Annual Report
2020

See how we are here for good

standard chartered

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We are here for Future Banking

We are a leading international banking group committed to building a sustainable business over the long-term.

Standard Chartered Bank first opened for business in Botswana in 1897 in Francistown, making it the country's oldest bank. In 1956, we were given full branch status and this was followed by the opening of our first branch in Lobatse. The Bank was locally incorporated in 1975 with a full board and is listed on the Botswana Stock Exchange (BSE Code: STANCHART).

Today, with approximately 600 employees, we operate a network of 19 branches, agencies and a Priority Banking centre, all of which are supported by a Loan Centre and 24-hour Customer Call Centre. With a wide branch network, large sales force, and award-winning digital banking platforms, the Bank offers clients in the Retail, Commercial and Corporate segments international standards of customer service and excellence.

The Bank is in a unique position, able to leverage its deep-rooted local knowledge, its international network and expertise for the benefit of Botswana corporates, individual depositors and multi-nationals.

Standard Chartered Bank has been a key contributing partner to the economic growth and financial development of Botswana for over 120 years.

The Bank is highly respected in Botswana for its adherence to corporate governance, enthusiasm for great service and dedication to talent development, as well as for diversity and inclusion.

We have a highly active and far reaching corporate social responsibility programme anchored by our Employee Volunteering initiatives. Our purpose is to drive commerce and prosperity through our unique diversity all in line with our brand promise of being Here for Good.

About this report

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A message from Board Chairperson

Delivering in a tough operating environment

Botswana was not spared from the COVID-19 impact, which saw unprecedented levels of disruption in the country's socio-economic scene, like rest of the world.

All major sectors of the economy were severely impacted, and GDP was 8% down. As a business, we focused on protecting our clients, staff and communities and spent P5 million in the process of doing so. We scaled up on our digital channels to preserve convenience for clients, we discounted client fees on digital platforms by 25% to support curtailed movements to our physical channels. Additionally, we offered repayment holidays and loan extensions to 359 clients on exposures amounting to just under a billion Pula. This relief was offered to individuals, small businesses and corporates who were severely and evidently impacted by the COVID-19 scourge.

It goes without saying, we have had to invoke our Business Continuity Plans and operated in that mode for the better part of 2020. Our colleagues predominantly worked from home, with the front-line staff whose jobs demanded physical presence working from offices and branches on rotational basis. Indeed, this turned out to be an opportunity for us to test our resilience as a business, and the adequacy of our investments into technology over the years and we are satisfied with the outcome, although the pandemic has infused more urgency into our technology and investment initiative path.

Despite the COVID-19 pandemic, we remained focused in protecting the business, and defending the gains from the past 3 years to the best extent possible. Amidst a substantially softened interest rate environment, our overall top line was up 4%. The growth in income was itself broad based as both our primary business segments delivered improved results.

Apart from our lending business, good performance on our primary product and service lines like corporate finance, currency trading and transactional banking offset the impact of reduced volumes on retail transactions, and as a result protecting the non-Funded Income.

We remained focused on efficiencies, underlying costs edged up only by 1% mainly as a result of the need to promote and protect the health and safety of colleagues, clients and communities in this phase of COVID-19. However, our 2020 numbers carry an additional, but once off provision related to a planned business restructuring, and this resulted in an overall 6% increase in costs.

We defended our growth path

Notwithstanding the extraordinary circumstances we operated under, our statutory profits were at P102 million, 47% up from prior year. Backing this decent performance is a strong balance sheet which delivered improved margins despite a depressed interest environment. The capital position remains strong both in terms of adequacy and composition. The Capital Adequacy Ratio remained above 17% throughout the year, against a normal regulatory threshold of 15% (lowered to 12.5% as part of the broader COVID-19 relief measured extended to regulated banks by Bank of Botswana).

We remain optimistic

We maintain some optimism around the economic outlook for the year ahead, of course with some caution. The Global economy will rebound in 2021 and could post growth in the region of 5.4% driven by lesser interruptions to trade and associated supply chains. The benefits of an improving global economy will have positive impact on the Sub-Saharan economy, which we expect to register a 3.2% growth.

Likewise, the local economy will post a strong recovery from a steep contraction we witnessed in 2020, with early signs of recovery supporting preliminary views that suggest a GDP growth rate just shy of 9%.

A successful implementation of the Economic Recovery and Transformation Plan by Government could deliver the desired turn around particularly within the non-mining sector.

Extreme uncertainties remain as the coronavirus resurgence causes panic the world over, exacerbated by mutation of the virus into an increasing number of variants. Much will depend on the effective roll out and efficacy of vaccination evenly across the globe and if these two come right, 2021 could be a better year than 2020, but economic activity is unlikely to return to pre-COVID -19 levels within the year.

Thank you

It has been a tough year, one filled with uncertainties and pain, and as we remember those who have unfortunately lost their lives, as well as those who lost their loved ones, I want to sincerely thank all colleagues for the passion to serve they have displayed. Special thanks go to our frontline colleagues who showed selflessness and bravery in ensuring clients needs are taken care of during what could be the most difficult times we have ever experienced as a nation.

As we continued to be a better bank for tomorrow, we will be forever grateful for the patronage of our clients, and we maintain the promise for a world class experience across all our client channels.

Doreen C. Khama
Board Chairperson

Chief Executive Officer's Report

Our Business Strategy

We remained focused on our path to deliver good business outcomes despite the challenging environment we found ourselves in, without compromising on health and safety of our colleagues.

For the third year in a row, we have maintained an upward trend on profitability.

2020 became the year our Profit Before Tax crossed the P100 million mark since 2016, symbolising our consolidating gains from decisive actions we have been taking to return the business to sustainability.

In pursuing our goal of actualising returns for our investors, we have maintained a relatively high dividend pay-out ratio, amounting to 16t per share as both Capital and Solvency positions allow us to do so.

