertainty into consideration, including projections of the impact on the group's capital, funding and liquidity requirements, all of which have remained within internal targets and above regulatory requirements.

On that basis, the financial statements are prepared on a going concern basis as there are neither intentions to cease trading nor adverse issues identified that threaten the continued operations of the company.

Functional and presentation currency

The Company and Group's functional and presentation currency for the year ended 31 December 2022 was Botswana Pula ("BWP" or "P"). All amounts have been rounded to the nearest thousand, except where otherwise stated.

Comparatives

Accounting policies have been applied in a manner consistent with the previous financial year.

1.2 Basis of consolidation

The consolidated and separate annual financial statements incorporate the consolidated and separate annual financial statements of the company and all subsidiaries. Subsidiaries are entities (including structured entities) which are controlled by the Group.

The consolidated annual financial statements include those of Access Bank Botswana Limited and its subsidiary Kaleu Pty Ltd (jointly, "the Group").

Access Bank Botswana Limited

Accounting policies

for the year ended 31 December 2022

The Group has control of an entity when it is exposed to or has rights to variable returns from involvement with the entity and it has the ability to affect those returns through use of its power over the entity. The result of the subsidiary is included in the consolidated annual financial statements from the date the Group gets control of the subsidiary and ceases when the Group loses control.

Adjustments are made when necessary to the consolidated and separate annual financial statements of subsidiaries to bring their accounting policies in line with those of the Group. All inter-company transactions, balances, and unrealised gains on transactions between Group companies are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions and are recognised directly in the Statement of Changes in Equity.

The difference between the fair value of consideration paid or received and the movement in non-controlling interest for such transactions is recognised in equity attributable to the owners of the company.

Investments in subsidiaries in the separate financial statements

In the bank's separate financial statements, investments in subsidiaries are carried at cost less any accumulated impairment losses. This excludes investments which are held for sale and are consequently accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

1.3 Significant judgements and sources of estimation uncertainty

The preparation of consolidated and separate annual financial statements in conformity with IFRS requires management, from time to time, to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Critical judgements in applying accounting policies

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment for the year ended 31 December 2022 have been included in the following notes:

- Determination of the fair value of financial instruments with significant unobservable inputs (note 3)
- Impairment of financial instruments: key assumptions used in estimating recoverable cash flows (note 1.3)
- Determination of the fair value of land and buildings with significant unobservable inputs (note 13)
- Determination of the lease period (impact of lease renewals) and incremental borrowing rate (note 35)

The judgements that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed below:

Impairment of financial assets at amortised cost

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history and existing market conditions, as well as forward-looking estimates at the end of each reporting period.

The critical judgements made by management in applying accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognised in the financial statements, are outlined as follows:

Measurement of expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting) and the resulting losses. It also includes estimation of probability of default, loss given default, estimation of exposure at default, assessing significant increases in credit risk, determination of points of write off and curing as well as judgement on management overlays.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets with similar credit risk for the purposes of measuring ECL.

Significant estimates and judgments (continued)
Measurement of expected credit loss (continued)

The following are considered when assessing changes in credit risk for the retail portfolio, including mortgages:

- Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a significant increase in credit risk.
- Retrenchment or similar events that could lead to loss of employment of the customers
- Expected changes in the loan documentation including changes that demonstrate signs of reduced repayment capacity of the customer.

The following are considered when assessing changes in credit risk for the Corporate and SME portfolio:

- Any facility that is more than 30 days past due, or in the case of instalment-based products one instalment past due, is automatically considered to have experienced a significant increase in credit risk.
- Changes in the rates or terms of an existing financial instrument that would result in a significant difference in the carrying amount, if the instrument was newly originated or issued at the reporting date.
- Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life.
- An actual or expected significant change in the financial instrument's external credit rating.
- Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant change in the borrower's ability to meet its debt obligations, such as an actual or expected increase in interest rates or an actual or expected significant increase in unemployment rates.
- An actual or expected significant change in the operating results of the borrower.
- Significant increases in credit risk on other financial instruments of the same borrower.
- Actual or expected significant adverse change in the regulatory, economic, or technological environment of the borrower that results in a significant change in the borrower's ability to meet its debt obligations, such as a decline in the demand for the borrower's sales product because of a shift in technology.
- Significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements, which are expected to reduce the borrower's economic incentive to make scheduled contractual payments or to otherwise have an effect on the probability of a default occurring.
- Significant change in the quality of the guarantee provided by a shareholder (or an guarantor who is an individual) if the shareholder (or guarantor) have an incentive and financial ability to prevent default by capital or cash infusion.
- Significant changes, such as reductions in financial support from a parent entity or other affiliate or an actual or expected significant change in the quality of credit enhancement, that are expected to reduce the borrower's economic incentive to make scheduled contractual payments.
- Expected changes in the loan documentation including an expected breach of contract that may lead to covenant waivers or amendments, interest payment holidays, interest rate step-ups, requiring additional collateral or guarantees, or other changes to the contractual framework of the instrument if the changes demonstrate signs of reduced repayment capacity of the counterparty.
- Significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers in the Group.

The above factors are considered in analysing whether there has been significant increase in credit risk (SICR) to loan/other financial asset, which would result in migration from Stage 1 to Stage 2. Loans and other financial assets are migrated to Stage 3 when they are considered impaired.

3 Stage approach

Stage 1 - As soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit or loss and a loss allowance is established. This serves as a proxy for the initial expectations of credit losses.

Stage 2 - If the credit risk increases significantly and the resulting credit quality is not considered to be low credit risk, full lifetime expected credit losses are recognised. Lifetime expected credit losses are only recognised if the credit risk increases significantly from when the entity originates or purchases the financial instrument.

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk ("SICR") for financial instruments since initial recognition by:

- comparing the remaining lifetime probability of default ("PD") with the residual lifetime PD expected at the reporting date when the exposure was first recognised;
- using a set of portfolio-specific qualitative criteria that are indicative of a SICR to enhance the overall SICR assessment; and
- considering instruments that are more than 30 days past due to have experienced a SICR.

Stage 3 - If the credit risk of a financial asset increases to the point that it is considered credit-impaired, full lifetime expected credit losses are still recognised on these financial assets. Interest revenue however is calculated based on the amortised cost (i.e. the gross carrying amount adjusted for the loss allowance). Financial assets in this stage will generally be individually assessed.

Access Bank Botswana Limited
Accounting policies
for the year ended 31 December 2022

Significant estimates and judgments (continued)
Measurement of expected credit loss (continued)

As a curing rule, the Group applies a 3- month period whereby the performance of an account in default is monitored and evaluated in order to determine whether the account is a candidate for reversal from Stage 3 (non-performing state) to Stage 2 (underperforming state).

Technical default is when a loan defaults and migrates into a different credit stage but the default does not necessarily present significant increase in credit risk. This is mainly due to administrative issues in collecting or recording a loan installment.

Probability of Default

Probability of default (PD), is defined as a probability-weighted estimation of the likelihood that a customer will default over a given time horizon. The Probability of Default model estimates the probability of default across various product segments with PD term structures being developed for each segment. The base term structures are calculated empirically based on one monthly hazard rates. Hazard rates being the proportion of the default balances for a given time on the book across all origination cohorts in the data, to the balance of the accounts at risk. Different fits to these base term structures are then assessed to determine the best fit for each term structure.

Loss given Default

Loss given default (LGD) is an estimate of the loss arising on default. It is based on the difference between the contractual cashflows due and those that the lender would expect to receive, including from any collateral. The Secured LGD approach was applied to all Retail Secured, Corporate and Government segments.

Sensitivity analysis on impairment losses on managements estimates is shown as follows:

	2022 P'000	2021 P'000
Corporate loans		
Migration of 5% of stage 1 loans to stage 2	51	(96)
Migration of 5% of stage 2 loans to stage 3	-	36
Increasing the loss ratio by 10%	478	658
Mortgages		
Migration of 5% of stage 1 loans to stage 2	466	1,125
Migration of 5% of stage 2 loans to stage 3	90	81
Increasing the loss ratio by 10%	118	1,705
Retail and SME loans		
Migration of 1% of stage 1 loans to stage 2	5,650	8,261
Migration of 1% of stage 2 loans to stage 3	270	248
Increasing the loss ratio by 5%	9,617	10,538

Retail

For retail exposure, the assessment of the credit risk is made on a collective basis, incorporating all relevant credit information. For this purpose, the Bank groups its exposures on the basis of shared credit risk characteristics.

Wholesale

For larger exposures such as corporate and commercial, the assessment is driven by the internal credit rating of the exposure and other factors, that are specific to the individual borrower, to the extent such information has not been already reflected in the rating process.

Management overlays

Refer to note 3.1.7

Significant estimates and judgments (continued)
Measurement of expected credit loss (continued)

Key sources of estimation uncertainty - Fair value estimation

Apart from the estimation of expected credit losses as already described, another source of estimate uncertainty is from determining the fair value of assets and liability. This is particularly so for fair valuation of land and buildings which are accounted for using the revaluation model and derivative financial assets and liabilities which are carried at fair value.

To determine the fair values of the assets or liabilities, observable market data is used as inputs to the extent that it is available. Qualified external valuers are consulted for the determination of appropriate valuation techniques and inputs.

Information about the specific techniques and inputs of the various assets and liabilities is disclosed in note 3.4 and note 10.

1.4 Functional currency and presentation currency

Items included in the consolidated and separate annual financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (functional currency).

The consolidated and separate annual financial statements are presented in Pula which is the Group functional and presentation currency

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Pula, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

In circumstances where the Group receives or pays an amount in foreign currency in advance of a transaction, the transaction date for purposes of determining the exchange rate to use on initial recognition of the related asset, income or expense is the date on which the Group initially recognised the non-monetary item arising on payment or receipt of the advance consideration.

If there are multiple payments or receipts in advance, Group determines a date of transaction for each payment or receipt of advance consideration.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous consolidated and separate annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a nonmonetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Pula by applying to the foreign currency amount the exchange rate between the Pula and the foreign currency at the date of the cash flow.

1.5 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or in its absence, the most advantageous market to which the Group has access to at that date. The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument, without modification or repackaging, or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets. When available, the Group measures fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for assets and liabilities take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market then the Group uses valuation techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

1.5 Fair value Accounting policies (continued)

When such valuation models, with only observable market data as input, indicate that the fair value differs from the transaction price, this initial difference, commonly referred to as day one profit or loss, is recognised in the profit or loss immediately. If non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the model value is deferred. The timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The deferral and unwind method is based on the nature of the instrument and availability of market observable inputs.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on quoted market prices or dealer price quotations for financial instruments traded in active markets. If the market for a financial asset is not active or the instrument is an unlisted instrument, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, pricing models and valuation techniques commonly used by market participants.

1.6 Interest income and expense

Interest income and interest expense are recognised in profit or loss for all interest bearing financial instruments on an accruals basis using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

1.7 Fee and commission and trading income

Fee and commission income

Fees and commissions that form an integral part of the effective interest rate are excluded from fees and commissions from customers. Fee and commission income is earned by the bank by providing customers with a range of services and products, and consists of the following main categories:

- banking fee and commission income;
- knowledge-based fee and commission income;
- fee and commission income from service providers; and
- other non-banking fee and commission income.

The vast majority of fee and commission income is earned on the execution of a single performance obligation and, as such, it is not necessary to make significant judgements when allocating the transaction price to the performance obligation. As such, fee and commission income, which typically includes transactional banking fees such as bank charges, interchange fees, point-of-sale fees, exchange commissions, cash deposit fees, bundled fees and knowledge-based fee and commission income, are recognised at a point in time.

Where the distinct performance obligation is satisfied over a period of time, the fees are recognised as follows:

- fees for services rendered are recognised on an accrual basis as the service is rendered and the bank's performance obligation is satisfied, e.g. annual card fees, VISA interchange sponsorship fees and related fees; and
- commission income on bills and promissory notes endorsed is credited to profit or loss over the life of the relevant instrument on a time apportionment basis.

Other non-banking fee and commission income relates to fees and commissions earned for rendering services to customers other than those related to the banking, insurance and asset management operations. This includes fee and commission income earned from providing services on behalf of third-party service providers, in effect acting as an agent. The revenue is recognised at a point in time and includes commission earned from the sale of prepaid airtime and electricity vouchers paid through SaruMoney mobile platform, as well as insurance commission.

Trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences. Net trading income is recognised at the point in time when the transaction takes place.

1.8 Tax

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income. Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

Current tax receivable and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). Deferred tax is provided in full, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

A deferred tax asset is recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference or unused tax losses can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax assets and liabilities are recognised on a gross basis in the statement of financial position unless (1) the entity has a legally enforceable right to set off Current tax receivable against current tax liabilities and (2) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority. In the instance of group, deferred tax assets and liabilities can be offset between different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, where permitted by the tax authority.

1.9 Property and equipment

Property, plant and equipment are tangible assets which the Group holds for its own use or for rental to others and which are expected to be used for more than one year.

An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the Group, and the cost of the item can be measured reliably.

Items of property and equipment are stated at cost or revaluation less accumulated depreciation.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Land and buildings, the fair values of which can be reliably measured, are carried at revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation increases are credited directly to other comprehensive income and presented in equity under the heading 'Revaluation reserve'. However, revaluation increases are recognised in profit or loss to the extent that they reverse a revaluation decrease of the same asset previously recognised in profit or loss. Revaluation decreases are recognised in profit or loss. However, decreases are debited directly to equity to the extent of any credit balance existing in the revaluation surplus in respect of the same asset. Land and buildings are revalued at fair value as per IFRS 13. Revaluations are performed annually.

Access Bank Botswana Limited
Accounting policies
for the year ended 31 December 2022

1.9 Property and equipment (continued)

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the Group. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognized

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	40 years
Furniture and fittings	Straight line	10 years
Motor vehicles	Straight line	5-6 years
Information Technology (IT) equipment	Straight line	5 years
Right of use assets	Straight line	3-10 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

An impairment loss on a non-revalued asset is recognized in profit or loss. However, an impairment loss on a revalued asset is recognized in revaluation surplus to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that class of assets. Such an impairment loss on a revalued asset reduces the revaluation surplus for that class of assets. The Group transfers the revaluation reserve to retained earnings upon disposal.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment, determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item, is included in profit or loss when the item is derecognised.

1.10 Intangible assets

Software

Software acquired by the Group is stated at cost less accumulated amortisation and accumulated impairment losses. Subsequent expenditure on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Amortisation is recognised in profit or loss on a straight line basis over the estimated useful life of the software, from the date that it is available for use. The estimated useful life is three to five years.

Qualifying costs for software and intangibles still under construction are capitalised and recognized at cost as capital work-in-progress until the software or intangible is complete and available for use. Capital work in progress is recognized as and when the costs are incurred and measured at cost.

Impairment of non-financial assets

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

1.11 Repossessed property

In certain circumstances, property pledged as collateral by customers is repossessed following the foreclosure on loans that are in default.

Repossessed assets are maintained off-balance sheet by the Group's Recoveries and Credit Recovery Administration department until they are sold off to extinguish or reduce the outstanding debt. Repossessed assets are maintained off-balance sheet as repossession gives the Bank the right to sell the property and recover amounts due without giving the Bank legal title of the full value of the property. The Group's policy is to pursue timely realisation of the collateral in an orderly manner so that repossessed properties are sold as soon as practical, with the proceeds used to reduce the outstanding indebtedness.

1.12 Provisions

Provisions are recognised when:

- the Group has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

1.13 Financial guarantee contracts and commitments

Initial recognition

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Loan commitments issued at a below-market interest rate are initially recognised in the financial statements at fair value on the date the loan commitment was given, while loan commitments issued at market rates are recorded off balance sheet.

Subsequent measurement

Subsequently financial guarantees and loan commitments are measured at higher of:

- the amount of the loss allowance determined in accordance with IFRS 9, or
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

1.14 Employee benefits

(a) Defined contribution plans

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Other short term employee benefits

The Group's obligation in respect of accumulated leave days is recognised in full in the statement of financial position. Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Group assists officers and employees in respect of housing, motor vehicles and personal loans at subsidised rates as part of their remuneration package. The loans are held as financial assets at amortised cost.

1.15 Stated capital

Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity as a deduction in the period in which they are approved by the Group's shareholders. Dividends paid are disclosed as part of cash flows from financing activities in the statement of cash flows.

1.16 Leases

The Group assesses whether a contract is, or contains a lease, at the inception of the contract.

A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

In order to assess whether a contract is, or contains a lease, management determine whether the asset under consideration is "identified", which means that the asset is either explicitly or implicitly specified in the contract and that the supplier does not have a substantial right of substitution throughout the period of use. Once management has concluded that the contract deals with an identified asset, the right to control the use thereof is considered. To this end, control over the use of an identified asset only exists when the Group has the right to substantially all of the economic benefits from the use of the asset as well as the right to direct the use of the asset.

In circumstances where the determination of whether the contract is or contains a lease requires significant judgement, the relevant disclosures are provided in the significant judgments and sources of estimation uncertainty section of these accounting policies.

Group as lessee

A lease liability and corresponding right-of-use asset are recognised at the lease commencement date, for all lease agreements for which the group is a lessee, except for short-term leases of 12 months or less, or leases of low value assets. For these leases, the group recognises the lease payments as an operating expense (note 25) on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

However as an exception to the preceding paragraph, the Group has elected not to separate the non-lease components for leases of land and buildings.

Details of leasing arrangements where the Group is a lessee are presented in note 37 Leases (Group as lessee).

Lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed lease payments, including in-substance fixed payments, less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the Group under residual value guarantees;
- the exercise price of purchase options, if the Group is reasonably certain to exercise the option;
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease, if the lease term reflects the exercise of an option to terminate the lease.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability (or right-of-use asset). The related payments are recognised as an expense in the period incurred and are included in operating expenses (note 25).

The lease liability is presented within other liabilities on the Statements of Financial Position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. Interest charged on the lease liability is included in Interest charges (note 20).

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) when:

- there has been a change to the lease term, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;
- there has been a change in the assessment of whether the Group will exercise a purchase, termination or extension option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate;

1.16 Leases (continued)

- there has been a change to the lease payments due to a change in an index or a rate, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used);
- there has been a change in expected payment under a residual value guarantee, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate;
- a lease contract has been modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised payments using a revised discount rate.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Rights of use assets

Right-of-use assets are presented within property, plant and equipment on the Statements of Financial Position. Lease payments included in the measurement of the lease liability comprise the following:

- the initial amount of the corresponding lease liability;
- any lease payments made at or before the commencement date;
- any initial direct costs incurred;
- any estimated costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, when the Group incurs an obligation to do so, unless these costs are incurred to produce inventories; and
- less any lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. However, if a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Depreciation starts at the commencement date of a lease.

For right-of-use assets which are depreciated over their useful lives, the useful lives are determined consistently with items of the same class of property, plant and equipment. Refer to the accounting policy for property, plant and equipment for details of useful lives.

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate. Each part of a right-of-use asset with a cost that is significant in relation to the total cost of the asset is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

1.17 Financial instruments

Recognition and initial measurement

The Group recognises a financial asset or financial liability when, and only when, the Group becomes party to the contractual provisions of the instruments. All other financial instruments (including regular way purchases and sales of financial assets) are recognised on the trade date, which is the date the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. These assets are subsequently measured at amortised cost using the effective interest method.

Financial liabilities other than derivative liabilities are initially recognised at fair value and subsequently carried at amortised cost using effective interest method. Financial liabilities are derecognised when they are extinguished. Derivative liabilities are measured at fair value with gain or losses recorded under net trading income in the statement of profit or loss (refer to note 22).

Classification of financial assets

IFRS 9 contains two principal classification categories for financial assets: measured at amortised cost and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

On initial recognition, a financial asset is classified as measured at amortised cost or FVTPL. The classification and subsequent measurement of financial assets depends on:

Access Bank Botswana Limited
Accounting policies
for the year ended 31 December 2022

1.17 Financial instruments (continued)

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual cash flow characteristics of the asset (that is, whether the cash flows represent solely payments of interest and principal).

The bank classifies the financial assets as detailed below.

Type of financial instrument	Business model	Accounting classification	Accounting treatment
Derivative financial assets	Realise changes in value	Fair value through profit or loss (FVPL)	Fair value, changes recorded through profit and loss
Investment securities, loans and advances, cash and balances with central bank, balances with other banks, other assets and balances due from related parties	Collect contractual cash flows	Amortised cost	Amortised cost method

Measurement of fair value

Refer to note 1.5

Amortised cost method

The amortised cost method is used to account for financial assets that intended for collecting contractual cash flows until maturity. This is different from FVPL assets or liabilities because FVPL is intended to be held for a certain period and then sold. Under the amortised cost method, the instruments are recorded at acquisition cost with any premium or discount amortized over the life of the instrument using the effective interest method, and transaction costs, if any, are capitalised.

Assessment of whether contractual cash flows are solely payments for principal and interest

For the purpose of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- terms that limit the Group's claim to cash flows from specified assets

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

Financial assets are reclassified at their fair value on the date of reclassification and previously recognised gains and losses are not restated.

Borrowings

On initial recognition for Borrowings, any difference between the proceeds net of transaction costs and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transactions costs of the loan to the extent that is probable that some or all of the facility will be drawn down. In this case the fee is deferred until the draw-down occurs.

Derivative financial assets and liabilities

A derivative is a financial instrument with the following characteristics:

- It's value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index or other variable;
- It requires no initial net investment, or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- It is settled at a future date.