We have refreshed our strategy as we continue to focus on;

Our Enablers

People & Culture

Digitisation

Operational Effectiveness

The Pillars

Personal

Improving operational leverage through tactical cost cuts, streamlined operations and channels, reduce touch points and leverage more on digital, improved product mix secured/ non-secured product mix and credit card up take.

Affluent

Re-boot the sub segement back to relevance, redefine the customer base and embed a working RM model, create a working continuum between mass and affluent, and ensure targeted penetration for the right quality customer.

Network

Build on the Strength of our network to support capital markets development and to be a preferred public sector projects partner. Grow the TB business on the strength.

Diversified

Deliver sustainable performance results and outcomes, based on secure foundations across all levers of the business. Redefine our distribution model to digital, target carbon neutral financing and improve access for SMEs & women owned enterprises

People & Culture

Digitisation

Operational Effectiveness

Chief Executive Officer's Report cont.

Key Financial highlights

4% ↑
Operating income up 4% to P753 million , growth is broad based; FM Income, Retail and Corporate client assets up.

14% ↓
Interest expense down 14%, driven by focused liability management.

2% ↑
Loans and advances up 2% to P8 billion.

47% ↑
Profit before tax P102 million; up 47%, underlying profits (net- off once off item) are 11% up.

6% ↑
Operating expenses increased by 6% driven by a once-off provision, underlying expenses relatively flat YoY.

17.6% ⇆
CAR stable at 17.6%, CET1 at 7.2%

4.7% ↑
Consistent positive **Return on equity** at 4.7%

28% ↑
Expected Credit Losses up 28%, reflective of uncertainties across credit market segments.

More details on financial performance are in the Chief Financial Officer's review section of this annual report.

Here for good

Our brand promise - Here for good- speaks to our purpose, not only to build a sustainable legacy, but to the good that we create in communities. During the year, we heeded a call to contribute in the fight against COVID-19;

- We channelled an amount of P3.6 million to the Red Cross Society of Botswana in support for their COVID-19 related community outreach initiatives, which included public education to the rural communities.
- We contributed cash amounting to P1 million into the COVID-19 relief fund set up by the Government of Botswana. This fund was critical in creating social safety nets for the highly impacted, as well as procuring the much needed Personal Protective Equipment (PPE) for the front liners in the battle against the scourge.
- Through our charitable trust, the Standard Chartered Botswana Education Trust, we procured PPE worth P510,000 for use by health workers at the Sir Ketumile Masire Teaching Hospital.

In 2019 we launched FutureMakers™ a flagship project through which we support greater economic inclusion for young people in our communities.

Among others, this programme enhances youth employability through intensive training and exposure, as well as upskilling entrepreneurship through practical business training. The first phase was a success and in 2020, we conceptualised phase 2, which we will roll out in 2021.

Our Brand

The Bank continues to pursue creative ways to ensure Client engagement and to ensure top of mind awareness of the Bank's products and services and how best they can enhance and or complement their day-to-day requirements.

The year 2020 provided opportunities for us to reach out to wider audiences through our social media, digital marketing and other platforms including traditional media. The focus on Always On media will continue to ensure continued client education as well as both product and brand awareness.

Employee Volunteering

In a bid to continue the Bank's Employee Volunteering programme, a global running league was set up which saw employees commit to running and fund-raising targets exchanging time for a good cause.

The initiative recognised the impact of COVID-19 on the employees' ability to physically volunteer their time and services.

The Year ahead

While huge uncertainties remain, as dictated by the unfolding COVID-19 scourge, we have had a somewhat comfortable start of 2021 and we intend to protect the trend for rest of the year. Business momentum will unlikely return to pre-COVID-19 levels within the next 12 months and this will mean performance could be impacted.

Our approach to credit origination will be informed by the economic realities we operate in while volumes driven business will remain impacted for as long as restrictions remain in one form or another.

Digitization of our operations, products and services will remain a key driver for efficiency and client service improvement, and we are looking to bring some exciting news to the market on this subject during the second half of 2021.

All in all, we are comfortable of a positive overall outcome for 2021.

Mpho Masupe
Chief Executive Officer

Mpho Masupe
Chief Executive Officer

Management Team

Mbako Mbo - Chief Financial Officer

Bino Rasedisa - Head, Consumer, Private and Business Banking

Asuquo Nkoposong - Head, Corporate Commercial & Institutional Banking

Lloyd Kusano - Chief Operating Officer (Acting)

Tuduetso Ntwaetsile - Head, Internal Audit

Allan Mutenda - Chief Risk Officer

Esther Mokgatlhe - Head, Conduct, Financial Crime Compliance

Chazha Kgalemang - Head, Legal and Company Secretary

Sinqobile Magenga - Head, Financial Markets

Bame Moremong - Head, Corporate Affairs, Brand & Marketing

Lizzynet Maponga - Head, Human Resources

Review of Segments and functions

1. Consumer, Private and Business Banking
2. Corporate, Commercial & Institutional Banking
3. Human Resources

Review of Segments and functions

01 Consumer, Private and Business Banking

In Consumer, Private and Business Banking we serve the Personal, Priority and Wealth clients.

Increasingly, we provide digital banking services with a human touch to our clients, with products and services spanning across deposits, payments, financing products and wealth advisory. We also support our clients with their business banking needs.

The business showed resilience and delivered strong performance despite headwinds from the Covid-19 pandemic and a challenged macro environment in 2020. The business was able to record 2 per cent income growth year-on year.

Improved performance

Through our client centric and focused approach to business the segment was able to achieve income and balance sheet growth, while managing inherent risks reasonably well. Some of the key highlights are as follows;

- Income growth of 2% year on year
- Client assets grew by 6% year on year
- Achieved 7% annual growth in Retail deposits
- Increased client acquisition and servicing through our end to end digital channel (SC Mobile)

Leading with Digital

Investments into our digital platforms helped to deepen our client relationships in all sub-segments (small and medium businesses, personal and priority clients.)

Through our Digital bank we saw exponential growth in digital onboarding and servicing of our clients.

We onboarded over 10,000 new clients digitally and have greatly reduced our client acquisition and servicing costs.

We also made great strides in migrating our small and medium business clients onto our digital channel for business clients (Straight2Bank) this was critical to increasing business efficiency and continuity in the current pandemic.

We increased the number of ATM machines and introduced cash deposit machines across our network. We also developed and rolled out innovative upgrades to our mobile and online banking platforms improving client's ability to bank on the go.

Pivoting to an Omni-channel model

Our network strategy is to deliver a superior, sustainable, and scalable distribution network. We intend to deliver unrivalled client experience through the different touch points where our clients interact with the bank.

We launched the first ever Digital branches which we have called Express Banking Centres (EBCs). We consolidated specific branches replacing them with this innovation, which will add more freedom to our clients for their banking needs.

The following are services that can be accessed from our EBCs:

- Access to iPads and WI-FI for digital banking
- Latest generation Cash Deposit Machines (CDM)
- Phones with direct access to the 24/7 Client Care Centre
- A service desk which will be manned at certain hours of the day by members of our branch teams to assist with any client queries or applications.

Delivering value to Clients

Clients are at the heart of everything we do. In 2020 we rapidly implemented innovative initiatives to minimise disruption to our client's operations, and we offered various relief options to clients in addition to discounts on the fees attributable to digital transactions. We also reinforced our commitment to enable our clients to grow and protect their wealth.

Strategic Priorities

We will improve our clients' experience through an enhanced end-to-end digital offering, with intuitive platforms, best-in-class products and service responding to the change in digital habits of clients in our market, and to be more inclusive in our client offerings.

We will continue to invest in our affluent and emerging affluent clients with a focus on Wealth Management and Deposits to capture the significant rise of the middle class in our markets.

In contributing to the broader strategy of the bank, we will focus on the following 3 priorities:

- **Personal Banking:** We have over the years built a very strong personal banking client base and have kept our product and service offerings agile enough. We will focus on two things going forward, Customer acquisition and operational leverage, and both will be pursued by capitalising on gains we have scored through our digital agenda.

- **Affluent Segment:** We are part of a huge global network known internationally for its affluent and wealth propositions, and we intend to deliver group capabilities to Botswana. We will increase penetration into the affluent segment with an expanded service and product offering.

- **Sustainable Performance:** Customer service will remain at the core of what we will do as we drive sustainable revenue growth, both from our lending and fee businesses. We will relentlessly drive productivity and internal efficiencies through digitization as we redefine how we interact with our clients for their enhanced experience.

Review of Segments and functions

02 Corporate, Commercial & Institutional Banking

The segment provides a wide range of solutions to Corporates and Institutions. Products and services include lending, trade finance, cash management, securities services, foreign exchange, risk management, capital raising, corporate finance solutions and advisory needs providing solutions to local, inbound and outbound clients in Botswana.

Our clients include large corporations, governments, banks and investors.

Our coverage model integrating commercial and corporate banking businesses allows us to offer clients a consistent service experience and deliver operational efficiencies across our operations, riding also on our network capabilities.

Performance highlights

The segment returned to profitability following 3 years of loss making, recording a Profit before Tax of P57 million, significantly better than a P6.7 million loss recorded in 2019.

While performance of lending products remained under pressure, our Non-Funded business lines performed well.

Financial Markets took advantage of prevailing currency volatility conditions and recorded a gross growth in excess of 20%, contributing to the overall 28% growth in segment income, which closed the year at P253 million, up from P197 million recorded in 2019.

The improvements on the segment financial performance was broad based as all major income lines saw a decent increase:

- Net Income Interest was up 8%
- Net fee Income was up 11%
- Net Trading Income was up 12%

Operating expenses were 4% down on the back of increased operational efficiencies, mostly aided by our investments into digitisation over the years.

We also Launched our S2B2 NextGen platform providing world class digital banking to our clients.

We have migrated over 90% of our client base to digital only transactions improving service quality and ease of interaction with the Bank.

Segment Financial Performance

NII was up **38%** ↑

Net Trading income was up **61%** ↑

Net fee income was up **41%** ↑

Operating Expenses were down **4%** ↓

Our Strategic priorities

In contributing to the broader strategy of the bank, we will focus on:

- **Delivering our Network:** We will convert opportunities within the China corridor through a meaningful participation in infrastructure projects. We will leverage on our network in partnering with the public and corporate sectors in delivering sustainable and innovative financing solutions, including a pronounced contribution towards the development of the local capital markets.

- **Sustainable Performance:** We will continue to grow our business on a broad-based scale to attain a well-diversified revenue pool. Diversifying our client base for sustainable growth will remain in focus, with a view to continuously optimize income and risk concentrations. We will be leveraging technology to improve client experience, and continuously invest in our people, focussing on creating a high performance and client obsession culture. Our risk and controls will remain above board as we accelerate our sustainable finance offerings to our clients through product innovation, leading the transition into a low carbon future.

Looking ahead

We have taken significant steps to reshape the business for sustainable growth over the medium term and remain confident that we are investing in the right differentiation for lasting success.

Our clients remain at the centre of our strategy and our investments into new products and technology are yielding results in improved client experience.

We are excited about the capabilities our enhanced Straight2Bank platform, "S2B NextGen" introducing our unique multi-bank liquidity management feature and mobile tokens. We look forward to migrating all our client onto this platform.

We are committed to sustainable finance, delivering on our ambitions to increase support and funding for financial products and services that have a positive impact on our communities, the environment and support sustainable economic growth.