1.17 Financial instruments (continued)

Expected credit losses

The Group recognises loss allowances for ECL on all financial instruments that are not measured at FVTPL which include:

- loans and advances to customers;
- investment securities;
- cash and balances with the central bank;
- balances with other banks;
- balances due from related parties;
- other financial assets;
- financial guarantee contracts; and
- loan commitments issued.

No impairment loss is recognised on financial assets measured at fair value through profit or loss.

An expected credit loss represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee. A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive over the contractual life of the instrument.

The amount of expected credit losses is updated at each reporting date.

Key credit definitions

Credit risk is broken down into the common risk components of probability of default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), modelled at a client, facility and portfolio level. These risk components are used in the calculation of a number of aggregate risk measures such as Expected Loss Credit (ECL). The models used by the Group are aimed to be compliant with Basel II and regulatory requirements. These risk measures would be used as inputs to calculate the collective impairment amounts.

Components	Definition
Probability of default (PD)	<p>The probability that a counterparty will default, over the next 12 months from the reporting date (stage 1) or over the lifetime of the product (stage 2 and stage 3) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts.</p> <p>The PD estimates will fluctuate in line with the economic cycle. The lifetime (or term structure) PDs are based on statistical models, calibrated using historical data and adjusted to incorporate forward-looking economic assumptions.</p>
Loss given default (LGD)	<p>The loss that is expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the bank expects to receive.</p> <p>The Group estimates LGD based on the history of recovery rates and considers the recovery of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.</p>
Exposure at default (EAD)	<p>The expected statement of financial position exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments.</p>

To determine the expected credit loss (ECL), these components are multiplied together (PD for the reference period (up to 12 months or lifetime) x LGD at the beginning of the period x EAD at the beginning of the period) and discounted to the balance sheet date using the original effective interest rate as the discount rate.

Measurement

Expected credit losses are computed as unbiased, probability-weighted amounts which are determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward-looking.

Forward-looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates, house price indices and commodity prices among others. These assumptions are incorporated using the Group's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning. To account for the potential non-linearity in credit losses, multiple forward-looking

1.17 Financial instruments (continued)

scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Group is exposed to credit risk. However, for certain revolving credit facilities, which include overdrafts, the Group's exposure to credit risk is not limited to the contractual period. For these instruments, the Group estimates an appropriate life based on the period that the Group is exposed to credit risk, which includes the effect of credit risk management actions such as the withdrawal of undrawn facilities.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgement. As a practical expedient, the Group may also measure credit impairment on the basis of an instrument's fair value using an observable market price.

The estimate of ECL on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Recognition of credit losses and impairment methodology

12 months expected credit losses (stage 1)

If financial assets are exposed to low credit risk, expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. The credit risk on a financial instrument is considered low if it has a low risk of default, the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis. The Group does not have any assets deemed to be exposed to low credit risk, hence, the above requirement has not been applied.

Financial assets that are 0-29 days past due and not credit-impaired are classified as stage 1.

Financial guarantees, commitments and other credit related liabilities are also classified as stage 1 unless if the counterparty has an underperforming or non-performing in which case the off balance exposure is migrated to the same stage as the on balance sheet loans.

Significant increase in credit risk (stage 2)

Refer to note 1.3 for the criteria applied in assessing increase in credit risk.

Collateral valuation

To the extent possible, the Group used active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value were valued using models. Non-financial collateral, such as real estate, was valued based on data provided by third parties such as mortgage brokers, housing price indices, audited financial statements, and other independent sources.

Credit-impaired (or defaulted) exposures (stage 3)

Financial assets that are credit-impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit-impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit-impaired.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions.
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligations;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower;

Irrevocable lending commitments to a credit-impaired obligor that have not yet been drawn down are also included within the stage 3 credit impairment provision to the extent that the commitment can be drawn down.

Loss provisions against credit-impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment. The Group's definition of default is aligned with the regulatory definition of default.

1.17 Financial instruments (continued)

For individually significant financial assets within stage 3, the MANCO (Management committee) Credit Committee will consider all judgements that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geo political climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/ forbearance/ modification options. The difference between the loan carrying amount and the discounted expected future cash flows will result in the stage 3 credit impairment amount. The future cash flow calculation involves significant judgements and estimates. As new information becomes available and further negotiations/forbearance measures are taken the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis.

For financial assets which are not individually significant, such as the Retail lending portfolio which comprise a large number of homogenous loans that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis.

Retail lending clients are considered credit-impaired where they are more than 90 days past due. Retail lending products are also considered credit-impaired if the borrower files for bankruptcy or other forbearance programme, the borrower is deceased or the business is closed in the case of a small business, or if the borrower surrenders the collateral, or there is an identified fraud on the account. Additionally, if the account is unsecured and the borrower has other credit accounts with the Group that are considered credit-impaired, the account may be also be credit-impaired.

For Corporate lending, borrowers are graded by credit risk management on a credit grading scale from Performing to Loss. Once a borrower starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and when it is classified as credit grade Special Mention the credit assessment and oversight of the loan will normally be performed by Group Credit Committee.

Expert credit judgement

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgement is required to analyse the available information provided and select the appropriate model or combination of models to use. Expert credit judgement is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models. Judgement is also applied to estimate the curing point of loans.

Forward-looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates, house price indices and commodity prices among others.

Classification and measurement - Modifications financial instruments

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within changes in expected credit losses in profit or loss in the statement of comprehensive income with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Group would not otherwise consider, the instrument is considered to be credit-impaired and is considered forborne.

ECL for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur. In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in expected credit loss recognised within impairment.

Forborne loans

Forborne loans are those loans that have been modified in response to a customer's financial difficulties. Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Group or a third-party including government sponsored programmes or a conglomerate of credit institutions. Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenure extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants. Forbearance and the reasons thereof are considered in the assessment of whether there has been significant increase in credit risk which determinates the stage of the loan and expected credit loss thereof.

Forborne loans that have been modified (and not derecognised) on terms that are not consistent with those readily available in the market and/or where we have granted a concession compared to the original terms of the loans are considered credit-impaired if there is a detrimental impact on cash flows. The modification loss (see Classification and measurement- Modifications) is recognised in the profit or loss within credit impairment and the gross carrying value of the loan reduced by the same amount.

1.17 Financial instruments (continued)

Derecognition of financial assets

The basic premise for the derecognition model in IFRS 9 is to determine whether the asset under consideration for derecognition is:

- an asset in its entirety or
- specifically identified cash flows from an asset (or a group of similar financial assets) or
- a fully proportionate (pro rata) share of the cash flows from an asset (or a group of similar financial assets), or
- a fully proportionate (pro rata) share of specifically identified cash flows from a financial asset (or a group of similar financial assets)

Once the asset under consideration for derecognition has been determined, an assessment is made as to whether the asset has been transferred, and if so, whether the transfer of that asset is subsequently eligible for derecognition.

An asset is transferred if either the entity has transferred the contractual rights to receive the cash flows, or the entity has retained the contractual rights to receive the cash flows from the asset, but has assumed a contractual obligation to pass those cash flows on under an arrangement that meets the following three conditions:

- the entity has no obligation to pay amounts to the eventual recipient unless it collects equivalent amounts on the original asset
- the entity is prohibited from selling or pledging the original asset (other than as security to the eventual recipient),
- the entity has an obligation to remit those cash flows without material delay

Once an entity has determined that the asset has been transferred, it then determines whether or not it has transferred substantially all of the risks and rewards of ownership of the asset. If substantially all the risks and rewards have been transferred, the asset is derecognised. If substantially all the risks and rewards have been retained, derecognition of the asset is precluded.

If the entity has neither retained nor transferred substantially all of the risks and rewards of the asset, then the entity must assess whether it has relinquished control of the asset or not. If the entity does not control the asset then derecognition is appropriate; however if the entity has retained control of the asset, then the entity continues to recognise the asset to the extent to which it has a continuing involvement in the asset.

Expired rights to the cash flows from the asset

The most obvious examples of situations when the contractual rights to the cash flows from the financial asset expire are repayment of a financial asset or expiry of an option. Other less obvious instances are discussed below:

Renegotiation and modification of a financial asset

Some modifications of contractual cash flows will result in derecognition of a financial instrument and the recognition of a new financial instrument in accordance with IFRS 9. If the modification of a financial asset measured at amortised cost does not result in derecognition of the financial asset, then the Group first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognises the resulting adjustment as a modification gain or loss in profit or loss.

Write-offs

Write-off must occur when it is not economical to pursue further recoveries, i.e. there is no reasonable expectation of recovering the carrying amount of the asset (gross amount less specific impairments raised):

- By implication, in both retail and wholesale, for secured as well as unsecured exposures, write-offs cannot occur if there is evidence of recent payment behaviour. Each credit portfolio has articulated a write-off policy that aligns with the principles of IFRS 9 while taking the business context of that portfolio into account.
- Within retail portfolios, write-off definitions have been determined with reference to analysis of the materiality of post write-off recoveries. The result of this is that retail secured loans are written off on perfection of collateral and retail unsecured loans are written off when observation of post-default payment behaviour indicates that further material recoveries are unlikely. Write-off points within retail unsecured portfolios are defined on a per-portfolio basis with reference to cumulative delinquency and/or payment recency, with write-offs typically occurring when 12 to 15 cumulative payments have been missed.
- Within wholesale portfolios, a judgemental approach to write-off is followed, based on case-by-case assessment by a credit committee.
- Partial write-offs are not performed within credit portfolios except in limited circumstances within the wholesale portfolio where it is assessed on a case-by case basis. Where required, additional provisions against irrecoverable assets will be raised until such a time as final write-off can occur.

The bank writes off a loan after all legal recovery processes have ceased. However, the credit department does as part of its normal process continue to follow up on written off accounts with customers for recoveries which may or may not result in post write off recoveries.

1.17 Financial instruments (continued)

Collection and enforcement activities post write-off

For unsecured advances, post write-off collection strategies include outsourcing of the account to external debt collections (EDCs). In addition, settlement campaigns are run to encourage clients to settle their outstanding debt. For secured advances, any residual balance post the realisation of collateral and post write-off is outsourced to EDCs. In 2022, loans with an outstanding gross amount of P41 million were written off and are under the care of EDCs for continued recovery efforts.

Transfers

The next steps in the derecognition decision tree concern transfers of financial assets. Financial assets should be derecognised if they are transferred and this transfer qualifies for derecognition. An entity transfers a financial asset if, and only if, it either;

- a. transfers the contractual rights to receive the cash flows of the financial asset, or
- b. retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients ('pass through' transfers).

Derecognition of financial liabilities

A financial liability should be removed from the balance sheet when, and only when, it is extinguished, that is, when the obligation specified in the contract is either discharged or cancelled or expires. Where there has been an exchange between an existing borrower and lender of financial instruments with substantially different terms, or there has been a substantial modification of the terms of an existing financial liability, this transaction is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. A gain or loss from extinguishment of the original financial liability is recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents represent cash on hand and demand deposits and cash equivalents that are short term (i.e. with a maturity of less than 90 days from acquisition), highly liquid investments that are readily convertible to known amounts of cash, and which are subject to an insignificant risk of changes in value. Cash and cash equivalents therefore include cash and balances with central banks that can be withdrawn on demand (except where a specific minimum balance at the end of the day is required to be maintained), other eligible bills and amounts due from banks.

1.18 Other assets

Included in other assets are prepayments, security deposits, interbranch accounts and other receivables. Except for prepayments, other assets are financial assets carried at amortised cost. Prepayments are non-financial assets and are stated at their nominal values.

1.19 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.20 Offsetting income and expense

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a Group of similar transactions such as the Group's trading activities.

1.21 Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues, the operating results of which components are regularly reviewed by the Group's chief operating decision-makers to make decisions about resources to be allocated and to assess its performance, and for which financial information is available.

The Group's identification of its segments and the measurement of segment results are based on the Group's internal management reporting as used for day-to-day decision-making and as reviewed by the chief operating decision-maker, which is the Managing Director, supported by the rest of the Management Committee (MANCO). The segments have been identified according to the nature of their respective products and services and their related target markets. The segments are Retail Banking (offers lending and transactional banking services to individuals), Commercial Banking (provides investment solutions to corporates, financial institutions, government entities and international organisations) and Global Markets (provides foreign exchange solutions to commercial clients, while supporting the branch network's retail foreign exchange service).

The segments identified are complemented by the Head Office functions, which provides support in the areas of finance, human resources, governance and compliance, risk management and information technology. Additional information relating to other performance measures is provided. The Group accounts for intersegment revenues and transfers as if the transactions were with third parties at current market prices.

1.22 Earnings per share

Basic earnings per share is calculated by dividing the net profit after tax attributable to the owners of the parent by the weighted average number of equity shares outstanding during the year adjusted for bonus element in equity share, attributable to the owner's of the parent. Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the conversion of all dilutive potential equity shares. Dilutive potential equity shares are deemed converted as at the beginning of the period unless issued at a later date.

1.23 Related parties

Parties are considered to be related to the Group if meet the following definitions;

(a) A person or a close member of that person's family:

- has control or joint control over the Group;
- has significant influence over the Group; or
- is a member of the key management personnel of the Group or of the parent of the Group.

(b) An entity for which the following conditions apply:

- the entity and the Group are members of the same Group
- the entity is controlled or jointly controlled by a person identified in (a)
- the entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

A number of transactions are entered into with related parties in the normal course of business. These transactions are summarised in the notes to the financial statements.

2. New standards and interpretations

Standards and interpretations effective and adopted in the current year

In the current year, the Group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IFRS	Effective date	Subject of amendment
Amendment to IFRS 3, 'Business combinations' Asset or liability in a business combination clarity	1 January 2022	<p>Reporting, in order to determine what constitutes an asset or a liability in a business combination.</p> <p>In addition, the Board added a new exception in IFRS 3 for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', or IFRIC 21, 'Levies', rather than the 2018 Conceptual Framework.</p> <p>The Board has also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.</p> <p>This amendment did not have a significant impact on the financial statements of the Group as there were no business combinations in the current year.</p>
Amendments to IAS 16 'Property, Plant and Equipment': Proceeds before Intended Use	1 January 2022	<p>The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use (for example, the proceeds from selling samples produced when testing a machine to see if it is functioning properly). The proceeds from selling such items, together with the costs of producing them, are recognised in profit or loss.</p> <p>This amendment did not have a have a significant impact on the financial statements of the Group.</p>
Annual improvements cycle 2018 -2020	1 January 2022	<p>These amendments include minor changes to:</p> <p>IFRS 1, 'First time adoption of IFRS' has been amended for a subsidiary that becomes a first-time adopter after its parent. The subsidiary may elect to measure cumulative translation differences for foreign operations using the amounts reported by the parent at the date of the parent's transition to IFRS.</p> <p>IFRS 9, 'Financial Instruments' has been amended to include only those costs or fees paid between the borrower and the lender in the calculation of "the 10% test" for derecognition of a financial liability. Fees paid to third parties are excluded from this calculation.</p> <p>IFRS 16, 'Leases', amendment to the Illustrative Example 13 that accompanies IFRS 16 to remove the illustration of payments from the lessor relating to leasehold improvements. The amendment intends to remove any potential confusion about the treatment of lease incentives.</p> <p>These amendments did not have a significant impact on the financial statements of the Group.</p>

2. New Standards and Interpretations (continued)

2.2 International Financial Reporting Standards, interpretations and amendments issued but not effective

IFRS	Effective date	Subject of amendment
IFRS 17, 'Insurance contracts'	1 January 2023	<p>The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.</p> <p>Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.</p> <p>This amendment is not expected to have a significant impact on the financial statements of the Group.</p>
IFRS 17, Insurance contracts Amendments	1 January 2023	<p>In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard or unduly disrupt implementation already underway.</p> <p>This amendment is not expected to have a significant impact on the financial statements of the Group.</p>
Amendment to IAS 1, 'Presentation of Financial Statements' on Classification of Liabilities as Current or Noncurrent	1 January 2023	<p>The amendment clarifies that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. A number of requirements are required to be met in conjunction with this amendment.</p> <p>This amendment is not expected to have a significant impact on the financial statements of the Group as the Group presents assets and liability in order of liquidity on the Statement of Financial Position.</p>
Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023	<p>The amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.</p> <p>An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented. It also, at the beginning of the earliest comparative period presented, recognises deferred tax for all temporary differences related to leases and decommissioning obligations and recognises the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date.</p> <p>The Group will be required to recognise deferred tax on leases entered into in 2022 whose total value amounts to P20 million in terms of right of use asset per note 35.1. The Group will quantify the impact of the deferred tax from the right of use asset and corresponding lease liabilities, although the impact is not expected to be significant on a net basis.</p>
Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'	1 January 2023	<p>The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish changes in accounting policies from changes in accounting estimates.</p> <p>This amendment is not expected to have a significant impact on the financial statements of the Group.</p>

3. Financial risk management

Objectives on risk management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to date information systems. The group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Financial risk governance

Audit Committee

The Group's Audit Committee's primary objective is to assist the Board in overseeing the systems of internal control and external financial reporting across the Group. The Committee performs its role by ensuring that the external and internal audit arrangements are appropriate and effective. The annual report and accounts, interim reports and accounts, related internal control disclosures and any other publicly available financial information are reviewed and scrutinised.

Risk and Compliance Committee

The objective of the Committee is to assist the Board in overseeing the systems of compliance policies and procedures across the Group and to provide oversight and advice to the Board in respect of the Group's risk appetite, risk monitoring, capital management and compliance requirements. Further, the Committee provides oversight and advice to the Board on current risk exposures and future risk strategy, and to assist the Board in monitoring and reviewing the effectiveness of the credit and risk functions in the context of the Group's overall risk management framework and in maintaining appropriate compliance policies and procedures such that the Group will remain compliant with all legal and regulatory requirements applicable to it.

Assets and Liabilities Committee (ALCO)

The Group trades in financial instruments where it takes positions in financial instruments, to take advantage of short-term market movements in currency and interest rates. Amongst other responsibilities, ALCO is tasked to monitor the risks associated with these activities. Risk management includes the setting of trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. In addition, with the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives, are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

The Assets and Liabilities Committee monitors the balance sheet management and consideration of risk, liquidity risk, and interest rate risk in the banking book, the foreign exchange position risk and the capital risk. The meetings of the Committee are held monthly, however, extraordinary committee meetings may be called where there is:

- (a) a sudden change in regulations;
- (b) material loss of deposits without notice, and ahead of maturity;
- (c) failure to honour commitments and approved facilities; or
- (d) unanticipated movement in exchange rates.

Credit Committee

The Credit Committee approves large exposures and monitors them on an ongoing basis. The committee also assist the Board in ensuring that all credit activities relating to large exposures are conducted within the risk strategy, policies and tolerance levels approved by the Board.

3.1 Credit risk

Credit risk is the risk of loss due to inability or unwillingness of the customer or other counter-party to meet their obligations. Credit risk is a significant risk facing the Group. In order to manage this risk, the Group has implemented clearly defined credit policies which are documented and form the basis of all credit decisions. The Group structures the levels of credit risk it undertakes, placing limits on the amounts of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. The Group also makes provision against non-performing accounts in line with the approved provisioning policy. Also refer to note 3.1.7 for details on management overlays applied to the ECL model.

A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1 and has its credit risk continuously monitored. If a SICR since initial recognition is identified, the financial instrument is moved to Stage 2 but is not yet deemed to be credit-impaired.

Risk limit control and mitigation policies

The Group manages, limits and controls concentrations of credit risk in respect of individual counterparties and groups, and to industries and countries.

Such risks are monitored on a revolving basis and subject to an annual or more frequent reviews, when considered necessary. Limits on the level of credit risk by product, industry sector and by country are approved by the board of directors, and reviewed regularly.

Access Bank Botswana Limited

Notes to the consolidated and separate annual financial statements for the year ended 31 December 2022

3. Financial risk management (continued)

3.1 Credit risk (continued)

Some specific control and mitigation measures are outlined below.

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- cash collateral;
- charges over assets financed;
- charges over cash proceeds from trading transactions financed;
- mortgages over residential and commercial properties;
- charges over business assets such as premises, inventory and accounts receivable; and
- charges over financial instruments such as debt securities, and equities.

In order to minimise credit losses, the Group will also seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances. Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument.

(b) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan. Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3.1 Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements.