We have started this journey completing a development financing supported medium-term loan to one of our key State-Owned Enterprises and look to grow our participation in sustainable finance structures.

Review of Segments and functions

03 Human Resources

Our People

At Standard Chartered Bank we recognise that our workforce is a significant source of value that enables attainment of the Bank's aspirations which are centred around Client Centricity.

Our people's contribution is inspired by sound capability, a high performing and inclusive culture as well as a safe and enabling work environment. We believe these are fundamental building blocks for a future- ready workforce well placed to better serve our clients and deliver the Bank's purpose in light of advances in technology and a changing world.

Human Resources has four priority areas drawn up in service of the People Strategy:

- Shaping and enabling a client centric and adaptable organisation
- Developing and deploying the right talent (skills and capabilities)
- Making the most of our diversity to deliver prosperity for clients and communities
- Building a future-ready workforce.

Future Workplace

The unprecedented challenge brought about by the COVID-19 pandemic accelerated the need to deliver activities related to our People Strategy as well a different approach to deliver people management products to employees. By engaging with employees and listening to feedback provided through various surveys, we were able to assist colleagues to cope with the pandemic, target support where it was required while ensuring employees remained productive and committed to the success of the Bank. Employees were provided with support to work remotely including outside Botswana, opportunities to work flexibly and for those reporting to the office safe working practices that assured their well-being.

Future Skills

The world continues to change, client needs evolving and employee needs transforming. Our employees need a combination of personal and technical skills to succeed today and in the future. In 2020, the Bank introduced a digital learning platform where academies structured on personal (Resilience, Managing teams remotely) and technical (Analytics, Data, Digital and Cyber) skills identified as relevant for the future were established. In-class training programmes were virtualised providing greater access to global training programmes to our employees in the Botswana at no cost. The success of the initiative is embodied in over 75% of employees having growth plans in place and utilising our digital learning platform.

Employee Value Proposition

The Bank has identified 12 attributes for its Employee Value Proposition for which Reward and Wellbeing were areas of priority. While the story is one of progress and not success, the Bank was able to further embed the Fair Pay Charter and make real progress towards a stronger reward proposition to all colleagues. Employee wellbeing is of crucial importance and a priority.

The Bank's goal is to equip employees with the skills and support to realise their potential. During 2020, we sped up putting in place the right tools to support the well-being of our employees, we upgraded our Employee Assistance Programme, created practical toolkits, and initiated training for mental health first aiders. A global roll out of Realise Your Potential workshops, part of the Human Skills Academy on the digital learning platform was undertaken. Utilisation of the platform is rising and the Bank is proud to have the right support to help employees feel their best as the world continues to change at pace.

Inclusive Culture

Our culture diversity is our main competitive advantage in making the bank a purpose led business and provides opportunities to all our employees. An inclusive culture enables the Bank to unlock innovation through diversity of thought, make better decisions, live our valued behaviours and deliver the business strategy. Creating such a work environment was a significant challenge for people leaders who needed to keep teams connected and cohesive during the pandemic. People leaders were supported and trained to manage teams and drive performance remotely. To promote inclusivity and a safe working environment, The Respect at Work Programme was launched and 58% of people leaders attended the training in 2020.

The Bank also remained committed to its Diversity and Inclusion agenda structured on specific pillars namely gender, ethnicity and nationality, generations, sexual orientation, and disability and wellbeing. Various activities were undertaken in Botswana in service of this agenda including virtual celebrations of keys days such as International Women's Day. The different initiatives resulted in the Bank's diversity and score increasing by +1.64pts.

Priorities for the year ahead

- **Workforce reskilling and retooling** – This is year two of an ambitious three-year agenda. The Bank has the infrastructure in place, including a strong learning culture, and aims to deliver 3-5 proof points around 'reskilling' colleagues into roles where the Bank will have the greatest demand for the future.
- **Performance, reward, recognition and talent** – The Bank is executing work that is a key enabler to deliver on our cultural aspirations – to be innovative, inclusive and high performing.
- **Future Workplace, Now** – The Bank will dial up efforts on emerging people risks on account of large parts of the world getting into year two of the pandemic – with continued focus on transforming the workplace and working flexibly in terms of both location and time
- **Wellbeing** will continue to be a focus area for 2021 and beyond. The bank will continue to equip the leadership with tools to manage empathically and with great understanding of each employee's unique circumstances. Initiatives around how employees can continue to take greater care of their wellbeing will take centre stage to enable the bank to deliver its mandate and be a purpose led business.
- Continuing the journey to **digitise and improve technology** interfaces in HR with the objective of delivering best-in-class Employee Experience. The focus is on the People Management system to get ready for a full launch in 2022 and increasing the adoption/ satisfaction from digital HR channels.
- Finally, continuing the work on the **Cultural Transformation** of the Bank. The Bank will be sharing more on the work it has been doing to become a truly purpose-led organisation with bold aspirations. Working with 'senior leaders' to get a higher level of ambition across the firm and a strong culture of excellence.

Chief Financial Officer's Review

Performance Summary: FY'20 Highlights

4% income growth up 4% to P753 million

1% Cost efficiency Underlying expenses 1% up Y-o-Y

2% Loans and advances at P8 billion up 2%.

47% Profit before tax P102 million; up 47%

52% Stable Funding Mix CASA contibution 52%

6% Cost efficiency Reported expenses 6% up Y-o-Y

17.6% Stable Capital T 12.4% CAR 17.6%

Growth is broad based

14% down
Focused liability management Interest expense

6% up
Growth in consumer assets offset rate impact

7% up
overall Nil up, despite rate pressure

24% up Y-O-Y
Currency markets were volatile, we remained relevant, gross trading income up

44% up Y-O-Y
An improved balance sheet, ALM income up

+ returns
Overall, all key products and both segments delivered returns

Business Performance

Summary Profit and Loss Statement

Income Statement	2020 P'000	2019 P'000
Net Interest Income	464,263	435,659
Other Income	289,004	287,941
Operating income	**753,267**	**723,600**
Operating Expenses	**(657,891)**	**(621,834)**
Profit Before Impairment and Tax	95,376	101,766
Impairment Charges	(41,305)	(32,187)
Liability written off	48,049	-
Profit Before Tax	102,120	69,579
Tax for the year	(52,397)	(14,734)
Net Profit for the Year	**49,723**	**54,845**

Despite a good start of the year, the Business was not spared from the negative impacts of COVID-19 which set in, in earnest at the beginning of the second Quarter. In particular, the national lockdown, which ran from April into early May of 2020 resulted in a substantial reduction in transaction volumes thereby impacting our non-funded income. This was also compounded by a temporary 25% fee discount we offered to clients on our digital platforms partly in a bid to drive movement of people away from our physical branches. Our margin business was also impacted from two perspectives, firstly, sales activity was severely curtailed during the lockdown period, and as expected, recovering with a pronounced lag throughout the rest of the year although never reaching pre-COVID-19 levels. Secondly, we saw successive policy rate cuts by the Monetary Policy Committee of the Central Bank in a bid to assist in promoting the much-desired economic activity, the rate cuts accumulated to a full 100 bps thereby affecting our gross interest earnings significantly.

" Our Financial Markets business fully exploited the volatility we saw across all our major currencies, resulting in an overall growth in our trading income, which was at 24% on gross basis."

Mbako Mbo
Chief Financial Officer

Chief Financial Officer's Review cont.

Despite the severely challenging business environment, decisive steps were taken by management to defend business gains from the last 3 years. Appropriate liability management strategies were deployed, resulting in a double-digit reduction in interest expense, leading to an overall increase in Net interest income.

Our Financial Markets business fully exploited the volatility we saw across all our major currencies, resulting in an overall growth in our trading income, which was at 24% on gross basis. Underlying costs were broadly flat with a 1% increase over prior levels, although a once off restructuring provision of P23 million drove an overall 6% increase in reported costs.

The 1% growth is attributable, mainly, to expenditures incurred in protecting our staff and clients against COVID-19, as well as contributing to efforts by Government and communities in responding to the same.

Against a corresponding increase in digitisation costs is a 16% decrease in administrative expenditures as training and business meetings have been substantially virtualised, thereby obviating a bigger portion of travelling and accommodation needs. Underlying credit provisions went up 28%, reflecting a credit market impacted by COVID-19.

Provisions for Expected Credit Losses (ECL) were higher in particular for our corporate segments as our clients were either directly or indirectly affected by the COVID-19 misfortunes in the mining, tourism and real estate sectors, being among the hardest hit areas of the economy. However, the increase in credit provisions was entirely off set by a once-off transaction in which a P48 million liability of a consolidated entity, being a loan owed by the Standard Chartered Botswana Education Trust to Standard Chartered UK was written off.

Our underlying profits, net of the two once off items mentioned above grew 11% YoY with statutory profits recording a 47% growth to P102 million. Tax charges for the year is higher due to a P37 million deferred tax asset write-off.

Segment Performance

	2020 P'000	2019 P'000
Statement for Profit or Loss		
Consumer, Private and Business Banking	507,395	493,941
Corporate, Commercial and Institutional Banking	252,616	197,471
Total Net Operating income	**760,011**	**691,412**
Consumer, Private and Business Banking	(462,628)	(417,695)
Corporate, Commercial and Institutional Banking	(195,263)	(204,138)
Total Operating Expenses	**(657,891)**	**(621,833)**
Consumer, Private and Business Banking	44,767	76,246
Corporate, Commercial and Institutional Banking	57,353	(6,667)
Operating Profit Before tax	**102,120**	**69,579**

Consumer, Private and Business Banking Segment

In redefining our client channels and product constructs, we have, during the year, transformed our Retail business, and consequently renamed it the Consumer, Private and Business Banking, CPBB. The segment registered a 3% growth in income, driven by a 6% growth in client assets.

The growth was however slowed down by successive policy rate cuts. Non-interest income was also 4% down on account of substantially reduced transaction volumes during lockdown periods.

However, the non-funded income base was expanded during the year with a successful rollout of Cash Depositing ATMs across the country, a main feature of the Bank's reconfigured client interface centres (Express Banking Centres).

These centres come with increased convenience for clients, but a lower cost to serve to the Bank. Overall profitability was down on account of once off provisions in 2020.

Corporate, Commercial and Institutional Banking Segment

The segment saw a 28% y-o-y growth in income as the commercial sub segment finally transformed into profitability. A strong run in client transactions, including Corporate Finance delivered a 10% growth on non-funded income, with another 4% growth in trade income coming from currency trades.

There was also a strong conversion rate on the lending business including trade facilities resulting in a 7% growth in margin income. Costs were contained closely to a 4% reduction, although credit impairments grew 2.9 times to P20 million mainly driven by COVID-19 impacts on clients. However, there were no significant write offs. The segment emerged from a marginal loss in the prior year to record a profit before tax of P57 million.

Net Interest Income and margin

	2020 P'000	2019 P'000
Net Interest Income	464,263	435,659
Average Interest-earning Assets	13,624,225	13,364,632
Average Interest-bearing Liabilities	10,472,800	10,802,096
Avg. Gross Rate Earned	5.47%	5.70%
Avg. Net Interest Margin (%)	4.21%	3.84%
Avg. Net Interest Spread (%)	3.93%	3.69%
Avg. Rate paid (%)	2.55%	2.80%

Net Interest Income went up 7% as liability management strategies paid off, resulting in a 25-bps reduction in the average interest rate paid.