Group					
31 December 2022	P'000	P'000			P'000
	Maximum exposure to credit risk	Fair value of collateral			Net exposure
		Property	Vehicles	Cash and other	
Balances with other banks	824,228	-	-	-	824,228
Balances with Central Bank	46,261	-	-	-	46,261
Investment securities	876,990	-	-	-	876,990
Amounts due from related parties	397,736	-	-	-	397,736
Derivative financial assets	20,838	-	-	-	20,838
Other financial assets	58,883	-	-	-	58,883
Loans and advances to customers	6,820,606	1,811,940	15,668	-	5,768,592
Mortgage lending	730,467	1,198,234	-	-	-
Vehicle asset finance	15,608		15,668		-
Corporate lending	300,779	598,559	-	-	-
Commercial and property finance	5,024	15,011			-
Retail and SME lending	5,768,728	136	-	-	5,768,592
Maximum exposure	9,045,542	1,811,940	15,668	-	7,993,528
Credit exposures relating to off-balance sheet items are as follows:					
Financial guarantees	205,741	-	-	78,275	127,466
Loan commitments and other credit related liabilities	20,181	-	-	-	20,181
	225,923	-	-	78,275	147,648
Company					
31 December 2022	P'000	P'000			P'000
	Maximum exposure to credit risk	Fair value of collateral			Net exposure
		Property	Vehicles	Cash and other	
Balances with other banks	824,228	-	-	-	824,228
Balances with Central Bank	46,261	-	-	-	46,261
Investment securities	876,990	-	-	-	876,990
Amounts due from related parties	398,195	-	-	-	398,195
Derivative financial assets	20,838	-	-	-	20,838
Other financial assets	57,698	-	-	-	57,698
Loans and advances to customers	6,820,606	1,811,940	15,668	-	5,768,592
Mortgage lending	730,467	1,198,234	-	-	-
Vehicle asset finance	15,608		15,668		-
Corporate lending	300,779	598,559	-	-	-
Commercial and property finance	5,024	15,011			-
Retail and SME lending	5,768,728	136	-	-	5,768,592
Maximum exposure	9,044,816	1,811,940	15,668	-	7,992,802

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3.1 Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Credit exposures relating to off-balance sheet items are as follows:

Financial guarantees	205,585	-	-	14,825	190,760
Loan commitments and other credit related liabilities	20,337	-	-	-	20,337
	225,922	-	-	14,825	211,097

31 December 2021	P'000	P'000			P'000
Group	Maximum exposure to credit risk	Fair value of collateral			Net Exposure
		Property	Vehicles	Cash and other	
Balances with other banks	1,394,909	-	-	-	1,394,909
Balances with Central Bank*	163,768	-	-	-	163,768
Investment securities	568,000	-	-	-	568,000
Amounts due from related parties	975	-	-	-	975
Derivative financial assets	67,915	-	-	-	67,915
Other financial assets	37,638	-	-	-	37,638
Loans and advances to customers	6,796,657	2,119,772	30,994	203,642	5,787,654
Mortgage lending	778,161	1,214,050	-	-	-
Vehicle asset finance	20,117	-	19,954	-	163
Corporate lending**	199,019	890,711	-	203,479	-
Commercial and property finance	11,869	15,011	11,040	163	-
Retail and SME lending**	5,787,491	-	-	-	5,787,491
Maximum exposure	9,029,862	2,119,772	30,994	203,642	8,020,859

**Retail balances of P132.9 million were incorrectly classified as Corporate in 2021. These have been re-presented in the 2022 financial statements for both Group and Company.

Credit exposures relating to off-balance sheet items are as follows:

Financial guarantees	132,708	-	-	56,809	75,899
Loan commitments and other credit related liabilities	121,125	-	-	-	121,125
	253,833	-	-	56,809	197,024

31 December 2021	Company P'000	P'000			P'000
	Maximum exposure to credit risk	Fair value of collateral			Net Exposure
		Property	Vehicles	Cash and other	
Balances with other banks	1,394,909	-	-	-	1,394,909
Balances with Central Bank*	163,768	-	-	-	258,979
Investment securities	568,000	-	-	-	568,000
Amounts due from related parties	975	-	-	-	975
Derivative financial assets	67,915	-	-	-	67,915
Other financial assets	37,638	-	-	-	37,638
Loans and advances to customers:	6,796,657	2,119,772	30,994	203,642	5,654,700
Mortgage lending	778,161	1,214,050	-	-	-
Vehicle asset finance	20,117	-	19,954	-	163
Corporate lending**	331,973	890,711	-	203,479	-
Commercial and property finance	11,869	15,011	11,040	163	-
Retail and SME lending**	5,654,537	-	-	-	5,654,537
Maximum exposure	9,125,073	2,119,772	30,994	203,642	7,983,116

*Balances with Central Bank included P95million for notes and coins in 2021, per note 5. Physical cash is generally not assessed for credit risk and the balance has been restated accordingly to excluded notes and coins.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3.1 Credit risk (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

	P'000	P'000			P'000
	Maximum exposure to credit risk	Fair value of collateral			Net Exposure
		Property	Vehicles	Cash and other	
Credit exposures relating to off-balance sheet items are as follows:					
Financial guarantees	132,708	-	-	56,809	75,899
Loan commitments and other credit related liabilities	121,125	-	-	-	121,125
	253,833	-	-	56,809	197,024

3.1.1 Repossessed collateral

During the year, the Group obtained assets by taking possession of collateral held as security, as follows:

Nature of assets	Consolidated and Company	
	2022	2021
	P'000	P'000
Property - residential	3,596	18,800
Property - commercial	5,851	-
Motor Vehicles	1,124	-
	10,571	18,800

The properties repossessed are for Mortgages (secured by residential property), Term loan (secured by commercial property) and Vehicle Financing (secured by motor vehicles). Refer to note 1.11 for the Group's policy on treatment of repossessed assets.

3.1.2 Loans and advances by industry sectors

The following table analyses the Group's gross loan book by the industry sectors of the counterparties:

	Consolidated and Company	
	2022	2021
	P'000	P'000
Construction	737	7,008
Wholesale, retail and trade	140,544	175,181
Manufacturing	-	1
Mining and Energy	-	343
Financial services	250,264	260,046
Transport	1,345	3,627
Real Estate	8,182	-
Individuals	6,412,816	6,349,629
Tourism	-	401
Other	69	421
Total	6,813,957	6,796,657

Credit exposures relating to off-balance sheet items are as follows:

Financial services	154,010	166,842
Telecommunications	45,700	45,700
Other	26,212	41,291
	225,922	253,833

Cash and bank balances with Central Bank, Balances with other banks, Investment securities, Derivative financial assets and Balances from related parties are fall into the financial services sector whilst Other financial assets are predominately from the Financial Services sector.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.1 Credit risk (continued)

3.1.3 Financial instruments at amortised cost by stage

The table below presents an analysis of financial instruments at amortised cost by gross exposure, impairment allowance and coverage ratio by stage allocation and products as at 31 December, 2022 for the Consolidation and the Company. Also included are off-balance sheet items and financial guarantee contracts. ECL on cash and balances with central bank, derivative assets and balances from related parties are considered not significant, and not presented below. This is because cash and bank balances with central bank and investment securities are owed from the government and deemed to be sovereign debt. The government of Botswana has a credit rating of A- and has never defaulted on the amounts owing, hence, the probability of default is minimal. ECL for balances due from related parties is calculated using the loss rate approach which takes into account the probability of default (including country risk) and loss given default. The balances have short tenors of less than 60 days and are all classified as stage 1, hence, the resulting ECL is considered immaterial due to the very low probability of defaults. Other assets consist of prepaid expenses where risk of default is negligible, including clearing accounts which are very short term and would have cleared within the expected timelines, hence limited probability of default. ECL for Balances with other banks is calculated using the loss rate approach. The balances have short tenors of less than 60 days and are all classified as stage 1, hence, the resulting ECL is considered immaterial.

31 December 2022	31 December 2022 Balance										31 December 2022 ECL				Net exposure			31 December 2022 ECL Coverage Ratio*	
	In thousands of Pula										Stage				Total			Total	
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
Mortgage lending	638,399	39,207	52,861	730,467	(877)	(627)	(3,280)	(4,784)	637,522	38,580	49,581	725,683							
Corporate lending	299,868	-	5,934	305,803	(4,066)	-	(113)	(4,179)	295,802	-	5,821	301,624							
Retail and SME lending	5,427,921	111,761	244,654	5,784,336	(62,391)	(13,900)	(117,158)	(193,449)	5,365,530	97,860	127,497	5,590,887							
Total loans and advances	6,366,189	150,968	303,448	6,820,605	(67,334)	(14,527)	(120,551)	(202,411)	6,298,855	136,441	182,898	6,618,193							
Balances due from related parties	397,736	-	-	397,736	-	-	-	-	397,736	-	-	397,736							
Financial guarantees and loan commitments	225,921	-	-	225,921	(757)	-	-	(757)	225,164	-	-	225,164							
Investment securities	876,990	-	-	876,990	(657)	-	-	(657)	876,333	-	-	876,333							
Cash and balances with the Central Bank	217,678	-	-	217,678	-	-	-	-	217,678	-	-	217,678							
Balances with other banks	824,228	-	-	824,228	(1,217)	-	-	(1,217)	823,011	-	-	823,011							
Other financial assets	58,883	-	-	58,883	-	-	-	-	58,883	-	-	58,883							
Total	8,967,625	150,968	303,448	9,422,041	(69,965)	(14,527)	(120,551)	(205,042)	8,897,659	136,441	182,898	9,216,997							

31 December 2021	31 December 2021 Balance										31 December 2021 ECL				Net exposure			31 December 2021 ECL Coverage Ratio*	
	In thousands of Pula										Stage				Total			Total	
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3
Mortgage lending	694,749	15,391	99,416	809,556	(2,455)	(553)	(14,028)	(17,036)	692,294	14,838	85,388	792,520							
Corporate lending**	307,637	(1)	19,246	326,882	(2,696)	(75)	(15,686)	(18,457)	304,941	10,974	54,222	370,137							
Retail and SME lending**	5,358,547	48,552	253,120	5,660,219	(44,386)	(5,487)	(202,596)	(252,469)	5,314,161	43,065	50,524	5,407,750							
Total Loans and advances	6,360,933	63,942	371,782	6,796,656	(49,537)	(6,115)	(232,310)	(287,962)	6,311,396	68,877	190,134	6,570,407							
Balances due from related parties	975	-	-	975	-	-	-	-	975	-	-	975							
Financial guarantees and loan commitments	253,833	-	-	253,833	(620)	-	-	(620)	253,213	-	-	253,213							
Investment securities	568,000	-	-	568,000	(40)	-	-	(40)	567,960	-	-	567,960							
Cash and balances with the Central Bank	258,979	-	-	258,979	-	-	-	-	258,979	-	-	258,979							
Balances with other banks	1,394,909	-	-	1,394,909	(3,204)	-	-	(3,204)	1,391,705	-	-	1,391,705							
Other financial assets	13,325	-	24,313	37,638	-	-	(24,313)	(24,313)	13,325	-	-	13,325							
Total	8,850,954	63,942	396,095	9,310,990	(53,401)	(6,115)	(256,623)	(316,139)	8,797,553	68,877	190,134	9,056,564							

* ECL coverage ratio is calculated as the total ECL to the gross exposure/balance.

**Retail loans of P132.9 million were incorrectly disclosed under corporate loans. This was corrected in FY 22 with the 2021 balances re-presented as shown. The underlying ECL of P3.5 million was correctly calculated and has been reclassified and presented in the correct segment.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.1 Credit risk (continued)

3.1.4 Renegotiated loans

A renegotiated loan shall return to performing status only after its renegotiated terms are no longer considered to be past due.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of management, indicate that payment will most likely continue. The renegotiated loans are then monitored more strictly than the performing loans with advice of performance being reported to credit committees submitted on a monthly basis.

The following table shows renegotiated loans and advances to customers at amortised cost per stage allocation under IFRS 9 treatment. In 2022, this was due to a facility that was restructured on technical grounds and not necessarily due to increased credit risk whilst in 2021 renegotiated loans arose mainly from the Covid-19 pandemic and its impact on borrowers.

Renegotiated loans as at 31 December 2022	Consolidated and Company			
	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000
Gross carrying amount				
Retail and SME lending	-	339	-	339
	-	339	-	339
Allowance for ECL				
Retail and SME lending	-	(11)	-	(11)
	-	(11)	-	(11)
Net renegotiated loans	-	328	-	328

Renegotiated loans as at 31 December 2021	Consolidated and Company			
	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000
Gross carrying amount				
Retail and SME lending	8,584	290	6,182	15,056
	8,584	290	6,182	15,056
Allowance for ECL				
Retail and SME lending	(110)	(61)	(707)	(878)
	(110)	(61)	(707)	(878)
Net renegotiated loans	8,474	229	5,475	14,178

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Credit quality by asset class

The table below shows the stage wise break up of financial assets.

Consolidated and Company						
31 December 2022	Stage 1	Stage 2	Stage 3	Total	Collateral	Net exposure
At FVTPL						
Derivative financial assets	20,838	-	-	20,838	-	20,838
At amortised cost						
Cash and balances with Central Bank	46,261	-	-	46,261	-	46,261
Balances with other banks	824,228	-	-	824,228	-	824,228
Balances due from related parties	397,736	-	-	397,736	-	397,736
Loans and advances	6,366,189	150,968	303,448	6,820,605	1,827,608	4,992,997
Performing	6,366,189	-	-	6,366,189	1,509,840	4,856,349
Special mention	-	150,968	-	150,968	60,825	90,143
Substandard	-	-	48,924	48,924	35,803	13,121
Doubtful	-	-	46,801	46,801	27,618	19,183
Loss	-	-	207,723	207,723	193,522	14,201
Investment securities	876,990	-	-	876,990	-	876,990
Other financial assets	58,883	-	-	58,883	-	58,883
	8,193,388	150,968	303,448	8,647,804	1,827,608	6,820,196
Off balance sheet items						
Financial guarantees and loan commitments	225,921	-	-	225,921	78,275	147,646
Total	8,419,310	150,968	303,448	8,873,725	1,905,883	6,967,843

Consolidated and Company						
31 December 2021	Stage 1	Stage 2	Stage 3	Total	Collateral	Net exposure
At FVTPL						
Derivative financial assets	67,915	-	-	67,915	-	67,915
At amortised cost						
Cash and balances with Central Bank	163,768	-	-	163,768	-	163,768
Balances with other banks	1,394,909	-	-	1,394,909	-	1,394,909
Balances due from related parties	975	-	-	975	-	975
Loans and advances	6,360,933	63,942	371,782	6,796,657	2,354,484	4,442,173
Performing	6,360,933	-	-	6,360,933	1,912,765	4,448,168
Special mention	-	63,942	-	63,942	52,397	11,545
Substandard	-	-	34,616	34,616	30,100	4,516
Doubtful	-	-	30,818	30,818	15,574	15,244
Loss	-	-	306,348	306,348	343,648	-
Debt securities	568,000	-	-	568,000	-	568,000
Other financial assets	13,325	-	24,313	37,638	-	37,638
	8,568,850	63,942	396,095	9,028,887	2,354,484	6,674,403
Off balance sheet items						
Financial guarantees and loan commitments	225,922	-	-	225,922	15,585	210,337
Total	8,794,772	63,942	396,095	9,254,809	2,370,069	6,884,740

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)
3.1 Credit risk (continued)

Substandard - The loan is past due for more than 90 days but less than 180 days and the debtor is potentially bankrupt. The business or obligor is in financial distress and there is considerable uncertainty with respect to payment of principal and interest. In addition, the primary source of repayment is insufficient to service the debt and the obligor has had to resort to secondary sources of payment such as collateral, sale of fixed assets, refinancing or additional capital injections for repayment. The loan has been renegotiated or restructured and requires attention and intensive management.

Doubtful - The obligor is not legally or formally Bankrupt. Nonetheless, the business is effectively or virtually bankrupt and is encountering severe liquidity and solvency challenges. The loan is past due for more than 180 days but less than 360 days and the debtor has failed to pay scheduled principal and interest payments.

Loss - The debtor has defaulted on the debt obligation and is legally and formally Bankrupt. The asset is past due for more than 360 days and the obligor has been unable to meet scheduled principal and interest payments. The loan is uncollectible or of such little value that its continuance as an asset is not warranted.

Performing - A loan is not in or near default. Performing loan is a loan in which loan installments inclusive of interest and principal payments are up to date.

Special mention assets - when there is evidence of increased credit risk on a loan but the loan is not considered impaired. This could be due to the loan being past due by not more than 90 days overdue, inadequate credit documentation or collateral not fully in place.

3.1.6 Movement in expected credit losses

Changes in expected credit losses includes the impacts of transfers between stages, changes made to parameters (such as probability of default, exposure at default and loss given default), changes in macroeconomic variables, drawdowns, repayments and other movements.

The following table shows movement in gross loans and advances from 1 January 2022 to 31 December 2022:

	Gross loans and advances			Total P'000
	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	
Opening balance	6,360,933	63,941	371,783	6,796,657
New loans	1,867,439	15,161	9,490	1,892,090
Transfer to stage 1	100,983	(48,596)	(52,387)	-
Transfer to stage 2	(72,571)	86,669	(14,097)	-
Transfer to stage 3	(40,388)	(10,909)	51,297	-
Loan settlements and write-offs	(58,867)	-	(88,027)	(146,894)
Payments, drawdowns, accruals & re-advances	(1,791,341)	44,700	25,390	(1,721,250)
Closing Balance	6,366,188	150,966	303,450	6,820,601

There were no purchased or originated credit-impaired financial assets during the period.

Overall, movements in the stages are reflective of improved performance of the loan book during the year. This was due to (1) loan write-offs which reduces the non-performing book and (2) effective collection strategies employed by the Bank in the past 2 years. This has resulted in the book being skewed towards stage 1 and stage 2, compared to the position as at 1 January 2022.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)
3.1 Credit risk (continued)

Retail and SME loans	Gross loans and advances			
	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000
Opening balance	5,283,706	37,526	206,033	5,527,265
New loans	1,737,365	14,659	9,490	1,761,514
Transfer to stage 1	68,723	(42,869)	(25,854)	-
Transfer to stage 2	(56,229)	62,102	(5,873)	1
Transfer to stage 3	(27,178)	(6,942)	34,120	-
Loan settlements and write-offs	(38,625)	-	(65,803)	(104,428)
Payments, drawdowns, accruals & re-advances	(1,614,682)	36,258	45,455	(1,532,969)
Transfer from corporate	74,841	11,027	47,086	132,954
Closing Balance	5,427,921	111,761	244,654	5,784,337

Movement in the Retail and SME loans are in line with the movements in the gross book as aforementioned. The performance of the portfolio has improved due to write-off of parts of the non performing portfolio and improved collection strategy. The movement between Corporate and Retail and SME is due to correction of incorrect disclosures made in the prior period. The loan and amount and ECL were correctly calculated but disclosed in the incorrect segment.

Corporate loans	Gross loans and advances			
	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000
Opening balance	382,476	11,027	66,334	459,837
New loans	98,213	-	-	98,213
Transfer to stage 1	5,469	-	(5,469)	-
Loan settlements and write-offs	-	-	(5,264)	(5,264)
Payments, drawdowns, accruals & re-advances	(111,449)	-	(2,581)	(114,030)
Transfer to Retail and SME	(74,841)	(11,027)	(47,086)	(132,954)
Closing Balance	299,868	-	5,934	305,802

No significant movements in corporate loans apart from the reduction in the book due to reduced lending activities and reclassification of some corporate loans to the SME portfolio.

Mortgage loans	Gross loans and advances			
	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000
Opening balance	694,748	15,391	99,416	809,555
New loans	31,862	502	-	32,364
Transfer to stage 1	32,259	(5,727)	(26,532)	-
Transfer to stage 2	(16,343)	24,566	(8,223)	-
Transfer to stage 3	(7,741)	(3,967)	11,708	-
Loan settlements and write-offs	(31,176)	-	(6,024)	(37,200)
Payments, drawdowns, accruals & re-advances	(65,210)	8,442	(17,484)	(74,252)
Closing Balance	638,399	39,207	52,861	730,467

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)
3.1 Credit risk (continued)

The following table shows movement in expected credit losses from 1 January 2022 to 31 December 2022:

	Expected credit losses			Total P'000
	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	
Loans and advances				
Opening balance	49,537	6,115	232,310	287,962
New loans	19,264	1,802	6,636	27,702
Transfer to stage 1	29,980	(3,942)	(26,038)	-
Transfer to stage 2	(215)	5,262	(5,047)	-
Transfer to stage 3	(149)	(281)	430	-
Write-offs	-	-	(73,002)	(73,002)
Changes in PD, LGD and model assumptions	26,180	(850)	(83,995)	(58,665)
Payments and other changes	(57,263)	6,421	69,258	18,416
Closing Balance	67,334	14,527	120,552	202,414

The table above provides a breakdown of the change in the ECL impairment recognised in the current period based on the key drivers. The key components of the ECL impairment recognised in the current period are as follows:

Stage 1 – This represents the change in the impairment on stage 1 advances assuming that the coverage ratio has remained unchanged from the prior period. This column therefore represents the change in volume of stage 1 advances due to new business, stage migration, loans commencing in the period in stage 1 subsequently written off or curing. Increases in stage 1 ECL is largely due to new loans and effective collection strategies employed by the Bank during the past 2 years which resulted in curing of non-performing loans to stage 1.

Stage 2 – This represents the change in the impairment on stage 2 advances assuming that the coverage ratio remained unchanged from the prior period. This column therefore represents the change in volume of stage 2 advances due to stage migration, loans commencing the period in stage 2 subsequently migrating to stage 3 or curing. The volume change in stage 2 advances is in line with the modest growth in the loan book and curing of loans from stage 3 due to collection strategies.

Stage 3 – This represents the change in the impairment on stage 3 advances due to a change in the coverage ratio and volume changes due to loans commencing in the period in stage 3 subsequently written off or curing. Decreases to Stage 3 ECL driven by (1) eventual write-off of loans and (2) collection strategies which resulted in the curing of loans to stage 1 and 2.

Other - these include change to ECL due to model enhancements and differences in product mix where coverage ratios will differ due to the nature of collateral.

The ECL changes above are further disaggregated in the tables below into the main asset classes.