A 2% increase in average interest earning assets marginally offset the overall effects of successive policy rate cuts that led to a 23-bps point reduction in gross yield.

Average Net Interest margins and spreads were also up 37-bps and 24 bps respectively, reflecting a laser focus approach to balance sheet management.

Credit Quality

	2020 P'000	2019 P'000
Gross loans and Advances to customers	8,324,388	8,107,844
Of which Stage 1 and 2	8,109,709	7,922,452
Of which Stage 3	214,679	182,487
Expected Credit loss provisions	208,708	188,617
Of which Stage 1 and 2	86,073	91,114
Of which Stage 3	122,635	97,503
Net loans and Advances to customers	8,115,680	7,919,227
Of which Stage 1 and 2	8,023,636	7,831,338
Of which Stage 3	92,044	87,890
Collateral	3,901,826	4,732,901
Stage 1 and stage 2 exposures	3,656,509	4,099,782
Stage 3 exposures	245,317	633,119

Our approach to credit risk management was promptly adjusted at the onset of COVID-19; the frequency and scope of stress tests were increased; our credit appetite was also adjusted across product groups and client engagements were elevated.

This was to ensure protection of the asset book, while at the same timing enhancing origination discipline. Deterioration in asset quality was broadly contained to a bare minimum as the NPL ratio edged up only 30-bps to 2.6%, thus remaining well below industry averages.

Migration of exposures to Stage 3 (from 1 & 2) represented 0.72% of Gross loans (or 28% of total ECL provisions held). Relief to clients due to COVID-19 impact was offered based on good performance pre-CODID-19, and a total of P735 million was offered to deserving clients, who have since resumed normal debt servicing schedules.

Chief Financial Officer's Review cont.

Balance Sheet and Liquidity

	2020 P'000	2019 P'000
Assets		
Loans and advances to banks	2,501,471	3,458,459
Loans and advances to customers	8,115,680	7,919,227
Other Assets	3,447,553	4,352,641
Total assets	14,064,704	15,730,327
Liabilities		
Deposits from other banks	436,471	1,020,928
Deposits from customers	11,849,610	12,875,805
Other Liabilities	718,636	725,747
Total liabilities	13,004,717	14,622,480
Equity	1,059,987	1,107,847
Advances-to-deposits Ratio (%)	68	61
Liquid Assets Ratio (%)	17.2	24.5

Overall Balance sheet size went down 11% driven mainly by a combined P852 million reduction in low yield assets, with a corresponding reduction in pricier client deposits and inter bank borrowings. Senior debt instruments (SCB 003) that matured during the year were also not rolled over as part of a broader capital management plan.

However, our higher margin assets, particularly driven by household credit went up 2%. Assets to deposit Ratio climbed 7% up as a direct result of controlled liability reduction. All in all, the Balance Sheet remained fairly stable and resilient, delivering increased margins.

Risk Weighted Assets

	2020 P'000	2019 P'000
By Risk Type		
Credit	6,921,071	7,118,133
Market	33,959	49,952
Operational	722,185	761,215
Total RWAs	**7,677,215**	**7,929,300**

Risk Weighted Assets (RWAs) were 3% down y-o-y despite a pronounced pressure on credit quality. Strategies that included closer limit reviews and a more selective approach to credit extension on the face of COVID-19 led to the decline in RWA, which conversely delivered increased returns. The composition and/or mix of RWA remained broadly unchanged from what it was in 2019.

Capital Base and ratios

	2020 P'000	2019 P'000
CET1 Capital	552,611	646,214
Additional Tier 1 Capital (AT1)	400,000	400,000
Tier 1 Capital	952,611	1,046,214
Tier 2 Capital	397,273	477,977
Total Capital	1,349,884	1,524,191
Capital Adequacy Ratio (%)	17.6	19.2
Regulatory Threshold (%)	12.5	15*

* In April 2020 the central Bank revised the minimum regulatory CAR from 15% to 12.5% as part of the broader COVID-19 relief measures offered to local regulated Banks.

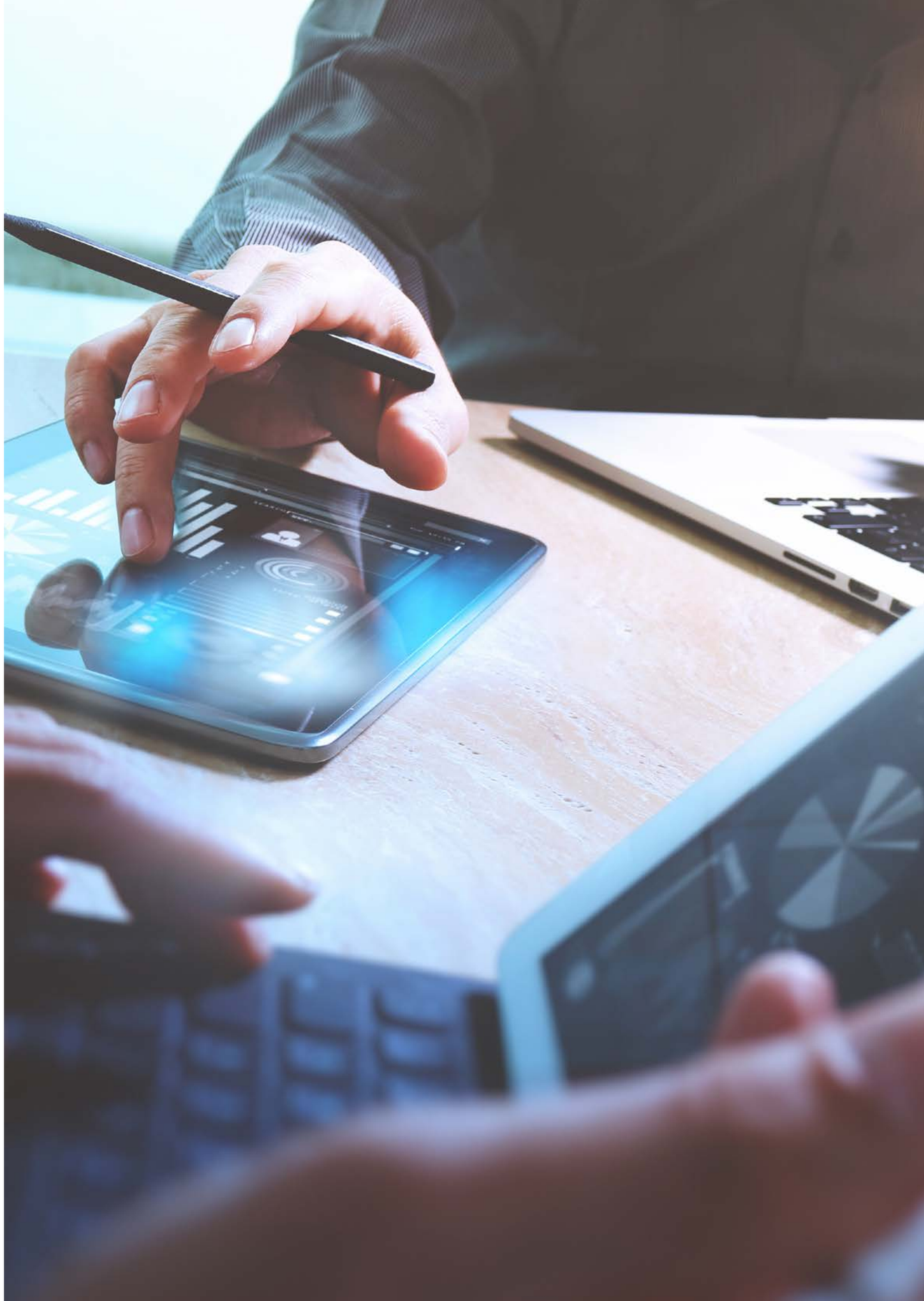
The Bank's capital position remained strong throughout the year, sources diversified and quality optimal.

Outlook

Given the somewhat renewed optimism on economic recovery prospects, informed mainly by COVID-19 vaccine availability and early signs of recovery in some sectors, 2021 could turn out a better year than 2020, but unlikely to deliver better than pre-COVID 19 business momentum.

We will lean more on enhancing client experience through improved internal productivity, expanded product offering and a faster pace in delivering our digital agenda.
The immediate future does look uncertain, but our focus on delivering best possible risk adjusted returns to investors remain, while we will not compromise on quality of service to our clients.

We will continue to prioritise health and safety for our staff and clients in the face of COVID-19 pandemic, and work with our communities in mitigating impacts of the scourge.



Chief Risk Officer's Review

Enterprise Risk Management Framework

Our Enterprise Risk Management Framework ('ERMF') sets out the principles and standards for risk management across the Bank.

The ERMF approved by the Board in August 2018, enables the Group to manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our Risk Appetite. It sets out the guiding principles for our staff, enabling us to have integrated and holistic risk conversations across the Bank, and with Group stakeholders.

The Bank applies a three Lines of Defence ('LOD') model to the day-to-day risk management activities and control framework. The first LOD businesses and functions that are engaged in, or support, revenue generating activities own and manage the risks. The second LOD comprise the control functions teams who are independent of the First Line and provide oversight and challenge of risk management to provide confidence to the Chief Risk Officer, Senior Management and the Board. The third LOD comprises the internal audit team who provides independent assurance on the effectiveness of controls that support First Line's risk management of business activities, and the processes maintained by the Second Line.

The Board has established Board level and management risk committees responsible for on-going governance and oversight of respective Principal Risk Types ('PRTs'). PRTs are those risks that are inherent in our strategy and business model. These risks are managed through distinct Risk Type Frameworks ('RTFs'), policies and standards that document the overall risk management approach for the respective PRT.

In 2020, the Group refreshed and rolled out the risk type frameworks for Information & Cyber Security and Operational Risk. The Group also completed the annual review of the ERMF, expanding the Reputational Risk PRT to include Sustainability Risk and integrated Conduct risk management as an integral component of the overall ERMF given its overarching nature. Effective January 2021, Conduct Risk will not be viewed as a PRT. Additionally, in order to meet the needs of the Bank's digital agenda and strengthen operational risk management capabilities of the Group, the Operational Risk PRT has been expanded to include Technology Risk. This Bank is embedding Climate Risk management in the its existing risk management practices for relevant PRTs.

Risk Culture

Embedding a healthy risk culture continues to be a core objective across all areas of the Bank. It underpins an enterprise-level ability to identify and assess, openly discuss, and take prompt action to address all existing and emerging risks. Internal messaging from senior management promotes a healthy risk culture by valuing risk-based thinking across each line of defence, encouraging risk awareness, challenging the status quo and creating a transparent, safe and open environment for employees to communicate risk concerns.

In 2020, we increased focus on both financial and non-financial risks given the impact of the COVID-19 pandemic on the economy, disruption to normal business operations of the Bank and its clients as well as critical third-party services providers. The implementation of a revised Operational Risk Type Management Framework has progressed well.

Risk Appetite and profile

The Board has approved a Risk Appetite Statement, which is underpinned by a set of financial and operational control parameters known as Risk Appetite metrics and their associated thresholds. These directly constrain the aggregate risk exposures that can be taken across the Group. The Risk Appetite Statement is supplemented by an overarching statement outlining the Group's Risk Appetite Principles.

"In 2020, we increased focus on both financial and non-financial risks given the impact of the COVID-19 pandemic on the economy, disruption to normal business operations of the Bank and its clients as well as critical third-party services providers."