Retail and SME loans	P'000	P'000	P'000	P'000
Opening balance	44,393	5,511	206,171	256,075
New loans	17,535	1,802	6,636	25,973
Transfer to stage 1	29,848	(3,827)	(26,021)	-
Transfer to stage 2	(197)	5,239	(5,042)	-
Transfer to stage 3	43	(277)	234	-
Changes in PD, LGD and model assumptions	24,366	(1,158)	(89,213)	(66,005)
Payments and other movements	(53,597)	6,610	92,021	45,034
Write-offs	-	-	(67,628)	(67,628)
Closing balance	62,391	13,900	117,158	193,449

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.1 Credit risk (continued)

Corporate loans	P'000	P'000	P'000	P'000
Opening balance	2,689	52	12,110	14,851
New loans	1,669	-	-	1,669
Transfer to stage 1	90	-	(90)	-
Changes in PD, LGD and model assumptions	2,473	(52)	(4,759)	(2,338)
Payments and other movements	(2,855)	-	(1,854)	(4,709)
Write-offs	-	-	(5,294)	(5,294)
Closing balance	4,066	-	113	4,179

Mortgage loans	P'000	P'000	P'000	P'000
Opening balance	2,455	553	14,028	17,036
New loans	60	0	-	60
Transfer to stage 1	132	(115)	(17)	-
Transfer to stage 2	(19)	24	(5)	-
Transfer to stage 3	(102)	(4)	106	-
Write-offs	-	-	(79)	(79)
Changes in PD, LGD and model assumptions	(1,239)	(326)	(13,772)	(15,337)
Payments and other movements	(410)	495	3,019	3,104
Closing balance	877	627	3,280	4,784

Changes in expected credit losses (ECL) for total loans during the year	17,797	8,412	(111,758)	(85,548)
Impact of write-offs	-	-	73,002	73,002
Changes in ECL recognised in statement of profit or loss (note 21)	17,797	8,412	(38,756)	(12,547)
Off balance sheet and Investment securities				
Opening balance	(620)	-	-	(620)
Movements for the year	(164)	-	-	(164)
Closing balance	(784)	-	-	(784)

The following table shows movement in gross loans and advances from 1 January 2021 to 31 December 2021:

	Gross loans and advances			Total
	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	
Opening balance	5,818,921	78,064	376,610	6,273,595
New loans	3,323,669	102	11,568	3,335,339
Transfer to stage 1	20,650	(19,002)	(1,648)	-
Transfer to stage 2	(59,347)	59,548	(201)	-
Transfer to stage 3/ estimation change	(70,274)	(26,326)	96,600	-
Payments, drawdowns, accruals & re-advances	(2,668,673)	(17,102)	(79,327)	(2,765,102)
Other*	(4,013)	(11,343)	(31,819)	(47,175)
Closing Balance	6,360,933	63,941	371,783	6,796,657

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.1 Credit risk (continued)

There were no purchased or originated credit-impaired financial assets during the year.

*Other has been re-presented in 2022 to include items which were incorrectly presented as Modifications, Derecognition and Write-offs of P8.2 million in 2021.

Overall, the balance of loans in stage 2 and stage 3 decreased during the year. This is attributable to the following Collections Strategies adopted by the Bank during the year:

- Realignment of roles within the Collections shop
- Risk segmentation of accounts giving priority to high-risk accounts
- Introduction of Collector KPIs aligned to the impairment budget
- Securing and enforcing Judgement on matters undergoing litigation
- Frequent engagement with our External Debt Collectors to monitor performance and align to Recoveries Strategy

Retail and SME loans

	Gross loans and advances			
	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000
Opening balance	4,797,379	52,160	224,280	5,073,819
New loans	2,942,718	102	1,749	2,944,569
Transfer to stage 1	12,678	(12,291)	(387)	-
Transfer to stage 2	(35,513)	35,513	-	-
Transfer to stage 3/ estimation change	(57,819)	(12,529)	70,348	-
Payments, drawdowns, accruals & re-advances	(2,358,142)	(14,117)	(52,792)	(2,425,051)
Retail loans previously classified as Corporate*	74,841	11,027	47,086	132,954
Other	(17,595)	(11,312)	(37,165)	(66,072)
Closing Balance*	5,358,547	48,553	253,119	5,660,219

Overall, the balance of loans in stage 2 and stage 3 decreased during the year. This is attributable to the Collections Strategies adopted by the Bank, as mentioned above. Retail and SME remains the flagship unit of the Bank and was the key driver of the growth in loan book where the book grew by over P450 million. This is due to a more optimistic environment as various Covid-19 restrictions were gradually eased during year.

*Retail loans of P132.9 million were incorrectly disclosed under corporate loans, but has no impact on the ECL. This was corrected in FY 22 with the 2021 balances re-presented.

Corporate loans

	Gross loans and advances			
	Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000
Opening balance	329,045	8,931	54,349	392,325
New loans	303,273	-	9,818	313,091
Transfer to stage 2	(12,372)	12,372	-	-
Transfer to stage 3/ estimation change	(2,954)	(8,931)	11,885	-
Payments, drawdowns, accruals & re-advances	(248,624)	(1,351)	(15,870)	(265,845)
Retail loans previously classified as Corporate*	(74,841)	(11,027)	(47,086)	(132,954)
Other	13,115	(313)	(765)	12,037
Closing Balance*	306,642	-319	12,331	318,654

There were no significant movements in the corporate portfolio during the year in terms of distribution of the loans amongst stages. Stage 2 loans remain about 2% of the portfolio and 14% for stage 3. This is testament to the Bank's collection strategies mentioned above. The Bank continues efforts to grow the corporate book and this is demonstrated above from the increase of the P65 million.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)
3.1 Credit risk (continued)

Mortgage Loans

	Gross loans and advances			Total P'000
	Stage 1	Stage 2	Stage 3	
	P'000	P'000	P'000	
Opening balance	692,497	16,973	97,982	807,452
New loans	77,676	-	-	77,676
Transfer to stage 1	7,972	(6,711)	(1,261)	-
Transfer to stage 2	(11,463)	11,664	(201)	-
Transfer to stage 3/ estimation change	(9,501)	(4,865)	14,366	-
Payments, drawdowns, accruals & re-advances	(61,908)	(1,633)	(10,665)	(74,206)
Other	(525)	(37)	(805)	(1,367)
Closing Balance	694,748	15,391	99,416	809,555

There were no significant movements in the mortgages portfolio during the year in terms of gross balance and also distribution of the loans amongst stages. This is due to the relatively low risk nature of the portfolio as it is secured such that volume of payments remains high and there are relatively low defaults, hence, insignificant movement between the stages or quicker cure rates in the event of default.

The following table shows movement in expected credit losses from 1 January 2021 to 31 December 2021:

Loans and advances	P'000	P'000	P'000	P'000
Opening balance	47,715	12,758	212,152	272,625
New loans	22,266	1	1,906	24,173
Transfer to stage 1	2,003	(1,489)	(514)	-
Transfer to stage 2	(412)	554	(142)	-
Transfer to stage 3	(662)	(2,214)	2,876	-
Other*	(21,373)	(3,495)	16,032	(8,836)
Closing balance	49,537	6,115	232,310	287,962

*Other - these are ECL movements are from modified exposures that are not derecognized, impact of exchange rate translations on foreign currency denominated loans and model changes (particularly impact of forward looking information in the post Covid-19 environment). In 2021, there was amount of P5,602 which was incorrectly presented as Write-offs. This balance should have been part of Other and has been re-presented in the 2022 financial statements.

The ECL changes above are further disaggregated in the tables below into the main asset classes.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.1 Credit risk (continued)

Movement in expected credit losses (continued)

The following tables shows movement in expected credit losses from 1 January 2021 to 31 December 2021 across the various portfolios:

Retail and SME loans	P'000	P'000	P'000	P'000
Opening balance	41,280	12,280	191,575	245,135
New loans	15,913	1	1,157	17,071
Transfer to stage 1	1,559	(1,350)	(209)	-
Transfer to stage 2	(257)	257	-	-
Transfer to stage 3	(495)	(2,055)	2,550	-
Retail loans previously classified as Corporate*	7	23	3,576	3,606
Other	(13,607)	(3,622)	11,098	(6,131)
Closing balance*	44,400	5,534	209,747	259,681
Corporate loans	P'000	P'000	P'000	P'000
Opening balance	3,484	21	5,698	9,203
New loans	6,012	-	749	6,761
Transfer to stage 2	(118)	118	-	-
Transfer to stage 3	(79)	(21)	100	-
Retail loans previously classified as Corporate*	(7)	(23)	(3,576)	(3,606)
Other	(6,610)	(66)	5,563	(1,113)
Closing balance*	2,682	29	8,534	11,245
Mortgage loans	P'000	P'000	P'000	P'000
Opening balance	2,951	457	14,879	18,287
New loans	341	-	-	341
Transfer to stage 1	443	(137)	(306)	-
Transfer to stage 2	(36)	178	(142)	-
Transfer to stage 3	(87)	(138)	225	-
Other	(1,157)	193	(628)	(1,592)
Closing balance	2,455	553	14,028	17,036
Changes in expected credit losses (ECL) during the year	2,883	(5,777)	18,231	15,337
ECL credit/(charge) for the period	2,883	(5,777)	18,231	15,337
Off balance sheet and Investment securities				
Opening balance	(1,003)	-	-	(1,003)
Liquidated off balance sheet items	383	-	-	383
Closing balance	(620)	-	-	(620)
Changes in expected credit losses (ECL) during the year	(383)	-	-	(383)
Total ECL credit charge in profit or loss	2,500	(5,777)	18,231	14,954

*Retail loans of P132.9 million were incorrectly disclosed under corporate loans, but has no impact on the ECL. This was corrected in FY 22 with the 2021 balances re-presented. ECL of P3.5 million was correctly calculated and has been reclassified and presented in the correct segment.

Access Bank Botswana Limited

Notes to the consolidated and separate annual financial statements for the year ended 31 December 2022

3. Financial risk management (continued)

3.1 Credit risk (continued)

Movement in expected credit losses (continued)

3.1.7 Management overlays

The inputs and assumptions into the IFRS 9 model are carefully considered by management for completeness and relevance. The inputs and assumptions are reviewed on an annual basis and adjusted accordingly to reflect changing macro-economic environment and vintages in the loan book. ECL calculations are reviewed for accuracy and consistency and reasonableness on a regular basis. The results for the year are relatively consistent with management expectations. Management overlays are only instituted in cases where the model results are not reflective of underlying customer behaviour and economic conditions. Management overlays are subjected to review and approval by the Management Committee after a rigorous review of the underlying assumptions and departures from the model assumptions.

For the year ended 31 December 2022 management performed out of model adjustments to loans and advances of P6.1 million (increase to ECL) whilst in 2021 net out of model adjustments to loans and advances was P2381k (increase to ECL) and P4.4 million (decrease to ECL) for off-balance sheet guarantees. The overlays are detailed below:

One large corporate retrenched employees in December 2022 and the Bank made an assessment and noted that customers with a total exposure of P12 million were affected. As at 31 December the customer loans were still performing and had a model ECL of P445k. However, due to the significant increase in credit risk from retrenchment, ECL was increased out of model to P3.75 million being the total unsecured amount outstanding.

One large corporate retrenched employees in December 2022 and the Bank made an assessment and noted that customers with a total exposure of P12 million were affected. As at 31 December the customer loans were still performing and had a model ECL of P445k. However, due to the significant increase in credit risk from retrenchment, ECL was increased out of model to P3.75 million being the total unsecured amount outstanding.

The model ECL balance for SME loans was P1 million due to the security in place. However, due to the prolonged recovery periods, the ECL balance was increased out of model to P3.8 million.

3.1.8 ECL sensitivity analysis

The Group incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Group formulates three economic scenarios: a base case, which is the central scenario, developed internally based on consensus forecasts, and two less likely scenarios; one upside and one downside scenario. The central scenario is aligned with information used by the Group for other purposes such as strategic planning and budgeting.

Several macro economic factors such as GDP growth rate and changes in lending rates, inflation and unemployment rates were considered. Not all factors were statistically significant as such the final model only incorporated change in GDP and lending rates.

The table below lists the macroeconomic assumptions used in the base, upside and downside scenarios over a two-year forecast period. The assumptions represent year-on-year percentage change for GDP and change in lending rate for Q1 2023, based on the Government of Botswana budget speech of February 2023 and other sources. The assumptions are based on analysis of historic projections against actual outturn and establishing a reasonable range of outcomes.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)
3.1 Credit risk (continued)]

	Base case scenario	Upside/ favourable case scenario	Adverse case scenario
Real GDP growth rate			
2023	4.00%	4.40%	3.20%
2024	5.10%	5.61%	4.08%
Change in lending rates			
Q1 2023	0.00%	-0.25%	0.25

The final ECL numbers for loans and advances of P202 million with a coverage ratio of 3% were measured by weighting the ECL outcome for each of scenario by the likelihood of that scenario occurring. The likelihood of the base scenario occurring was 85%, with upside and adverse scenarios weighted at 10% and 5% respectively.

The table below shows the Group's analysis of the ECL's sensitivity to upside, downside and base case economic scenarios.

Loans and advances

	Gross P'000	ECL P'000	Net P'000	ECL coverage ratio %
31-Dec-22				
Base scenario	6,820,605	(199,959)	6,620,647	2.93%
Upside scenario	6,820,605	(195,877)	6,624,727	2.87%
Adverse scenario	6,820,605	(217,761)	6,602,844	3.19%

Loans and advances

	Gross P'000	ECL P'000	Net P'000	ECL coverage ratio %
31-Dec-21				
Base scenario	6,796,657	(282,663)	6,513,995	4.16%
Upside scenario	6,796,657	(259,200)	6,537,457	3.81%
Adverse scenario	6,796,657	(345,297)	6,451,360	5.08%

The 2021 balance above were based on the assumptions below:

	Base case scenario	Upside/ favourable case scenario	Adverse case scenario
Real GDP growth rate			
2022	5.40%	7.40%	3.40%
2023	4.30%	6.30%	2.30%
Change in lending rates			
Q1 2022	0.00%	-0.25%	0.25

Access Bank Botswana Limited

Notes to the consolidated and separate annual financial statements for the year ended 31 December 2022

3. Financial risk management (continued)

3.2. Liquidity risk

Liquidity risk is the risk of the group not being able to meet its commitments due to shortage of funds. Liquidity risk may arise in situations where there are mismatches between maturities of assets and liabilities. The Group's exposure to the risk is managed by the maturity profiles of the assets and liabilities.

The analysis of assets and liabilities of the group into relevant maturity groupings is based on the remaining period at reporting date to the contractual maturity date. The matching and controlled mismatching of the maturities is fundamental to the management of the risk. An unmatched position potentially enhances profitability, but can increase the risk of loss.

Liquidity risk management process

The Group holds liquidity reserves in highly tradable instruments or money market placements which are immediately available if required. Liquidity is assessed by currency as well as by time bracket. The Group's liquidity management is dependent upon accurate cash flow projections and the monitoring of its future funding requirements. The Group's liquidity management process, is monitored by Treasury and includes:

- Day-to-Day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flows.
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing single counterparty and sector depositor's concentration and profile of debt maturities to minimize liquidity shocks. The Bank has put in place single counterparty and sector concentration limits as a means of managing liquidity risk.

The Group manages large depositor and sectorial concentrations through limits on the amounts to be accepted from an individual depositors and exposures to various sectors. The limits are reviewed at Assets and Liabilities Committee ("ALCO") on a regular basis.

ALCO also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees. As the global economy emerged from the effects of Covid-19, central banks across the globe began relaxing some of the monetary policy measures implemented between 2020 and 2021 in response to the Covid-19 pandemic. Changes in monetary policies were exacerbated by the on-going Russia/Ukraine conflict which has resulted in volatility in the prices of commodities, food shortages and supply chain disruptions which have resulted in inflation and increases to interest rates. In Botswana, the Bank of Botswana increased the prime lending rate by 0.51% in April and by 0.5% in June and August 2022. The Bank managed to comply with the regulatory minimum liquidity ratio of 10% throughout the year. As at 31 December 2022, the Bank's liquidity ratio was 14.5% (2021: 16%).

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)
3.2 Liquidity risk (continued)

3.2 Liquidity analysis based on contractually undiscounted amounts

The table below analyses the Group's financial assets and liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Other financial assets and liabilities exclude prepayments, other assets and liabilities which does not meet the criteria of a financial instrument.

Consolidated								
Gross cash flows								
31 December 2022	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	Total	Effect of discounting	Total carrying amount
Assets	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Cash and balances with the Central Bank	217,678	-	-	-	-	217,678	-	217,678
Balances with other banks	823,011	-	-	-	-	823,011	-	823,011
Loans and advances to customers	1,322	11,675	36,386	2,785,641	6,698,292	9,533,315	(2,915,120)	6,618,195
Derivative financial assets	-	-	20,838	-	-	20,838	-	20,838
Investment securities	-	50,000	800,740	-	40,000	890,740	(14,407)	876,333
Balances due from related parties	282,675	115,062	-	-	-	397,736	-	397,736
Other financial assets	58,883	-	-	-	-	58,883	-	58,883
Total	1,383,569	176,737	857,964	2,785,640	6,738,292	11,942,201	(2,929,527)	9,012,674
Liabilities								
Deposits from banks	76,531	114,796	-	-	-	191,327	-	191,327
Deposits from customers	3,793,149	1,388,715	1,900,999	202,065	-	7,284,928	(8,210)	7,276,718
Borrowings	208	35,351	205,576	157,995	545,996	945,126	(327,105)	618,021
Derivative financial liabilities	-	-	20,302	-	-	20,302	-	20,302
Balances due to related parties	6,097	-	-	-	-	6,097	-	6,097
Lease liabilities	1,277	3,876	10,767	50,395	7,087	73,403	(12,302)	61,102
Other financial liabilities	126,422	-	-	-	-	126,422	-	126,422
Total	4,003,683	1,542,739	2,137,644	410,455	553,083	8,647,604	(347,617)	8,299,988
Liquidity (gap)/surplus	(2,620,114)	(1,366,002)	(1,279,681)	2,375,185	6,185,209	3,294,597	(2,581,910)	712,686

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.2 Liquidity risk (continued)

Gross cash flows

31 December 2021	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	Total	Effect of discounting	Total carrying amount
Assets	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Cash and balances with the Central Bank	258,979	-	-	-	-	258,979	-	258,979
Balances with other banks	1,271,079	-	120,626	-	-	1,391,705	-	1,391,705
Balances due from related parties	975	-	-	-	-	975	-	975
Investment securities	-	275,000	-	250,740	40,000	565,740	2,220	567,960
Loans and advances to customers	136,134	292,090	1,241,543	4,338,326	1,047,191	7,055,285	(546,589)	6,508,696
Derivative financial assets	-	-	67,915	-	-	67,915	-	67,915
Other financial assets	13,325	-	-	-	-	13,325	-	13,325
Total	1,680,492	567,090	1,430,084	4,589,066	1,087,191	9,353,923	(544,369)	8,809,554
Liabilities								
Deposits from banks	364,021	-	-	-	-	364,021	-	364,021
Deposits from customers	1,887,666	2,799,855	1,899,070	23,197	-	6,609,788	(1,907)	6,607,881
Borrowings	119,238	19,980	90,857	336,842	330,025	896,942	(210,918)	686,024
Derivative financial liabilities	-	-	64,809	-	-	64,809	-	64,809
Balances due to related parties	5,680	-	-	-	-	5,680	-	5,680
Lease liabilities	928	1,865	8,429	44,188	12,488	67,898	(15,757)	52,141
Other financial liabilities	97,022	-	-	-	-	97,022	-	97,022
Total	2,474,555	2,821,700	2,063,165	404,227	342,513	8,106,160	(228,582)	7,877,578
Liquidity (gap)/surplus	(794,063)	(2,254,610)	(633,081)	4,184,839	744,678	1,247,763	(315,787)	931,976

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.2 Liquidity risk (continued)

Liquidity analysis based on contractually undiscounted amounts (continued)

Company								
31 December 2022	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	Total outflows	Effect of discounting	Carrying amount
Assets	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Cash and balances with the Central Bank	217,678	-	-	-	-	217,678	-	217,678
Balances with other banks	824,228	-	-	-	-	824,228	-	824,228
Loans and advances to customers	1,322	11,675	36,386	2,785,641	6,698,292	9,533,315	(2,915,120)	6,618,195
Derivative financial assets	-	-	20,838	-	-	20,838	-	20,838
Investment securities	-	50,000	800,740	-	40,000	890,740	(14,407)	876,333
Balances due from related parties	283,134	115,062	-	-	-	398,195	-	398,195
Other financial assets (note 14)	57,698	-	-	-	-	57,698	-	57,698
Total	1,384,059	176,737	857,964	2,785,641	6,738,292	11,942,692	(2,929,527)	9,013,165
Liabilities								
Deposits from banks	76,531	114,796	-	-	-	191,327	-	191,327
Deposits from customers	3,829,437	1,388,715	2,061,757	202,065	-	7,481,974	(8,210)	7,473,764
Borrowings	208	35,351	205,576	157,995	545,996	945,126	(327,105)	618,021
Derivative financial liabilities	-	-	20,302	-	-	20,302	-	20,302
Balances due to related parties	6,097	-	-	-	-	6,097	-	6,097
Lease liabilities	1,277	3,876	10,767	50,395	7,087	73,403	(12,302)	61,102
Other financial liabilities (note 17)	126,625	-	-	-	-	126,625	-	126,625
Total	4,040,174	1,542,738	2,298,402	410,455	553,083	8,844,853	(347,617)	8,497,237
Liquidity (gap)/surplus	(2,656,115)	(1,366,001)	(1,440,438)	2,375,186	6,185,209	3,097,838	(2,581,910)	515,928
31 December 2021	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	Greater than 5 years	Total	Effect of discounting	Total carrying amount
Assets	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Cash and balances with the Central Bank	258,979	-	-	-	-	258,979	-	258,979
Balances with other banks	1,271,079	-	120,626	-	-	1,391,705	-	1,391,705
Balances due from related parties	975	-	-	-	-	975	-	975
Investment securities	-	275,000	-	250,740	40,000	565,740	2,220	567,960
Loans and advances to customers	136,134	292,090	1,241,543	4,338,326	1,047,191	7,055,284	(546,589)	6,508,695
Derivative financial assets	-	-	67,915	-	-	67,915	-	67,915
Other financial assets	1,764	-	-	-	-	1,764	-	1,764
Total	1,668,931	567,090	1,430,084	4,589,066	1,087,191	9,342,361	(544,369)	8,797,993
Liabilities								
Deposits from banks	364,021	-	-	-	-	364,021	-	364,021
Deposits from customers	2,066,360	2,799,855	1,899,070	23,197	-	6,788,482	(1,907)	6,786,575
Borrowings	119,238	19,980	90,857	336,842	330,025	896,942	(210,918)	686,024
Derivative financial liabilities	-	-	64,809	-	-	64,809	-	64,809
Balances due to related parties	5,680	-	-	-	-	5,680	-	5,680
Lease liabilities	928	1,865	8,429	44,188	12,488	67,898	(15,757)	52,141
Other financial liabilities	85,529	-	-	-	-	85,529	-	85,529
Total	2,641,756	2,821,700	2,063,165	404,227	342,513	8,273,361	(228,582)	8,044,779
Liquidity (gap)/surplus	(972,825)	(2,254,610)	(633,081)	4,184,839	744,678	1,069,000	(315,787)	753,214

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.2 Liquidity risk (continued)

Liquidity risk on financial guarantee contracts and commitments

31 December 2022	Total	Not later than 1 year	1-5 years	Over 5 years
	P'000	P'000	P'000	P'000
Financial guarantees, acceptances and other financial facilities	205,585	205,585	-	-
Loan commitments and other credit related liabilities	20,337	20,337	-	-
Total	225,922	225,922	-	-
Financial guarantees and loan commitments are callable on demand.				
31 December 2021	Total	Not later than 1 year	1-5 years	Over 5 years
	P'000	P'000	P'000	P'000
Financial guarantees, acceptances and other financial facilities	132,708	132,708	-	-
Loan commitments and other credit related liabilities	121,125	121,125	-	-
Total*	253,833	253,833	-	-

In 2021, total liquidity risk on financial guarantee contracts and commitments incorrectly included capital commitments. This has corrected in the current year.

3.2.1 Maturity profile

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining period at reporting date to the remaining contractual maturity date.

As at 31 December 2022	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Greater than 5 years	Total
	P'000	P'000	P'000	P'000	P'001	P'000
Cash and balances with the Central Bank	217,678	-	-	-	-	217,678
Balances with other banks	824,228	-	-	-	-	824,228
Loans and advances to customers	101,316	11,529	54,718	1,595,018	4,855,614	6,618,195
Derivative financial assets	-	-	20,838	-	-	20,838
Investment securities	-	48,903	789,070	-	39,017	876,990
Balances due from related parties	282,675	115,062	-	-	-	397,736
Other financial assets	9,634	-	-	-	-	9,634
Total assets	1,435,530	175,493	864,625	1,595,017	4,894,631	8,965,298
Deposits from banks	76,531	114,796	-	-	-	191,327
Deposits from customers	3,793,149	1,388,711	1,900,999	193,855	-	7,276,713
Borrowings	208	32,316	157,997	0	427,500	618,021
Derivative financial liabilities	-	-	20,302	-	-	20,302
Balances due to related parties	6,097	-	-	-	-	6,097
Other financial liabilities (note 17)	125,824	-	-	-	-	125,824
Total liabilities	4,001,808	1,535,823	2,079,298	193,855	427,500	8,238,285
Net maturity gap 31 December 2022	(2,567,495)	(1,360,330)	(1,214,673)	1,401,163	4,467,131	725,797

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.2 Liquidity risk (continued)

3.2.1 Maturity profile (continued)

Group

As at 31 December 2021	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Greater than 5 years	Total
	P'000	P'000	P'000	P'000	P'000	P'000
Cash and balances with the Central Bank	258,979	-	-	-	-	258,979
Balances with other banks	1,271,079	-	120,626	-	-	1,391,705
Balances due from related parties	975	-	-	-	-	975
Derivative financial assets	-	-	67,915	-	-	67,915
Investment securities	-	274,369	-	254,329	39,262	567,960
Loans and advances to customers	109,854	12,674	46,927	1,918,105	4,421,135	6,508,695
Other financial assets	13,325	-	-	-	-	13,325
Total assets	1,654,212	287,043	235,468	2,172,434	4,460,397	8,809,554
Deposits from banks	364,021	-	-	-	-	364,021
Deposits from customers	1,885,759	2,799,855	1,899,070	23,197	-	6,607,881
Borrowings	119,903	-	4,272	294,341	267,508	686,024
Derivative financial liabilities	-	-	64,809	-	-	64,809
Balances due to related parties	5,680	-	-	-	-	5,680
Other financial liabilities	97,740	1,442	6,516	43,465	-	149,163
Total liabilities	2,473,103	2,801,297	1,974,667	361,003	267,508	7,877,579
Net maturity gap 31 December 2021	(818,891)	(2,514,254)	(1,739,199)	1,811,431	4,192,889	931,976

Company

As at 31 December 2022	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Greater than 5 years	Total
	P'000	P'000	P'000	P'000	P'000	P'000
Cash and balances with the Central Bank	217,678	-	-	-	-	217,678
Balances with other banks	824,228	-	-	-	-	824,228
Loans and advances to customers	101,316	11,529	54,718	1,595,018	4,855,614	6,618,195
Derivative financial assets	-	-	20,838	-	-	20,838
Investment securities	-	48,903	789,070	-	39,017	876,989
Balances due from related parties	282,299	115,896	-	-	-	398,195
Other financial assets (note 14)	8,449	-	-	-	-	8,449
Total assets	1,433,970	176,328	864,625	1,595,017	4,894,631	8,964,570
Deposits from banks	76,531	114,796	-	-	-	191,327
Deposits from customers	3,837,647	1,388,715	2,061,757	193,855	-	7,481,974
Borrowings	208	32,316	157,997	0	427,500	618,021
Derivative financial liabilities	-	-	20,302	-	-	20,302
Balances due to related parties	6,097	-	-	-	-	6,097
Other financial liabilities (note 17)	126,625	-	-	-	-	126,625
Total liabilities	4,047,106	1,535,827	2,240,056	193,855	427,500	8,444,346
Net maturity gap 31 December 2022	(2,614,354)	(1,359,499)	(1,375,430)	1,401,163	4,467,131	519,009

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.2 Liquidity risk (continued)

3.2.1 Maturity profile (continued)

Company						
As at 31 December 2021	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Greater than 5 years	Total
	P'000	P'000	P'000	P'000	P'000	P'000
Cash and balances with the Central Bank	258,979	-	-	-	-	258,979
Balances with other banks	1,271,079	-	120,626	-	-	1,391,705
Balances due from related parties	975	-	-	-	-	975
Derivative financial assets	-	-	67,915	-	-	67,915
Investment securities	-	274,369	-	254,329	39,262	567,960
Loans and advances to customers	109,854	12,674	46,927	1,918,105	4,421,135	6,508,695
Other financial assets	1,764	-	-	-	-	1,764
Total assets	1,642,651	287,043	235,468	2,172,434	4,460,397	8,797,993
Deposits from banks	364,021	-	-	-	-	364,021
Deposits from customers	2,064,453	2,799,855	1,899,070	23,197	-	6,786,575
Borrowings	119,903	-	4,272	294,341	267,508	686,024
Derivative financial liabilities	-	-	64,809	-	-	64,809
Balances due to related parties	5,680	-	-	-	-	5,680
Other financial liabilities	86,247	1,442	6,516	43,465	-	137,670
Total liabilities	2,640,304	2,801,297	1,974,667	361,003	267,508	8,044,779
Net maturity gap 31 December 2021	(997,653)	(2,514,253)	(1,739,199)	1,811,432	4,192,889	753,214

3.3 Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Market and foreign currency exposures related to dealing positions are managed in the Treasury division within a framework of pre-approved dealer, currency and counterparty limits. The currency exposure that arises is managed through ALCO.

3.3.1 Interest rate risk

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Assets and liabilities carrying variable rate interest are classified under 'up to one month' bracket.

Loans and advances are of a floating rate nature based on the Bank rate, since as per the Group's and Company's loan agreements, the Group reserves the right to change the rate of interest at any time in the event of market fluctuations and/or credit/banking considerations which may be set out from time to time by the Group and/or any government or regulatory authority. The Group also reserves the right to change the interest rates on deposits in line with the market fluctuations and/or change in credit/banking considerations.

The Assets and Liabilities Committee (ALCO) is responsible for managing interest rate and liquidity risk in the group. The Assets and Liabilities Committee has been established on this mandate and meets on a monthly basis. They operate within the prudential guidelines and policies established by group ALCO. In order to reduce interest rate risk, the majority of the Group's lending is on a variable interest rate. This approach has been adopted as a result of the scarcity of term deposits in the market region which limits the Groups ability to build a substantial stable pool of fixed rate funding.

The tables below summarises the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. Assets and liabilities carrying variable interest rates are classified under the 'up to 1 month' bracket.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.3. Market risk (continued)

3.3.1. Interest rate risk (continued)

Group							
31 December 2022	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Greater than 5 years	Non-interest bearing	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Cash and balances with the Central Bank	172,178	-	-	-	-	45,500	217,678
Balances with other banks	824,228	-	-	-	-	-	824,228
Balances due from related parties	-	397,736	-	-	-	-	397,736
Derivative financial assets	-	-	20,838	-	-	-	20,838
Investment securities	-	-	836,333	-	40,000	-	876,332
Loans and advances to customers	6,618,195	-	-	-	-	-	6,618,194
Other financial assets	-	-	-	-	-	-	-
Total assets	7,614,602	397,735	857,171	-	40,000	45,500	8,955,005
Liabilities							
Deposits from banks	76,531	114,796	-	-	-	-	191,327
Deposits from customers	-	1,388,711	2,061,757	193,855	-	3,632,539	7,276,862
Borrowings	263,021	-	-	55,000	300,000	-	618,021
Derivative financial liabilities	-	-	-	-	-	498	498
Balances due to related parties	-	-	20,302	-	-	6,097	26,399
Other financial liabilities	64,724	-	-	61,101	-	-	125,825
Total liabilities	404,275	1,503,507	2,082,059	309,956	300,000	3,639,134	8,238,931
Total interest repricing gap	7,210,327	(1,105,772)	(1,224,888)	(309,956)	(260,000)	(3,593,634)	716,074
31 December 2021							
	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Greater than 5 years	Non-interest bearing	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Cash and balances with the Central Bank	99,941	-	-	-	-	159,038	258,979
Balances with other banks	1,271,079	-	120,626	-	-	-	1,391,705
Balances due from related parties	975	-	-	-	-	-	975
Derivative financial assets	-	-	67,915	-	-	-	67,915
Investment securities	-	274,369	-	254,329	39,262	-	567,960
Loans and advances to customers	6,508,695	-	-	-	-	-	6,508,695
Other financial assets	13,325	-	-	-	-	-	13,325
Total assets	7,894,015	274,369	188,541	254,329	39,262	159,038	8,809,554
Liabilities							
Deposits from banks	364,021	-	-	-	-	-	364,021
Deposits from customers	-	2,799,855	1,899,070	23,197	-	1,885,759	6,607,881
Borrowings	630,144	-	-	55,880	-	-	686,024
Derivative financial liabilities	-	-	64,809	-	-	-	64,809
Balances due to related parties	5,680	-	-	-	-	-	5,680
Other financial liabilities	97,740	1,442	6,516	43,465	-	-	149,163
Total liabilities	1,097,585	2,801,297	1,970,395	122,543	-	1,885,759	7,877,578
Total interest repricing gap	6,796,430	(2,526,928)	(1,781,854)	131,787	39,262	(1,726,721)	931,976

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.3 Market risk (continued)

3.3.1 Interest rate risk (continued)

Company							
31 December 2022	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Greater than 5 years	Non-interest bearing	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Cash and balances with the Central Bank	172,178	-	-	-	-	45,500	217,678
Balances with other banks	824,228	-	-	-	-	-	824,228
Loans and advances to customers	6,618,195	-	-	-	-	-	6,618,195
Derivative financial assets	-	-	20,838	-	-	-	20,838
Investment securities	-	-	836,333	-	40,000	-	876,333
Balances due from related parties	-	397,736	-	-	-	459	398,195
Other financial assets	-	-	-	-	-	57,698	57,698
Total assets	7,614,602	397,736	857,171	-	40,000	103,657	9,013,166
Liabilities							
Deposits from banks	191,565	-	-	-	-	-	191,565
Deposits from customers	-	1,388,711	2,061,757	193,855	-	3,837,647	7,481,969
Borrowings	263,021	-	-	55,000	300,000	-	618,021
Derivative financial liabilities	-	-	20,302	-	-	-	20,302
Balances due to related parties	-	5,102	-	-	-	995	6,097
Other financial liabilities	64,524	-	-	61,101	-	-	125,625
Total liabilities	519,110	1,393,813	2,082,059	309,955	300,000	3,838,642	8,443,579
Total interest repricing gap	7,095,492	(996,077)	(1,224,888)	(309,955)	(260,000)	(3,734,985)	569,586

31 December 2021	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Greater than 5 years	Non-interest bearing	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Cash and balances with the Central Bank	99,941	-	-	-	-	159,038	258,979
Balances with other banks	1,271,079	-	120,626	-	-	-	1,391,705
Balances due from related parties	975	-	-	-	-	-	975
Derivative financial assets	-	-	67,915	-	-	-	67,915
Investment securities	-	274,369	-	254,329	39,262	-	567,960
Loans and advances to customers	6,508,695	-	-	-	-	-	6,508,695
Other financial assets	1,764	-	-	-	-	-	1,764
Total assets	7,882,454	274,369	188,541	254,329	39,262	159,038	8,797,993
Liabilities							
Deposits from banks	364,021	-	-	-	-	-	364,021
Deposits from customers	-	2,799,855	1,899,070	23,197	-	2,064,453	6,786,574
Borrowings	630,144	-	-	55,880	-	-	686,024
Derivative financial liabilities	-	-	64,809	-	-	-	64,809
Balances due to related parties	5,680	-	-	-	-	-	5,680
Other financial liabilities	86,247	1,442	6,516	43,465	-	-	137,670
Total liabilities	1,086,092	2,801,297	1,970,395	122,542	-	2,064,453	8,044,778
Total interest repricing gap	6,796,362	(2,526,928)	(1,781,854)	131,787	39,262	(1,905,415)	753,215

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.3 Market risk (continued)

3.3.1 Interest rate risk (continued)

Interest rate - sensitivity analysis

A principal part of management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios. The group aims to mitigate the impact of prospective interest rate movements which could reduce future net interest income.

Sensitivity of net interest income

	Group	
	2022	2021
Change in net interest income arising from a shift in yield curves of +50 basis points (P'000)	3,580	4,781
Change in net interest income arising from a shift in yield curves of -50 basis points (P'000)	(3,580)	(4,781)
	Company	
	2022	2021
Change in net interest income arising from a shift in yield curves of +50 basis points (P'000)	2,848	3,888
Change in net interest income arising from a shift in yield curves of -50 basis points (P'000)	(2,848)	(3,888)

3.3.2 Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board and the ALCO set limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Group (Figures in Pula Thousands)					
31 December 2022	USD	EUR	ZAR	Other*	Total
Cash and balances with the Central Bank	13,319	530	1,291	-	15,140
Balances with other banks	689,108	17,046	7,434	4,934	718,521
Balances due from related parties	332,248	-	65,487	-	397,735
Derivative financial assets	-	-	-	-	-
Investment securities	-	-	-	-	-
Loans and advances to customers	4,579	-	2	-	4,580
Other financial assets	5,783	-	731	-	6,514
Total	1,045,037	17,576	74,945	4,934	1,142,491
Deposits from customers	609,925	16,056	75,364	5,196	706,541
Borrowings	260,055	-	-	-	260,055
Derivative financial liabilities	-	-	-	-	-
Balances due to related parties	5,102	-	-	-	5,102
Other financial liabilities	1,647	9	352	39	2,047
Total	876,729	16,065	75,716	5,235	973,745
Net on-balance sheet position	168,308	1,511	(771)	(301)	168,746
Net off-balance sheet position	593	121,437	974	-	123,004
Net position	168,900	122,948	202	(301)	291,749

*Other includes the GBP and YEN which are individually not material.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Foreign exchange risk (continued)

Company (Figures in Pula Thousands)					
31 December 2022	USD	EUR	ZAR	Other*	Total
Cash and balances with the Central Bank	13,319	530	1,291	237	15,377
Balances with other banks	689,108	17,046	7,434	4,934	718,521
Balances due from related parties	332,248	-	65,487	-	397,735
Derivative financial assets	-	-	-	-	-
Investment securities	-	-	-	-	-
Loans and advances to customers	4,579	-	2	-	4,580
Other financial assets	5,783	-	731	-	6,514
Total	1,045,037	17,576	74,945	5,171	1,142,727
Deposits from customers	609,925	16,056	75,364	5,196	706,541
Borrowings	260,055	-	-	-	260,055
Derivative financial liabilities	-	-	-	-	-
Balances due to related parties	5,102	-	-	-	5,102
Other financial liabilities	1,647	9	352	39	2,047
Total	876,729	16,065	75,716	5,235	973,745
Net on-balance sheet position	168,308	1,511	(770)	(64)	168,983
Net off-balance sheet position	593	121,437	974	-	123,004
Net position	168,900	122,948	203	(64)	291,987

Group (Figures in Pula thousands)

31 December 2021	USD	EUR	ZAR	Other	Total
Cash and balances with the Central Bank					
Balances with other banks	826,960	10,764	37,657	-	875,381
Loans and advances to customers	12,688	-	-	-	12,688
Other financial assets	-	-	-	-	-
Total	839,648	10,764	37,657	-	888,069
Deposits from banks					
Deposits from customers	604,978	6,159	72,431	9,473	693,041
Borrowings	475,873	-	-	-	475,873
Balances due to related parties	5,680	-	-	-	5,680
Total	1,086,531	6,159	72,431	9,473	1,174,594
Net on-balance sheet position	(246,883)	4,605	(34,774)	(9,473)	(286,525)
Net off-balance sheet position	-	-	-	-	-
Net position	(246,883)	4,605	(34,774)	(9,473)	(286,525)

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Foreign exchange risk (continued)

Company (Figures in Pula thousands)

31 December 2021	USD	EUR	ZAR	Other	Total
Cash and balances with the Central Bank					
Balances with other banks	826,960	10,764	37,657	-	875,381
Balances due from related parties				-	-
Derivative financial assets				-	-
Investment securities				-	-
Loans and advances to customers	12,688	-	-	-	12,688
Other financial assets	-	-	-	-	-
Total	839,648	10,764	37,657	-	888,069
Deposits from banks					
Deposits from customers	604,978	6,159	72,431	9,473	693,041
Borrowings	475,873	-	-	-	475,873
Balances due to related parties	5,680	-	-	-	5,680
Balances due to related parties					-
Other financial liabilities					-
Current income tax liability	-	-	-	-	-
Total	1,086,531	6,159	72,431	9,473	1,174,594
Net on-balance sheet position	(246,883)	4,605	(34,774)	(9,473)	(286,525)
Net off-balance sheet position	-	-	-	-	-
Net position	(246,883)	4,605	(34,774)	(9,473)	(286,525)

Sensitivity of currency

The following sensitivity analysis is monitored on the following major currencies of non-equity instruments, assuming a 5% increase or decrease arose on the various currencies.

	Consolidated and Company	
	2022	2021
	Impact on profit or loss and equity	Impact on profit or loss and equity*
EUR	6,147	230
USD	8,445	(12,344)
ZAR	10	(1,739)

*In 2021, the amounts were incorrectly presented as positive numbers for USD and ZAR. These have been correctly presented in 2022.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.4. Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

The tables below summarise the carrying amounts of those financial assets and liabilities not presented at their fair value on the Group's statement of financial position and for which the fair value approximates the carrying amounts.

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
Liabilities recognised at amortised cost				
Balances due to related parties	6,097	5,680	6,097	5,680
Other financial liabilities	64,723	97,022	126,625	137,670
Borrowings	618,021	686,024	618,021	686,024
Deposits from banks and customers	7,468,283	6,971,902	7,673,539	7,150,596
	8,157,124	7,760,628	8,424,282	7,979,971
Assets recognised at amortised cost				
Cash and balances with the Central Bank	217,678	258,979	217,678	258,979
Balances with other banks	823,011	1,391,705	823,011	1,391,705
Balances due from related parties	397,736	975	398,195	975
Loans and advances (gross)	6,820,608	6,796,657	6,820,608	6,796,657
Other financial assets	58,883	13,325	57,698	1,764
	8,317,917	8,461,641	8,317,191	8,450,080

The carrying amounts of the financial instruments have deemed to approximate their fair values as follows:

Related party balances, cash and bank balances and other financial assets and liabilities

Related party balances, cash and bank balances and other financial assets and liabilities are concluded at fair market terms or are short term in nature, as such, the carrying amounts are deemed to closely approximate their fair value.

Loans and advances

The fair value of loans and advances is deemed to closely approximate to the carrying value. This is due to the instruments included in this classification being variable rate instruments.

Deposits, Borrowings

Deposits are generally of a short-term nature where the impact of discounting would be negligible. For both deposits and borrowings, the counterparties are not related to the Bank and terms were concluded on market terms, hence, carrying amount approximates market values. Fair values of Borrowings are disclosed in note 16.2.

Fair value hierarchy

The fair values of the instruments above would be classified as level 3 due to the levels of adjustments and judgment relates to credit risk.

Access Bank Botswana Limited

Notes to the consolidated and separate annual financial statements for the year ended 31 December 2022

3. Financial risk management (continued)

3.4 Fair value of financial assets and liabilities (continued)

(i) Financial instruments not measured at fair value (continued)

The tables below summarise the carrying amounts of those financial assets and liabilities not presented at their fair value on the Group's statement of financial position and their fair values if they had been carried at fair value.

Investment securities	Carrying amount	Fair value		
	P'000	Level 1 P'000	Level 2 P'000	Total P'000
31 December 2022	876,333	584,222	289,431	873,653
31 December 2021	567,960	275,000	285,484	560,484

The fair values of the above instruments have been determined as follows;

Investment securities

Level 1 Treasury bills are actively traded in the market, prices of which are readily available. The instruments under level 2 are market driven contractual rate. The fair values of the Investment securities classified as level 2 were determined by discounting the future maturities by a market driven contractual rate. The differences between carrying amounts and estimated fair values are not considered material relative to the carrying amounts and not considered to be impairment amounts. Please refer to note 3.1.3 and note 9 for the ECL raised against investment securities and basis thereof.

(iii) Financial instruments measured at fair value

The Group classifies and measures derivative financial assets and liabilities mandatorily through fair value profit or loss. Please refer to note 8 for details of the derivatives and counterparties involved.

Fair value hierarchy

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and Investment securities on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans and issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and Investment securities with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

Valuation framework

Each Credit Default Swap (CDS) is BWP denominated and is valued by discounting the expected payments of the CDS to the valuation date of 31 December 2022. The discount factors for the BWP denominated cash flows for each future payment date are calculated off a BWP Bond curve. This is the most liquid-risk-free curve available for Botswana.

In addition to the calculation of the risk-neutral value, the Group also calculates a credit and debt value adjustment for each CDS, as is required by IFRS 13, when calculating the fair value of financial instruments. A semi-analytical approach was used to generate the various potential fair values of the CDS margin payments to their maturity, based on option pricing theory. In this approach, volatilities are used to calculate future fair values, which in turn are used to approximate the Expected Positive Exposures (EPE) and Expected Negative Exposure (ENE). These are then used in calculation of fair value balances.

The credit ratings were sourced from various credit rating companies, including Moody's, Fitch and S&P. The conservative average credit rating was used for Atlas Mara. The Group calculated results for a range of possible recovery rates for all counterparties (20%, 30% and 40%). Volatility is measured as the annualised standard deviation of the continuously compounded daily returns of the underlying share/FX rate under the assumption that the share price and exchange rates are log-normally distributed. This is in line with market practice.

The Group therefore decided to use a more prudent recovery rate of 30% (2021: 30%)

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.4 Fair value of financial assets and liabilities (continued)

(iii) Financial instruments measured at fair value

31 December 2022	Level 1	Level 2	Level 3	Total
Assets	P'000	P'000	P'000	P'000
Forward foreign exchange contracts	-	7	-	7
Credit default swap	-	-	20,831	20,831
Nano loan float (presented under Other Notes - note 14)	-	-	30,000	-
	-	7	50,831	20,838
Liabilities				
Forward foreign exchange contracts	-	498	-	498
Credit default swap	-	-	19,804	19,804
	-	498	19,804	20,302
Net derivative asset				536
31 December 2021	Level 1	Level 2	Level 3	Total
Assets	P'000	P'000	P'000	P'000
Forward foreign exchange contracts	-	1,049	-	1,049
Credit default swap	-	-	66,866	66,866
	-	1,049	66,866	67,915
Liabilities				
Forward foreign exchange contracts	-	430	-	430
Credit default swap	-	-	64,379	64,379
	-	430	64,379	64,809
Net derivative asset				3,106

Level 3 Fair value movements

The following table shows a reconciliation of the beginning balances to the ending balances for fair value measurements in level 3 of the fair value hierarchy:

31 December 2022	Nano loan float	Derivatives	Total assets at fair value	Derivative financial liabilities	Total liabilities at fair value
	P'000	P'000	P'000	P'000	P'000
Opening balance	-	66,866	66,866	64,379	64,379
Total gains or losses in profit and loss	-	5,951	5,951	4,874	-
Additions	30,000	-	30,000	-	-
Repayments	-	(51,986)	(51,986)	(49,449)	(49,449)
Closing balance	30,000	20,831	50,831	19,804	14,930

Nano loan float

Included under Other Assets in note 14 is a balance of P30 million advanced towards the partnership with Orange Money as float for the mobile loans termed Nano loans. The balance is designated at fair value through profit or loss as it does not pass the solely payment of principal and interest (SPPI) test. Fair value of this advance has been deemed to be the nominal amount advanced as the underlying loans being funded are short term in nature (0-30 days) and the undrawn balance can be recalled on demand. The balance has been classified as level 3 on the fair value hierarchy as neither the advance nor inputs are observable or listed.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.4 Fair value of financial assets and liabilities (continued)

Consolidated and Company

31 December 2021

	Derivatives	Total assets at fair value	Derivative financial liabilities	Total liabilities at fair value
	P'000	P'000	P'000	P'000
Opening balance	59,497	59,497	58,659	58,659
-in profit and loss	7,369	7,369	5,720	5,720
Closing balance	66,866	66,866	64,379	64,379

3.4.1. Sensitivity analysis of changes in fair value on level 3 derivatives

Recovery rate was considered a key unobservable input to the valuation. We have calculated results for a range of possible recovery rates for all counterparties (20%, 30% and 40%). We made use of different recovery rates for the counterparties because of the uncertainty attached to the recovery rates, and in order to demonstrate the sensitivity of the valuation to the recovery rates.

Consolidated and Company

31 December 2022

Credit Valuation adjustment (CVA) Asset		Recovery rate - reference entity (Atlas Mara)		
		20%	30%	40%
		P'000	P'000	P'000
Recovery Rate - Atlas Mara FS	20%	(745)	(756)	(767)
	30%	(651)	(661)	(671)
	40%	(559)	(567)	(575)

Debit Valuation adjustment (DVA) Liability		Recovery rate - reference entity (Atlas Mara)		
		20%	30%	40%
		P'000	P'000	P'000
Recovery Rate - Access Bank	20%	425	646	867
	30%	518	741	963
	40%	612	835	1,059

31 December 2021

Credit Valuation adjustment (CVA) Asset		Recovery rate - reference entity (Atlas Mara)		
		20%	30%	40%
		P'000	P'000	P'000
Recovery Rate - Atlas Mara FS	20%	(1,259)	(1,262)	(1,265)
	30%	(1,101)	(1,104)	(1,107)
	40%	(944)	(946)	(949)

Debit Valuation adjustment (DVA) Liability		Recovery rate - reference entity (Atlas Mara)		
		20%	30%	40%
		P'000	P'000	P'000
Recovery Rate - Access Bank	20%	1,212	1,215	1,218
	30%	1,060	1,063	1,066
	40%	909	911	913

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

3. Financial risk management (continued)

3.4 Fair value of financial assets and liabilities (continued)

Other unobservable inputs applied in the valuation include:

- * Credit rating of B- (2021: B-). This is because there was no observable credit rating for Atlas Mara so the credit rating of Union Bank, an affiliate company, was used as a proxy.
- * Financing rate of 5.45% (Simple Rate) (2021: 4.25%). The financing rate used in the calculation of the deposit component of the contract was a December 2022 FTP rate of Access Bank.

4. Capital management

The bank is a subsidiary of Access Bank Plc and manages its capital in the context of approved Bank capital, which determines levels of risk weighted asset growth and the optimal amount and mix of capital required to support planned business growth. If capital falls below the required threshold, the Group injects capital either by way of Tier 1 or Tier 2 capital.

The Asset and Liabilities Committee (ALCO) manages capital composition and the Bank's ability to comply with capital requirements on a monthly basis, and an internal limit was set by ALCO at 15% which is a 2.5% buffer on the regulatory Capital Adequacy Ratio (CAR), which is required by the central bank to be 12.5% (2021: 12.5%) or more. The Bank ensures that it is adequately capitalized in line with regulatory requirements and Basel II to cover for Credit, Operational and Market risks. The Bank recognizes that it is exposed to other risks and thus strives to maintain capital buffer as indicated above to cover for those risks. As at 31 December 2022, the Bank's CAR stood at 22 % (2021: 21%). Refer to note 31 for details of the key components of CAR.

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
5. Cash and balances with the Central Bank				
Notes and coins	171,417	95,211	171,417	95,211
Unrestricted bank balances	761	5,256	761	5,256
Statutory reserve	45,500	158,512	45,500	158,512
	217,678	258,979	217,678	258,979

*Refer to note 3.2 for maturity and liquidity analysis for the cash and bank balances

The Bank is required to deposit a minimum average balance, calculated monthly, with the central bank. On this basis. This is balance is monitored separately, hence, presented separately from other bank balances.

ECL for physical cash and balances with the central bank is considered negligible due to the very low probability of default. Refer to note 3.1.3.

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates. Credit risk of the Group's cash and cash equivalents is minimised by investing cash resources only with reputable financial institutions and Bank of Botswana.

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
6. Balances with other banks				
Balances with other banks	824,228	1,394,909	824,228	1,394,909
Less : Expected credit losses	(1,217)	(3,204)	(1,217)	(3,204)
Balance as at end of year	823,011	1,391,705	823,011	1,391,705

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

ECL for balances with other banks is calculated using the loss rate approach. The balances have short tenors of less than 60 days and are all classified as stage 1 hence, the resulting ECL is considered immaterial.

For 2021, included in balance with other banks was a placement with ABC holdings of P 125 million. The placement was for an original tenor of more than 3 months and not considered to be readily convertible to cash. This balance was not included as part of the cash and cash equivalents, as such, the portion of balances with other banks that was considered to be cash and cash equivalents amounts to P1,271,079,000. The balance with ABCH was settled in 2022.

Analysed into:

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
Current	823,011	1,391,705	823,011	1,391,705
Non-current	-	-	-	-

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
7. Loans and advances to customers				
Gross loans	6,862,335	6,834,125	6,862,335	6,834,125
Unearned fee income	(41,726)	(37,468)	(41,726)	(37,468)
Gross loans and advances after unearned fee income	6,820,608	6,796,657	6,820,608	6,796,657
Less: Expected credit losses	(202,413)	(287,962)	(202,413)	(287,962)
	6,618,195	6,508,695	6,618,195	6,508,695

Please refer to note 3.1.3 for detailed disclosures of loans and advances by class.

Analysed into:

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
Current	172,306	169,455	172,306	169,455
Non-current	6,445,889	6,339,240	6,445,889	6,339,240
	6,618,195	6,508,695	6,618,195	6,508,695

Loans pledged as security

Asset finance loans are secured by assets being financed, whilst cash advances and other term loans are secured by either cash security, mortgage and surety bonds or any equipment of value. The carrying amount and fair value of loans pledged as security for borrowing as at 31 December 2022 is P469,759,090 (2021: P473,818,310) (Refer to note 16.7).

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

8. Derivatives

As part of a placement by Atlas Mara BVI ("Atlas Mara"), of USD17.4million 8% senior (NACA) convertible notes ("Cervo bonds") due in 2020 and convertible into Atlas Mara ordinary shares at USD11 per share, a Credit Default Swap ("CDS") structure was put in place between Atlas Mara FS and Access Bank Botswana to facilitate investment in the bond programme by Botswana. For the 30 December 2022 valuation, these Botswana clients are NinetyOne and Kgori Capital respectively.

Two credit derivative swaps were entered into between Access Bank Botswana and Ninety One Ltd for an amount of P38,435,253 on 29 April 2016, originally scheduled maturity date on or around March 2021, at a coupon rate of 11%. Maturity date was extended to 30 June 2023. The other Credit Derivative swap is between Access Bank Botswana and Kgori Capital Proprietary Limited for the amount of P25,623,502 on 29 April 2016, originally scheduled maturity date on or around March 2021, at a fixed rate of 11%. The maturity has been extended since then to 30 June 2023.

Related to the two credit swaps mentioned above, Access Bank entered into a credit default swap with Atlas Mara, with similar maturities as the swaps above, at a coupon rate of 13%.

During the year, 65% of the principal amounts were settled, with the remaining balances roll-over to 30 June 2023.

Derivative financial instruments 31 December 2022	Group		Company	
	Assets P'000	Liabilities P'000	Assets P'000	Liabilities P'000
Derivatives at fair value through profit or loss				
Foreign exchange contracts	7	498	7	498
Credit default swap	20,831	19,804	20,831	19,804
	20,838	20,302	20,838	20,302
Net derivative asset		536		536

Derivative financial instruments 31 December 2021	Group		Company	
	Assets P'000	Liabilities P'000	Assets P'000	Liabilities P'000
Derivatives at fair value through profit or loss				
Foreign exchange contracts	1,049	430	1,049	430
Credit default swap	66,866	64,379	66,866	64,379
	67,915	64,809	67,915	64,809
Net derivative asset		3,106		3,106

9. Investment securities	Group		Company	
	2022 P'000	2021 P'000	2022 P'000	2021 P'000
Treasury Bills	584,222	274,307	584,222	274,307
Government bonds	292,768	293,693	292,768	293,693
Gross investment securities	876,990	568,000	876,990	568,000
Expected credit losses	(657)	(40)	(657)	(40)
	876,333	567,960	876,333	567,960
Maturity analysis				
Current	837,973	274,307	837,973	274,307
Non-current	39,017	293,693	39,017	293,693
	876,990	568,000	876,990	568,000

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

9. Investment securities (continued)

9.1 Investment securities qualifying to be included as part of cash and cash equivalents

Treasury Bills	-	274,307	-	274,307
Government bonds	-	-	-	-
	-	274,307	-	274,307

Treasury Bills and Government Bonds have maturities of more than three months and therefore do not qualify to be included as part of cash and cash equivalents. As at 31 December 2022 Government Bonds amounting to P290 million (2021: P290 million) formed part of the pledged securities. In 2021, Treasury Bills held had maturities of not more than three months and as such were included as part of cash and cash equivalents. Refer to 3.1.3 for assessment of ECL.

10. Property, plant and equipment

2022 Group*	Land and buildings P'000	Motor vehicles P'000	Furniture P'000	IT Equipment P'000	WIP P'000	Total P'000
Cost/revaluation						
At 1 January 2022	103,048	2,100	78,548	58,460	-	242,156
Additions	19,195	-	1,139	42,857	16,650	79,841
Revaluation	201	-	-	-	-	201
Disposals	(1,420)	-	-	-	-	(1,420)
At 31 December 2022	121,024	2,100	79,687	101,317	16,650	320,778
Accumulated depreciation						
At 1 January 2022	(26,210)	(1,867)	(59,667)	(51,707)	-	(139,451)
Disposals during the period	1,336	-	-	-	-	1,336
Charge for year (note 26)	(11,168)	(97)	(5,256)	(7,624)	-	(24,145)
At 31 December 2022	(36,042)	(1,964)	(64,923)	(59,331)	-	(162,261)
Net book value at 31 December 2022	84,982	136	14,764	41,985	16,649	158,516

2021 Group*	Land and buildings P'000	Motor vehicle P'000	Furniture P'000	IT Equipment P'000	WIP P'000	Total P'000
Cost/revaluation						
At 1 January 2021	104,138	2,100	77,644	57,231	-	241,113
Additions	-	-	904	1,229	-	2,133
Revaluation	(1,090)	-	-	-	-	(1,090)
At 31 December 2021	103,048	2,100	78,548	58,460	-	242,156

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

10. Property, plant and equipment (continued)

Accumulated depreciation						
At 1 January 2021	(17,354)	(1,769)	(53,745)	(48,527)	-	(121,395)
Charge for year (note 26)	(8,856)	(98)	(5,922)	(3,180)	-	(18,056)
At 31 December 2021	(26,210)	(1,867)	(59,667)	(51,707)	-	(139,451)
<hr/>						
Net book value at 31 December 2021	76,838	233	18,881	6,753	-	102,705

* The figures are the same for group and company

Right of use assets

Land and buildings includes right of use assets with a carrying amount of P50.9 million (2021: P41.9 million) related to leased properties that do not meet the definition of investment property. Further details of the right of use assets are disclosed in note 35.1.

The right of use asset is recognised from the lease contracts that the Bank has for various branches. The right of use asset is depreciated on a straight line basis over the term of the underlying lease contract. The ROU assets are recognised on a cost model while the rest of land and buildings are carried at revalued amounts. Refer note 35 for more details.

Valuation

The Group's commercial land and building situated at Plot 62433, Fairgrounds Gaborone were valued on 31 December 2022 by Knight Frank Botswana (Pty) Ltd, an external independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation was made on the basis of recent market transactions on arm's length terms. The value was determined as P33,900,000 (2021: P33,540,000).

Land and building with a market value of P33,900,000 has been pledged as security for the BBS Bank Limited loan (note 16.9).

All other items of property and equipment are stated at cost less accumulated depreciation and impairment losses. The fair value measurements of land and building has been categorised as a level 3 fair value based on inputs on the valuation techniques used.

The following table shows the valuation technique used in measuring the fair value of land and buildings, as well as other observable input used:

Valuation technique	Significant observable inputs	Inter-relationship between key unobservable inputs and fair value measurements
<ul style="list-style-type: none"> Market capitalisation method (investment method) with direct comparison of inputs applied 	<ul style="list-style-type: none"> Market yield of between 8-10% (2021: 8-10%) Capitalisation rate of 8.5% (2021: 7%) Prime rentals of office space between P95/sq.m to P105/sq.m (2021: P90-105/sqm) 	<p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> Higher/lower capitalisation rates Higher/lower market yields Increase/decrease in rental per sq.m

Fair value hierarchy for Land and Buildings

Land and buildings are classified as Level 3 in terms of the fair value hierarchy. Level 3 fair value measurements are those that include the use of significant unobservable inputs. The significant non-observable inputs used in the valuations are the expected rental values per square meter and the capitalisation rates, as disclosed in the section above.

An increase in the rentals/sq.m will result in an increased fair value and vice versa. Alternatively, an upward change in the capitalisation rates will result in a decrease in the fair value computed.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

10. Property, plant and equipment (continued)

(i) Carrying amounts that would have been recognised if land and buildings were stated at cost;

	2022 P'000	2021 P'000
Cost	24,485	24,485
Accumulated depreciation	(6,797)	(6,185)
At 31 December	17,687	18,300

(ii) Reconciliation of land and buildings measured at level 3

Plot 62433, Gaborone	2022 P'000	2021 P'000
Opening balance	33,540	34,640
Gains (losses) recognised in other comprehensive income	210	(1,100)
	33,750	33,540

11. Intangible assets

Group*

Software Cost	2021			2022		
	Software	WIP	Total	Software	WIP	Total
Balance at the beginning of the year	193,490	15,300	208,790	196,383	10,206	206,589
Additions	14,185	9,091	23,276	33,257	19,638	52,895
Capitalisation of assets		(14,185)	(14,185)		(8,144)	(8,144)
Write-offs	(11,292)	-	(11,292)	-	-	-
Balance at the end of the year	196,383	10,206	206,589	229,640	21,700	251,340
Accumulated amortisation						
Balance at the beginning of the year	(106,348)	-	(106,348)	(130,962)	-	(130,962)
Amortisation charge (note 26)	(28,194)	-	(28,194)	(44,206)	-	(44,206)
Write-offs	3,580	-	3,580	-	-	-
Balance at the end of the year	(130,962)	-	(130,962)	(175,168)	-	(175,168)
Carrying amount at the end of the year	65,421	10,206	75,627	54,472	21,700	76,172

* The figures are the same for group and company

Other information

Items of work in progress are capitalised into their respective intangible or PPE asset classes when assets become available for use and pass the recognition criteria per IAS 38 (for intangibles) or IAS 16 (for items of PPE).

The main items of software include the following:

- Internet banking system with a cost of P46 million, carrying amount of P29 million, and remaining useful life of 6 years.
- Core banking system with a cost of P35.m million, carrying amount of P9.5 million and remaining useful life of 4 years.
- Mobile banking application with a cost o P15.2 million, carrying amount of P5 million and remanining useful life of 2 years.

Software is amortised on a straight line basis over its expected useful life and assumes a residual value of nil.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

12. Related party transactions

The Bank is a majority owned subsidiary of Access Bank PLC. The Bank has a related party relationship with its parent company and with the Access Bank PLC subsidiaries. The Bank also has a wholly owned subsidiary, Kaleu (Pty) Limited. Kaleu is also considered a related party. The transactions between the Bank and its related parties include money market placements, guarantees, loans, deposits and management services, all of which are entered into in the normal course of business. Related parties also included Key Management Personnel who are members of the Bank's management committee (Manco) and the Board of Directors. Key Management Personnel have authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The volumes of related party transactions, outstanding at year end, and related expense and income for the year are as follows:

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
12.1. Balances due from related parties:				
Access Bank PLC*	332,095	-	332,095	-
Access Bank South Africa Limited*	65,487	-	65,487	-
Access Bank Mozambique**	154	975	154	975
Kaleu (Pty) Ltd**	-	-	459	-
	397,736	975	398,195	975

*These are interest bearing money market placements with foreign banks affiliated to Access Bank Botswana and are conducted during the ordinary course of business. These balances are unsecured and classified as cash and equivalents due to their short tenors of less than 60 days. Interest is charged at rates between 5% and 7% p.a. Expected credit losses and interest earned on the placements is disclosed below.

** These are intercompany balances between the Bank and related parties. They relate to recharges and other expenses that the Bank would have incurred on behalf of the related party. They are generally short term in nature and no interest is charged.

Expected credit losses on balances due from related parties

Intercompany placements*	-	-	-	-
	-	-	-	-

*expected credit losses are deemed negligible and have not been individually disclosed. Please refer to 3.1.3 for basis of ECL.

Interest income

Access Bank PLC	9,133	-	9,133	-
Access Bank South Africa Limited	2,128	-	2,128	-
	11,261	-	11,261	-

Fees and commissions

Access Bank Mozambique	154	557	154	557
	-	557	-	557

	Consolidated		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
12.2. Balances due to related parties:				
Access Bank PLC	995	-	995	-
Access Bank Mozambique	5,102	5,680	5,102	5,680
	6,097	5,680	6,097	5,680

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

12. Related party transactions (continued)
12.2 Balances due to related parties: (continued)

Balance due to Access Bank PLC relate to management fees expenses accrued but not paid at year end. Balance due to Access Bank Mozambique is a non-interest bearing cash collateral for credit facilities granted by Access Bank Botswana to Access Bank Mozambique employees. The credit facilities were granted as part of the Bank's ordinary lending processes.

	Group		Company	
Balances due to subsidiary:				
Kaleu (Pty) Ltd trading as Access Insurance Agency - fixed deposit	-	-	160,757	150,000
Kaleu (Pty) Ltd trading as Access Insurance Agency - current account	-	-	44,498	28,694
	-	-	205,255	178,694
Total balance due to related parties	6,097	5,680	211,352	184,374

Balances due to subsidiary are ordinary banking facilities that the Bank offers to the subsidiary company. The current account is non interest bearing as with the bank's other current accounts with external customers. The fixed deposit has a tenor of 1 year (expiring May 2023), with a fixed interest rate of 5.5% p.a.

	Group		Company	
Interest expense				
Access Bank Mozambique	408	360	408	360
Kaleu (Pty) Ltd		-	7,387	4,068
	408	360	7,795	4,428

	Group		Company	
12.3 Loans and advances to other related parties:	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
Executive members of staff	17,794	20,291	17,794	20,291
	17,794	20,291	17,794	20,291
Interest income	811	905	811	905

These loans and advances have been included in loans and advances to customers as per note 7.

The Group assists officers and employees in respect of housing, motor vehicle and personal loans repayable over a maximum period of between 5 to 25 years at subsidised interest rates, ranging between 4.75% and 7% p.a

12.4 Other related party transactions

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
Deposits held by directors and their entities:				
Deposits held by directors	4,393	532	4,393	532

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
12.5 Key management compensation				
Salaries and other short term employee benefits	21,482	21,402	21,482	21,402
Post employment benefits	1,599	2,356	1,599	2,356
Termination benefits	418	701	418	701

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

12. Related party transactions (continued)

	23,499	24,459	23,499	24,459
	Group		Company	
12.6 Directors' fees	2022	2021	2022	2021
Fees paid to directors during the year:	P'000	P'000	P'000	P'000
Mrs. Lorato Nthando Mosetlhanyane	458	781	458	781
Mr. Jacob Mooketsi Motlhabane	524	673	524	673
Mr. Joshua Benjamin Galeforolwe	441	604	441	604
Mr. Boiki Matema Wabo Tema	524	673	524	673
Mr. John Bosco Sebbi	480	559	480	559
Mrs. Ntoli Mosetlhe	447	587	447	587
Ms. Lynda Mataka	132	-	132	-
	3,006	3,877	3,006	3,877
12.7 Payments made to Directors for services rendered				
Mrs. Lorato Nthando Mosetlhanyane	-	27	-	27
	-	27	-	27
12.8 Management fees paid to holding company				
Access Bank PLC	5,797	-	5,797	-
	5,797	-	5,797	-

13. Taxation	Group		Company	
	2022	2021	2022	2021
13.1 Current tax (payable)/receivable	P'000	P'000	P'000	P'000
Opening balance	8,609	(1,072)	7,197	351
Charge for the year	(18,528)	(17,956)	(12,171)	(13,486)
Tax paid	10,240	28,057	7,015	20,577
Tax credits	1,424	(420)	625	(245)
Total	1,745	8,609	2,666	7,197

Reconciliation of tax receivable	Group	
	2022	2021
Access Bank Botswana Limited - Current tax receivable	2,666	7,197
Kaleu (Pty) Ltd - Current tax (payable) / receivable	(921)	1,412
Net current tax receivable	1,745	8,609

13.2 Deferred taxation

Deferred taxes are calculated on all temporary differences using a principal tax rate of 22% (2021: 22%). The movements in the deferred tax account, which are attributable to timing differences are as follows.

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
Deferred tax brought forward	(39,234)	(25,127)	(39,234)	(25,127)
Gain/(loss) on revaluation of property	46	(240)	46	(240)
Charge/(credit) per profit or loss (note 28.1)	43,463	(13,867)	43,463	(13,867)
Deferred tax liabilities (assets)	4,275	(39,234)	4,275	(39,234)

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

13. Taxation (continued)

13.2. Deferred taxation (continued)

31 December 2022	Net balance as at 1 January 2022	Net movement recognised in profit or loss	Recognised in other comprehensive income	Closing balance as at 31 December 2022
Consolidated and Company	P'000	P'000	P'000	P'000
Property and equipment	(11,968)	2,071	(46)	(9,943)
Investment securities	(5)	(1)	-	(5)
Loans and advances and impairments	55,312	(46,179)	-	9,133
Prepayments	(4,105)	645	-	(3,460)
	39,234	(43,464)	(46)	(4,275)

31 December 2021	Net balance as at 1 January 2021	Net movement recognised in profit or loss	Recognised in other comprehensive income	Closing balance as at 31 December 2021
Consolidated and Company	P'000	P'000	P'000	P'000
Property and equipment	(12,860)	652	240	(11,968)
Investment securities	341	(346)	-	(5)
Loans and advances and impairments	44,521	10,791	-	55,312
Prepayments	(6,875)	2,770	-	(4,105)
	25,127	13,867	240	39,234

The Bank has historically recognised a deferred tax asset on loans and advances being the excess of the ECL provision compared to the tax base which was restricted to 1.5% of gross financial instruments subject to ECL assessment. Determination of the tax base is due to market interpretation of amounts allowable as deductions for income tax purposes. Based on a change in interpretation of the tax laws, the Bank is of the view that any previously disallowed ECL charges, hence, any excess allowances over the statutory threshold of 1.5% of loans would lapse and therefore not realisable. On that basis, the Bank no longer recognises the deferred tax arising in the current year and further to this, the Bank has derecognised the deferred tax asset as a charge to statement of profit or loss for previously recognised deferred tax assets raised on this difference. This is considered a change in interpretation of the tax laws.

14. Other assets

	Consolidated		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
Prepayments**	60,847	74,930	60,847	74,208
Nano loan float***	30,000	-	30,000	-
Clearing accounts*	11,388	2,486	11,388	2,486
Sundry debtors*	7,861	5,892	7,861	-
Other receivables*	9,634	4,947	8,449	-
	119,730	88,255	118,545	76,694

*Clearing accounts, sundry debtors and Other receivables were aggregated and presented as Sundry debtors and deposits in 2021. The disclosure has been enhanced in 2022, with the 2021 balance re-presented. ECL of nil (2021: 24 million) has been included against Other receivables. Please refer to note 3.1.3 for basis of ECL.

**Included in Prepayments is a balance of P45.0 million (2021: P56.2 million) being the adjustment for loans granted to staff at below market interest rates. ECL is considered negligible for other assets due to the short-term nature and low probabilities of default.

***Nano loan float is measured at fair value through profit or loss. Please refer to note 3.4 for details

Analysed into:

Financial assets	58,883	13,325	57,698	2,486
Non-financial assets	60,847	74,930	60,847	74,208
	119,730	88,255	118,545	76,694

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

14. Other assets (continued)

Analysed into:				
Current	83,883	81,523	83,883	69,962
Non current	35,847	6,732	34,662	6,732
	119,730	88,255	118,545	76,694

	Consolidated		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
15. Deposits from banks and customers				
Deposits from banks	191,565	364,021	191,565	364,021
Deposits from customers	7,276,718	6,607,881	7,481,974	6,786,575
	7,468,283	6,971,902	7,673,539	7,150,596
Maturity analysis:				
On demand to one month	2,409,958	2,249,780	2,453,744	2,428,474
One month to three months	2,999,197	2,799,855	2,999,197	2,799,855
Three months to one year	2,034,279	1,899,070	2,195,750	1,899,070
Greater than one year	24,849	23,197	24,849	23,197
Total deposits*	7,468,283	6,971,902	7,673,539	7,150,596

*Greater than one year represents the non-current portion of the balance. The remainder is classified as current.

16. Borrowings	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
Overseas Private Investment Corporation (OPIC) (note 16.7)	129,388	236,382	129,388	236,382
Botswana Development Corporation Limited - 2018 issue, subordinated debt (note 16.3)	150,036	150,000	150,036	150,000
Microfinance Enhancement Facility SA, SICAV-SIF (MEF) (note 16.8)	-	119,903	-	119,903
BBS Bank Limited - long term loan (note 16.9)	2,007	4,272	2,007	4,272
Société De Promotion Et De Participation Pour La Coopération Économique S.A. ('Proparco') - subordinated debt (note 16.5)	130,667	119,587	130,667	119,587
Kgori Capital Proprietary Limited -subordinated debt (note 16.4)	22,352	22,352	22,352	22,352
Morula Capital - subordinated debt (note 16.4)	32,513	32,512	32,513	32,512
Botswana Insurance Fund Management Proprietary Limited - subordinated debt (note 16.4)	610	610	610	610
Vunani Fund Managers - subordinated debt	406	406	406	406
Botswana Development Corporation Limited - 2022 issue, subordinated debt (note 16.3)	150,042	-	150,042	-
	618,021	686,024	618,021	686,024

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

16. Borrowings (continued)

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
16.1 Reconciliation of movements to cash flows arising from financing activities				
Balance at 1 January	686,024	759,118	686,024	759,118
Changes from financing cash flows				
Proceeds from borrowings	150,000	-	150,000	-
Repayment of borrowings	(241,366)	(115,410)	(241,366)	(115,410)
	(91,366)	(115,410)	(91,366)	(115,410)
Other changes				
Foreign exchange gains	17,036	42,427	17,036	42,427
Interest expense	41,701	45,084	41,701	45,084
Interest paid	(35,374)	(45,195)	(35,374)	(45,195)
	23,363	42,316	23,363	42,316
	618,021	686,024	618,021	686,024

	Group and Company	
	2022	2021*
	P'000	P'000
16.2 Fair value		
Overseas Private Investment Corporation (OPIC)	129,388	233,292
Botswana Development Corporation Limited - subordinated loan	150,036	150,000
Microfinance Enhancement Facility SA, SICAV-SIF (MEF)	-	120,383
BBS Bank Limited - long term loan	2,007	4,272
Société De Promotion Et De Participation Pour La Coopératio Économique S.A. ('Proparco')	130,667	119,587
Kgori Capital Proprietary Limited -subordinated debt	20,117	20,117
Morula Capital Limited - subordinated debt	29,262	29,262
Botswana Insurance fund Management Proprietary Limited - subordinated debt	549	549
Vunani Fund Managers -subordinated debt	366	366
Botswana Development Corporation Limited - 2022 issue, subordinated loan	150,042	-
	612,434	677,827
Maturity analysis:		
On demand to one month	208	119,903
One to three months	32,316	4,272
Three months to one year	157,997	294,341
Over one year	427,500	267,508
	618,021	686,024

*The fair values for 2021 have been updated as they were incorrectly captured in the 2021 financial statements.

16.3 Botswana Development Corporation Limited - subordinated loan

Tranche 1 - The facility with Botswana Development Corporation Ltd (BDC) for BWP 150 million was obtained in 2018. The facility is for 10 years (maturing 3 August 2028) at an interest rate of bank rate and a margin of 4%. The facility qualifies as tier 2 capital. The proceeds were used to repay the two ABC holdings Ltd Tier II capital instruments of USD10 million and BWP 31 million in 2018. The balance was applied to grow the Bank's loan book.

Tranche 2 - During the year, Bank obtained an additional BWP150 million from Botswana Development Corporation Ltd (BDC). The facility is for 10 years at a fixed interest rate of 10.5% per annum. The facility qualifies as tier 2 capital. The facility is to support growth of the loan book and optimise the capital of the Bank. The facility matures on 31 October 2032.

Access Bank Botswana Limited

Notes to the consolidated and separate annual financial statements for the year ended 31 December 2022

16. Borrowings (continued)

16.4. Subordinated Debt Issuance

Morula capital -subordinated debt

The instrument bears interest at a fixed rate of 8% per annum with a tenure of 7 years (maturing 19 October 2023). Interest is paid biannually.

Vunani Fund Managers -subordinated debt

The bond with Vunani Fund Managers -subordinated debt was obtained on 19 October 2016. The instrument bears interest at a fixed rate of 8% per annum with a tenure of 7 years (maturing 19 October 2023). Interest is paid bi-annually.

Botswana Insurance Fund Management Proprietary Limited -subordinated debt

The bond with Botswana Insurance fund Management Proprietary Limited was obtained on 19 October 2016. The instrument bears interest at a fixed rate of 8% per annum with a tenure of 7 years (maturing 19 October 2023). Interest is paid bi-annually.

Kgori Capital Proprietary Limited

The bond with Kgori Capital Proprietary Limited was obtained on 19 October 2016. The instrument bears interest at a fixed rate of 8% per annum with a tenure of 7 years (maturing 19 October 2023). Interest is paid bi-annually.

16.5. Proparco - subordinated loan

In 2020, the Bank concluded a subordinated Tier II capital facility with Société De Promotion Et De Participation Pour La Coopératio Économique S.A. ('Proparco') of USD10million, meant to support the Bank's growth strategy of the retail and corporate book. The facility bears interest at 6 month LIBOR prime rate plus a margin of 7% and matures on 15 April 2030. Following the interest rate benchmark reforms and abolishment of the LIBOR effective 1 July 2023, this facility will be re-priced to Secured Overnight Financing Rate (SOFR) as the reference rate instead of LIBOR. Changes to interest rates when effected are unlikely to have a material impact on the carrying amount of this borrowing.

Attached to this borrowing are various covenants relating to liquidity, capital and limits to exposures, which are all in line with regulatory requirements. The Bank did not default on the covenants.

16.6. Qualification for Tier II Capital inclusion

The above stated loans (16.3, 16.4 and 16.5) have met or exceeded the following minimum set criteria by the Directive on the Revised International Convergence of Capital Measurement and Capital Standards for Botswana in order for them to qualify as Tier II Capital:

- (i) They are subordinated to depositors and general creditors of the bank;
- (ii) They are neither secured or covered by a guarantee of the issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general bank creditors;
- (iii) Maturity:
 - Their original maturity is more than five years.
 - All the instruments have no step ups or other incentives to redeem.
- (iv) The instruments are not callable at the initiative of the issuer before five years:
 - The Group will not exercise a call option on the instruments prior to Bank of Botswana approval
 - The Group will not do anything that creates an expectation that the call on the instruments will be exercised;
 - The Group will not exercise a call option unless :
 - (a) It replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the bank; or
 - (b) It demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.
- (v) The Group will not accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation; The instruments do not have a credit sensitive dividend feature, that is a dividend/ coupon that is reset periodically based in whole or in part on the banking organisation's credit standing;
- (vi) Neither the Group nor the related party over which the Group exercises control or significant influence have purchased the instruments, nor have the Group have directly or indirectly have funded the purchase of the instrument.
- (vii) The instruments have been issued out of operating entities or holding company in a consolidated group, therefore proceeds are not required to be immediately available without limitation to an operating entity or the holding company in the consolidated group in a form which meets or exceeds all the other criteria for inclusion in Tier II Capital.

16.7. Overseas Private Investment Corporation ("OPIC")

On 7 March 2017 BancABC Botswana (now Access Bank Botswana) finalised a USD 40 million Fintech and Financial Inclusion Debt Facility provided by the Overseas Private Investment Corporation ("OPIC"). The debt facility was used to provide access to finance for SMEs, individuals and to support the Bank's efforts to accelerate its digital finance initiatives, which are key areas of the Bank's strategy. The loan has a 7 year tenure with a 3 year moratorium on Capital. Interest is paid quarterly during the three years and the Capital is paid in 16 equal instalments after year 3. The rate is three month Libor plus a margin of 4.45%. Following the interest rate benchmark reforms and abolishment of the LIBOR effective 1 July 2023, this facility will be re-priced to an alternative reference rate instead of LIBOR. Changes to interest rates when effected are unlikely to have a material impact on the carrying amount of this borrowing.

Attached to this borrowing are various covenants relating to liquidity, capital and limits to exposures, which are all in line with regulatory requirements. The Bank did not default on the covenants.

The value of loans pledged as security as at 31 December 2022 is P469,759,090 (2021: P473,818,310). (Refer to note 7).

Access Bank Botswana Limited

Notes to the consolidated and separate annual financial statements for the year ended 31 December 2022

16. Borrowings (continued)

16.8 Microfinance Enhancement Facility SA, SICAV-SIF (MEF)

On 17 January 2019 BancABC Botswana finalised a USD10million debt facility with Microfinance Enhancement Facility SA, SICAV-SIF, an investment company with variable capital established as a Luxembourg specialised Investment fund, organised and existing under the laws of Luxembourg, registered with the Luxembourg Trade and Companies Register. The debt facility was used to finance the bank's asset growth as well as to manage any potential liquidity mismatches. The debt facility had a 3 year tenure. Interest was paid half yearly during the three years. The facility was priced at Libor plus a margin of 4.25bps. The loan matured on 17 January 2022 and was re-paid in full.

16.9 BBS Bank Limited

The term loan from BBS Bank Limited (formerly Botswana Building Society) was obtained on 31 December 2008. The loan bears interest at prime less 0.75%. The loan is secured by land and buildings with a market value of P34 600 000 (note 10). Principal plus interest are repayable monthly. The loan matures on 30 December 2023.

16.10 Interest rate reforms

LIBOR reforms

The Financial Conduct Authority (FCA), in its capacity as supervisor to ICE Benchmark, the current administrator of LIBOR, issued a public formal statement on 5 March 2021 that all LIBOR settings would either cease to be provided by any administrator or no longer be representative after the 30th of June 2023. The interest rate reforms entails the replacement of LIBOR by relevant risk-free rates in all new and existing loan agreements, expressed as daily or term rates.

Following the recommendations of the Alternative Reference Rates Committee (ARRC), the official working group in charge of coordinating LIBOR transition for loan products, the Bank and various funders have provisionally chosen to switch from LIBOR to Term SOFR.

As at 31 December 2022, the Group had a total exposure to LIBOR linked borrowings of US\$20 million (BWP254 million), analysed as follows:

Proparco - principal carrying amount of P127 million (US\$10 million). This loan will be transitioned from LIBOR to Term SOFR effective 30 June 2023. Where the interest rate was 6 month LIBOR plus a margin of 6.65%, the rate will change to Term SOFR plus margin of 7.08% and an adjustment spread of 0.42826%. These changes to the financial terms of the facility are in order to preserve the economic balance of the facility and not expected to result in significant changes to the carrying amount of the facility or cashflows other than those due to changes to the economic environment.

OPIC - principal carrying amount of P127 million (US\$ 10 million). This loan will be transitioned from LIBOR to Term SOFR effective 30 June 2023. As of the day, the remaining balance subject to transition will be P32 million (US\$ 2.5 million). The financial terms of the facility will be amended in order to preserve the economic balance of the facility.

Local reforms

The Bank of Botswana has announced changes from the Prime Lending Rate and Bank Rate to a Monetary Policy Rate. This change will affect the borrowing linked to Prime or Bank Rate.

Practical expedient

As a practical expedient to both LIBOR and local Monetary Policy interest rate reforms, Access Bank shall update the effective interest rate of the borrowings discussed below with no immediate gain or loss expected to be recognised. This is because all the changes in the basis for determining the contractual cash flows are as a direct consequence of the Monetary Policy and the new basis is economically equivalent to the previous basis.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

17. Other liabilities

	Group		Company	
	2022	2021	2022	2021
Accruals	18,511	34,352	18,511	34,461
Clearing accounts*	33,970	35,820	33,970	35,820
Lease liability	61,101	52,141	61,101	52,141
Provisions	38,643	46,945	38,643	46,338
Other	12,242	26,850	13,043	15,248
	164,467	196,108	165,267	184,008

Other liabilities includes Insurance premium payable amounting to P3.4 million (2021 : P20.7 million), Output VAT of P900 thousand (2021: P4.2 million), Withholding tax payable P3 million (2021: P1 million) and other individually immaterial items. Clearing accounts include settlement accounts which were separately presented as P32.9 million in 2021.

In 2021, Clearing accounts with a balance of P2.9 million were presented separately from Settlement accounts with a balance of P32.9 million. These balances contain similar items which are all clearing accounts and have been presented in a consolidated manner in 2022, with the 2021 balances re-presented to this effect.

Financial	125,824	152,643	126,625	140,543
Non-financial	38,643	43,465	38,643	46,338
	164,467	196,108	165,268	186,881
Analysed into:				
Current	121,581	152,643	121,581	152,643
Non current	42,886	43,465	42,886	43,465
	164,467	196,108	165,267	184,008

Movements in each class of provision during the financial period are set out below (Group):

	Staff provisions	Operational losses	Leave pay	Provision for future decommissioning costs on IFRS16 assets	Provision for off balance sheet items	Total
At 1 January	5,656	32,518	7,262	889	620	46,945
Additions	4,716	3,167	4,010	2,963	164	15,019
Amounts utilised	(5,300)	(16,676)	(1,345)	-	-	(23,321)
At 31 December 2022	5,072	19,009	9,927	3,852	784	38,643

Staff provisions - The Bank has contractual and constructive obligations to pay staff for employment services provided by staff. These include severance and gratuity, 13th cheque, etc. Whilst the amounts can be reasonably estimated at reporting date, the actual amounts may differ depending on the number of eligible staff at the time of payment, in the next financial year. Furthermore, the timing of payment is not certain in some instances.

Provisions for operational losses - the Bank holds provisions for expected cashflows where a loss event has occurred in the Bank but the timing of the cash out and settlement amount is uncertain.

Leave pay - The Bank has a contractual obligation to pay employees for accrued leave that has not been utilised by employees. This payment is made when the employees leave the employment of Bank and is dependent on the actual number of accrued leave days at the point the employee leaves the Bank.

IFRS 16 provisions - The Bank leases numerous properties as lessee, for branches, ATM sites and office space. The lease tenors vary from 5 to 10 years and can be renewed. At the end of the lease terms, the Bank has legal obligations to decommission any partitioning or alterations it would have made to the properties in pursuit of its business, and restore the properties to their original state. The Bank recognises a provision being the estimated costs to restore the properties to their original state. The actual amount and timing of these costs remains uncertain.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

18. Stated capital	2022 P'000	2021 P'000	2022 P'000	2021 P'000
725 million ordinary shares issued and fully paid at the start and end of the year: (2021: 725 million)	222,479	222,479	222,479	222,479

These ordinary shares do not have a par value. There are no restrictions on the transfer of ordinary shares or agreements between holders of ordinary shares known to the Group which may result in restrictions on the transfer of securities or voting rights.

19. Reserves and retained earnings

19.1 Retained earnings

	Consolidated		Company	
	2022 P'000	2021 P'000	2022 P'000	2021 P'000
At 1 January	949,121	932,366	769,555	768,162
Total comprehensive income for the year	8,208	16,755	(18,084)	1,392
20.7 thebe per share final dividend declared and paid for the year ended 31 December 2022	(150,000)	-	(150,000)	-
2.2 thebe per share final dividend declared and paid for the year ended 31 December 2021	(15,999)	-	(15,999)	-
At 31 December	791,330	949,121	585,471	769,555

	Group		Company	
	2022 P'000	2021 P'000	2022 P'000	2021 P'000
19.2 Revaluation reserve				
At 1 January	8,445	9,295	8,445	9,295
Gain on revaluation of land and buildings	210	(1,090)	210	(1,090)
Deferred tax thereon	(46)	240	(46)	240
At 31 December	8,609	8,445	8,609	8,445

The revaluation reserve comprises the net cumulative increase in the fair value of land and buildings owned by the Bank as disclosed under note 10.

	Group		Company	
	2022 P'000	2021 P'000	2022 P'000	2021 P'000
19.3 Other reserves				
At 1 January	6,091	6,091	6,091	6,091
Movements during the year	-	-	-	-
As at 31 December	6,091	6,091	6,091	6,091

The reserve represents the excess of the general provision against risk weighted assets as required by the Bank of Botswana in addition to the impairment provision required by IFRS.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

	Consolidated		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
20. Net interest income				
Effective interest and similar income				
Cash and short-term funds	21,978	34,226	21,978	34,226
Investment securities	23,199	15,627	23,199	15,627
Loans and advances to customers	765,541	650,431	765,541	650,431
	810,717	700,284	810,717	700,284
Effective interest expense and similar charges				
Deposits from banks and customers	355,522	249,714	362,910	253,782
Lease interest expense	5,494	4,756	5,494	4,756
Borrowings	46,550	45,084	46,550	45,084
	407,566	299,554	414,954	303,622
Net interest income	403,151	400,730	395,763	396,662

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
21. Impairment credit on financial assets				
Lending activities	(12,546)	14,954	(12,546)	14,954
Balance with banks	(1,987)	3,027	(1,987)	3,027
Recoveries	(6,552)	-	(6,552)	-
Other	1,083	3,410	1,083	3,410
	(20,002)	21,391	(20,002)	21,391

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
22. Net trading income				
Forex trading profits	32,531	38,336	32,531	38,336
Currency revaluations	29	(4)	29	(4)
Net trading income	32,560	38,332	32,560	38,332

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
23. Net fee and commission income				
Fee and commission income				
Fees	52,241	74,772	50,697	74,772
Commission income	45,034	12,412	20,367	12,412
Other income*	38,551	46,429	38,551	23,475
	135,826	133,613	109,615	110,659
Fee and commission expense				
Commission expense	16,082	32,639	16,082	32,639
	16,082	32,639	16,082	32,639
Net fee and commission income	119,744	100,974	93,533	78,020

*Other income includes bundles fee of P19.8 million (2021: P17,848,000), card service and BIN sponsorships fees of P14.4 million (2021: P11,017,000), amongst other individually immaterial items

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

Classification of Fees and commission income

Point in time	98,547	92,746	72,336	69,792
Over time	37,279	40,867	37,279	40,437
	135,826	133,613	109,615	110,229

	Consolidated		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
24. Personnel expenses				
Salaries and wages	153,608	117,859	152,328	116,909
Pension contributions - defined contribution plans (note 30)	15,077	12,245	14,950	12,148
Other employee expenses*	14,306	34,638	14,263	34,607
	182,991	164,742	181,541	163,664

The average number of persons employed by the Group during the year was 451 (2021:444).

*Other employee costs include medical aid costs of P8.2 million (2021: 7.3 million) and training costs of P3.2 million, amongst other individually immaterial costs. In 2021, other costs included 13th cheque of P11 million, uniforms amounting to P2.8 million and medical expenses totalling to P7.3 million.

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
25. General and administrative expenses				
IT and software costs	69,825	51,448	69,825	51,448
Professional fees	12,213	9,984	12,213	9,984
Marketing and public relations	11,116	12,983	11,116	12,983
Travel and entertainment	7,295	2,971	7,295	2,971
Telecommunication and postage	30,839	20,390	30,839	20,390
Stationery	6,957	6,218	6,957	6,218
Management fees	5,323	18,606	5,323	17,000
Utilities and office security	15,384	10,518	15,384	10,518
Indirect tax expenses	13,322	16,760	13,322	16,760
Other administrative expenses*	7,316	33,688	7,816	33,459
	179,589	183,566	180,089	181,731

*Included in other administrative expenses is directors and board fees of P3.5 million (2021: P3.9 million), Repairs and maintenance of P2.2 million (2021: P2.1 million), loss on scrapping of intangible assets of nil (2021: P7.7 million) and operational losses of nil (2021: P20 million). In 2021, Utilities and office security, Indirect tax expenses and Professional fees expenses were shown as part of Other administrative expenses - they have presented separately in 2022 with the 2021 balances updated to reflect the expanded presentation.

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
26. Depreciation and amortisation expenses				
Depreciation of property, and equipment (note 10)	24,145	18,058	24,145	18,058
Amortisation of intangible assets (note 11)	44,206	28,194	44,206	28,194
	68,351	46,252	68,351	46,252

Included in depreciation of property and equipment is the depreciation for right of use asset of P11.8 million (2021: P9.4million) disclosed on note 35.1.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
27. Other operating expenses				
Audit fees (refer to note 27.1)	3,130	4,007	3,130	4,007
Consulting costs	9,931	14,116	9,931	14,116
Legal expenses	3,035	1,469	3,035	1,469
Agency expenses	58,231	62,402	58,231	58,126
	74,327	81,994	74,327	77,718

*Agency expenses relate to remuneration to direct sales agents contracted by the Bank to sell loans and related products. The remuneration consists on both a fixed and variable portion and relates to the sales of other banking products, hence the costs cannot be directly attributed to or offset against specific revenue lines. Agency fees also include costs to third parties for the collection of loan instalments, insurance premiums and other payments due to the Bank from customers.

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
27.1 Auditors' remuneration				
Statutory audit related charges				
- Group statutory audit fees	3,130	4,007	3,130	4,007
Year end 31 December	3,130	4,007	3,130	4,007
Non-statutory audit related charges				
- audit related assurance service fees (included under consultancy costs)	420	106	420	106
Total non statutory audit related charges	420	106	420	106
Total fees paid	3,550	4,113	3,550	4,113

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
28. Taxation				
28.1 Major components of the tax expense (income)				
Current - Local income tax - current period	18,528	17,956	12,171	13,486
Deferred tax				
Origination and reversal of temporary differences	43,463	(13,867)	43,463	(13,867)
Tax expense per statement of profit or loss	61,991	4,089	55,634	(381)

Further information about deferred tax is presented in note 13. The calculated tax on the Group's and the Company's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the Group as follows:

	Group		Company	
	2022	2021	2022	2021
	P'000	P'000	P'000	P'000
28.2 Reconciliation of the tax expense				
Profit before tax	70,199	20,844	37,550	1,011
Taxation calculated at the rate of 22% (2019: 22%)	15,443	4,585	8,261	221
Impact of temporary differences	3,085	258	3,910	151
Other movements to deferred tax (refer to Note 13)	43,463	-	43,463	-
(Over)/under provision in prior years	-	(755)	-	(755)
Tax expense per statement of comprehensive income	61,991	4,089	55,634	(383)
Effective tax rate	88.3%	19.6%	155.2%	-38%

	Consolidated and Company	
	2022	2021
	P'000	P'000
28.3 Deferred tax loss on revaluation of property		
Deferred tax loss/(gain) on revaluation of property	46	(241)

29. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	Group	
	2022	2021
Basic and diluted earnings per share		
Profit attributable to equity holders of the Company (P'000)	8,208	16,755
Weighted average number of ordinary shares in issue ('000)	725,000	725,000
Basic and diluted earnings per share (thebe)	1.1	2.3
Number of shares ('000)		
Number of ordinary shares in issue	725,000	725,000

30. Pensions

A defined contribution pension scheme was introduced with effect from 1 January 2002. Eligible employees and the Group contribute 6 percent and 14 percent of pensionable salaries respectively.

31. Capital adequacy

	Capital composition under Basel II Framework	
	Consolidated and Company	
	2022	2021
	P'000	P'000
Capital adequacy		
Core capital (Tier 1)		
Stated capital	222,479	222,479
Statutory credit risk reserve and other reserves	8,609	14,536
Retained earnings	791,330	949,121
Regulatory adjustments applied in the calculation of CET 1 Capital (intangible asset)	(76,173)	(75,627)
	946,245	1,110,509
Supplementary capital (Tier 2)		
General provision/ general loan-loss reserves eligible for inclusion in Tier II	68,805	75,180
Subordinated loan	427,551	267,509
	496,356	342,689
Total capital (Tier 1 and Tier 2)	1,442,601	1,453,198
Market risk	5,908	303,781
Operational risk	841,648	788,666
On Balance sheet assets/ credit risk weighted assets	5,890,278	5,349,913
Off Balance sheet assets	186,286	253,412
Total risk weighted assets	6,924,120	6,695,772
Core capital ratio	13.67%	16.58%
Capital adequacy ratio	20.8%	21.70%
Bank of Botswana preferred minimum risk asset ratio	12.50%	12.50%

Access Bank Botswana Limited

Notes to the consolidated and separate annual financial statements for the year ended 31 December 2022

31. Capital adequacy (continued)

31.1 Capital adequacy (continued)

The Bank is supervised by the Bank of Botswana and is required to maintain a minimum capital ratio, known as the Capital Adequacy Ratio, expressed in terms of the ratio of unimpaired capital to the risk weighted value of assets and off balance sheet items. The ratio as at 31 December 2022 meets the minimum requirement of 12.5% set by Bank of Botswana.

Core capital is the portion of capital which is permanently and freely available to absorb unanticipated losses without the Bank being mandated to cease trading. It comprises CET1 capital and Additional Tier I capital (Basel II enhancements).

Capital management

Access Bank Botswana Limited is a subsidiary of Access Bank Plc and manages its capital in the context of approved Bank capital, which determines levels of risk weighted asset growth and the optimal amount and mix of capital required to support planned business growth. If capital falls below the required threshold, the Group injects capital either by way of Tier 1 or Tier 2 capital.

The principal forms of capital included in the statement of financial position are stated capital, other reserves, retained earnings and subordinated loans.

32. Investment in subsidiary

Kaleu (Pty) Ltd trading as Access Insurance is a 100% owned subsidiary company of Access Bank Botswana Limited and was incorporated in Botswana on 22 February 2011 and started trading on 18 January 2012. The Company does not have any regulatory restrictions to use its subsidiary's assets and its cash balances. Kaleu (Pty) Ltd has paid up capital of P100 (2021: P100).

	Group and Company	
	2022	2021
	P'000	P'000
33. Contingent liabilities and loan commitments		
Financial guarantees	205,585	132,708
Loan commitments and other credit related liabilities	20,337	121,125
	225,922	253,833
Expected credit loss	(720)	(620)
	225,201	253,213
34. Capital commitments		
Commitments in respect of capital expenditure:		
Approved and contracted for	38,380	44,986
Approved but not contracted for	188,203	104,242
Total commitments	226,583	149,228

This committed expenditure relates to software purchase and other PPE and will be financed by available bank facilities, retained profits, issue of debentures/listed notes, mortgage facilities, existing cash resources, funds internally generated, etc.

35. Leases

The group leases office spaces for running its operation. The average lease term is 5 years (2021: 5 years) but for lease accounting, management considers extension options and computing the lease term. Judgment is exercised as management considers all facts and circumstances that create an economic incentive to exercise an extension option: or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the Bank.

Judgement is also applied in determining the incremental borrowing rate used to discount the lease payments. Management considers where possible, recent third-party financing received as a starting point, adjusted to reflect changes in financing conditions since third party financing was received. If a readily observable amortising loan rate is available (through recent financing or market data) which has a similar payment profile to the lease, then management considers that rate as a starting point to determine the incremental borrowing.

All lease contracts require that, at the end of the lease tenure, the rented properties are restored to their state before commencement of the lease. Future restoration costs amounting to P4.5 million were capitalised to the right of use assets.

Details pertaining to leasing arrangements, where the group is lessee are presented below:

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

35. Leases (continued)

	Consolidated and Company	
35.1 Right of use assets	2022 P'000	2021 P'000
Cost		
Balance at 1 January	66,902	66,902
Additions during the period	20,133	-
	87,035	66,902
Accumulated depreciation		
Balance at 1 January	24,957	15,285
Charge for the period	11,167	9,672
	36,124	24,957
Carrying amount	50,911	41,945

Future restoration costs

All lease contracts require that, at the end of the lease tenure, the rented properties are restored to their state before commencement of the lease. Future restoration costs amounting to P4.5 million were capitalised to the right of use assets.

	Consolidated and Company	
35.2 Lease liability	2022 P'000	2021 P'000
Balance at 1 January	52,141	58,218
Interest expense	5,494	4,583
Cash payments :	(5,494)	(4,583)
	(8,132)	(5,644)
Additions	17,092	-
Other	-	(433)
	61,101	52,141
Analysed into:		
Current	11,485	8,676
Non-current	49,616	43,465
	61,101	52,141

36. Segmental Reporting

Basis of Segmenting

The Managing Director, supported by the rest of the Management Committee (MANCO), is considered the Chief Operating Decision Maker ('CODM') for the purposes of identifying the Group's reportable segments. The Group has three reportable segments being Retail, Commercial Banking and Global Markets. All operating segments used by the group meet the definition of reportable segments and the results presented are in line with reports used internally to assess each reportable segment. The CODM uses Profit Before Tax (PBT) as the measure of segmental performance. Head Office is not considered a segment and Head Office costs are apportioned to the respective operating segment.

Reportable segments

The group, discloses the break up of it's result of operations and financial position among the below segments.

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

36. Segmental Reporting

Retail banking

The retail banking segment offers lending and transactional banking services to individuals. The predominant aspect of its retail offering comes from Access's partnerships with unions and small corporate enterprises (SME's) who provide a steady stream of retail customer base who require secured and unsecured loans. The segment also offers savings, payroll accounts, call and fixed deposit products as well as insurance products via banc assurance.

Commercial Banking

Commercial banking segment provides investment solutions to corporates, financial institutions, government entities and international organisations. The segment provides short-term fixed deposit investment products that collectively provide the Bank with funding for the retail loan book.

Global Markets

The Global Markets segment provides foreign exchange solutions to commercial clients, while supporting the branch network's retail foreign exchange service. The Group's treasury division plays an important role in managing the Bank's funding and liquidity and assists with sourcing interbank lines and supporting complex transactions. This business unit is facilitated and benefits from the Access Bank PLC coordination and efforts within the Access Group that specialises in global markets and treasury operations.

Segmental Reporting December 2022

	Retail Banking	Global Markets	Commercial Banking	Total
Statement of comprehensive income	P'000	P'000	P'000	P'000
Interest income*	733,831	51,281	25,605	810,717
Interest expense**	(449,700)	5,794	36,339	(407,566)
Net interest income	284,131	57,076	61,944	403,151
Net trading income	-	32,560	-	32,560
Fees and Commission income - Point in time	93,180	-	5,367	98,547
Fees and Commission income - Over time	35,249	-	2,030	37,279
Fees and Commission expense	(15,206)	-	(876)	(16,082)
Total income	397,354	89,636	68,465	555,455
Impairment of financial assets	13,155	-	6,847	20,002
Net income	410,509	89,636	75,313	575,457
Operating expenditure***	(380,925)	(57,468)	(66,865)	(505,258)
Profit before taxation	29,584	32,168	8,448	70,199
Taxation	(25,864)	(28,613)	(7,514)	(61,991)
Profit after tax	3,720	3,555	933	8,208

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

36. Segmental Reporting

*This is interest income from external customers.

**Interest expense includes inter-segment funding arrangements where Global Markets and Commercial Banking are in a net positive interest expense considering the interest income from inter segment funds transfer pricing. Intersegment interest expense for Retail was P398 million which was allocated as income to Wholesale Banking (P380 million) and Global Markets (P18 million).

***Please refer to note 25 for the disaggregation of operating expenses. The disaggregated operating expenses would generally follow the same allocation basis shown above.

Most of the revenues are from external customers domiciled in Botswana. There are no major customer contributing to 10% or more in terms of revenue. There is no concentration in this regard. Repossessed property is moderately liquid with a readily available market.

	Retail Banking P'000	Global Markets P'000	Commercial Banking P'000	Total P'000
Statement of financial position				
Investment securities	-	876,333	-	876,333
Loans and advances to customers	6,213,846	-	404,349	6,618,195
Other assets for reportable segments	428,363	1,397,673	(9,689)	1,816,348
Total assets for reportable segments	6,642,209	2,274,006	394,660	9,310,875
				-
Deposits from customers	983,837	-	6,292,881	7,276,717
Deposits from banks	-	191,565	-	191,565
Other liabilities for reportable segments*	5,654,501	1,329,041	(6,169,459)	814,083
Total liabilities for reportable segments	6,638,338	1,520,606	123,422	8,282,366

*Movements in other liabilities represents inter-segment funding where the liabilities are transferred to fund the Retail Banking and Global Market operations.

Segmental Reporting December 2021

	Retail Banking P'000	Global Markets P'000	Commercial Banking P'000	Total P'000
Statement of comprehensive income				
Interest income	631,505	49,853	18,926	400,730
Interest expense	(350,120)	3,220	47,346	(139,306)
Net interest income	281,385	53,073	66,272	261,424
Net trading income	-	38,332	-	38,332
Fees and Commission income - Point in time	86,703	-	6,043	92,746
Fees and Commission income - Over time	38,371	-	2,496	40,867
Fees and Commission expense	(30,122)	(21)	(2,496)	(32,639)
Total income	376,337	91,384	72,315	400,730
Impairment of financial assets	(12,906)	0	(8,485)	(21,391)
Net income	363,431	91,384	63,831	518,645
Operating expenditure	(403,951)	(44,596)	(49,253)	(497,800)

Access Bank Botswana Limited
Notes to the consolidated and separate annual financial statements
for the year ended 31 December 2022

Profit before taxation	(40,520)	46,788	14,577	20,845
Taxation	9,552	(9,384)	(4,257)	(4,089)
Profit after tax	(30,968)	37,403	10,320	16,756

All the revenues are from external customers domiciled in Botswana. There are no major customer contributing to 10% or more in terms of revenue. There is no concentration in this regard. Repossessed property is moderately liquid with a readily available market.

	Retail Banking	Global Markets	Commercial Banking	Total
	P'000	P'000	P'000	P'000
Statement of financial position				
Investment securities	-	567,960	-	567,960
Loans and advances to customers	6,052,763	-	455,932	6,508,695
Other assets for reportable segments	331,423	1,140,023	562,558	2,034,004
Total assets for reportable segments	6,384,186	1,707,981	1,018,492	9,110,659
Deposits from customers	716,516	-	5,891,365	6,607,881
Deposits from banks	-	364,021	-	364,021
Other liabilities for reportable segments	5,081,811	1,237,494	-5,366,684	952,621
Total liabilities for reportable segments	5,798,327	1,601,515	524,681	7,924,523

37. Events after the reporting period

Access Bank Botswana Limited has a 100% owned subsidiary, Kaleu Proprietary Limited t/a Access Insurance Agency ("the Subsidiary"). Due to continued growth over the years, the Subsidiary has had to reassess its capital requirements by reference to the minimum regulatory capital as promulgated by the Insurance Industry Regulations. As such, the Subsidiary resolved to raise additional capital through issuance of one additional share for P2 million per share. The directors of the Bank resolved to purchase the one additional share through a Resolution of the Board of Directors, dated 13th May 2022.

The transaction was completed on the 27th of February 2023 when the cash payment of P2 million was made to Kaleu (Pty) Ltd. From that date, the issued number of shares in Kaleu (Pty) Limited increased from 100 to 101, whilst the total value of the investment in subsidiary increased from P100 to P2,000,100.

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