Allan Mutenda
Chief Risk Officer

Chief Risk Officer's Review cont.

Principal Risk Types

Principal Risk Types are risks that are inherent in our strategy and our business model and have been formally defined in the Group's ERMF. These risks are managed through distinct Risk Type Frameworks (RTF) which are approved by the Group Chief Risk Officer. The Principal Risk Types and associated Risk Appetite Statements applicable locally are approved by the Board.

The Bank has identified eleven PRTs present in its business as follows:

Credit risk	Potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Group. The Bank manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors. The Bank actively manages its credit risk at transactional, counterparty and another portfolio levels, using a variety of qualitative and quantitative measures. The Bank endeavours to minimise risk as far as possible by only granting a loan where the risk of default and expected credit loss is acceptable. Based on evaluation of the counterparty's creditworthiness and the type of credit arrangement desired, credit limits are assigned by experienced credit approvers, and approved by the Bank's Credit Approval's Committee.
Country risk	Potential for default or losses due to political or economic events in a country. Country risk comprises several risks, notably (a) Transfer & Convertibility risk ('TCR'): Potential losses on cross-border or foreign currency obligations arising from the possibility that a government is unable or unwilling to make foreign currency available for remittance out of the country. (b) Local Currency risk ('LCR'): Potential losses on local currency obligations arising from operating in a volatile domestic economic and political environment. Gross Country risk is the aggregation of TCR and LCR. The Bank manages its Country risk exposures following the principle of diversification across geographies and controls the business activities in line with the level of jurisdiction risk
Traded risk	Traded risk is the potential for loss of earnings or economic value due to adverse changes in financial market rates or prices. The primary categories of Traded risk for the Bank are interest rate risk and currency exchange rate risk. Interest rate risk arises from adverse movements in interest rates that affect the underlying value of assets and liabilities and or alters interest rate sensitive income and expenses thereby affecting earnings. Currency exchange risk arises from movements in exchange rates. The Bank should control its trading portfolio and activities to ensure that Traded risk losses (financial or reputational) do not cause material damage to the Bank's franchise. Traded risk is addressed through the Executive Risk Committee ('ERC') of the Bank comprising the Country Chief Risk Officer, Chief Executive Officer and Heads of Business and Functions. The ERC ensures that Treasury Markets Fair Value Stress Loss Triggers remain within the overall approved risk appetite.

Capital & liquidity risk	Capital: potential for insufficient level, composition or distribution of capital to support our normal activities. Liquidity: potential for loss where we may not have sufficient stable or diverse sources of funding or financial resources to meet our obligations as they fall due. The Bank should maintain a strong capital position including the maintenance of management buffers sufficient to support its strategic aims and hold an adequate buffer of high-quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary Central Bank support. Liquidity risk issues are addressed through the Asset and Liability Committee ('ALCO') comprising the Chief Executive Officer, Chief Financial Officer and Country Chief Risk Officer. The respective Heads of Business, Financial Markets, Asset and Liability Management and Group Treasury attend by invitation. At its meetings, ALCO deals with strategic, tactical and policy issues on liquidity, interest rate and capital management, and sets the positions and mismatch levels within which the activities of the next period are conducted.
Operational & Technology Risk	Potential for loss resulting from inadequate or failed internal processes and systems, human error, or from the impact of external events (including legal risks). Operational risk exposures are managed through a set of management processes that drive risk identification, assessment, control and monitoring activities consistently across the Bank. The Bank aims to control operational risk to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Bank's franchise.
Reputational & Sustainability Risk	The potential for damage to the franchise (such as loss of trust, earnings or market capitalization), because of stakeholders taking a negative view of the Bank through actual or perceived actions or inactions, including a failure to uphold responsible business conduct or lapses in our commitment to do no significant environmental and social harm through our client, third-party relationships, or our own operations. The Bank's policy provides a framework of first and second-line ownership, risk authorities, risk appetite and reporting and governance committee oversight. The Bank aims to protect the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight.
Compliance	Potential for penalties or loss to the Group or for an adverse impact to our clients, stakeholders or to the integrity of the markets we operate in through a failure on our part to comply with laws or regulations. The Bank manages this risk through a dedicated Compliance unit, an established set of procedures for managing regulatory change, ongoing tracking of regulatory obligations and oversight by governance committees. The Bank has no appetite for breaches in laws and regulations, while recognising that regulatory non-compliance cannot be entirely avoided, the Bank strives to reduce this to an absolute minimum

Chief Risk Officer's Review cont.

Conduct	Risk of detriment to the Group's customers and clients, investors, shareholders, market integrity, competition and counterparties or from the inappropriate supply of financial services, including instances of wilful or negligent misconduct. Failure to deliver fair customer outcomes and to protect the integrity of the markets we operate in may lead to regulatory sanctions, financial loss and reputational damage. The Bank believes that all employees are entitled to a fair and safe working environment that is free from discrimination, exploitation, bullying, harassment or inappropriate language. The Bank has no appetite for negative Conduct risk outcomes arising from negligent or wilful actions by the Bank or individuals recognising that while incidents are unwanted, they cannot be entirely avoided.
Information and cyber security	Information and Cyber Security risk ('ICS') is defined as the risk to the Bank's assets, operations and individuals due to the potential for unauthorised access, use, disclosure, disruption, modification, or destruction of information assets and or information systems. This may lead to adverse customer and reputational impacts, regulatory censure, financial loss, litigation and or the potential for the Bank to fail; affecting financial markets and the wider economy. The Bank seeks to avoid risk and uncertainty for our critical information assets and systems and has a low appetite for material incidents affecting these or the wider operations and reputation of the bank. Board and management engage to drive a culture of security excellence and robust governance of control effectiveness. Businesses are accountable for the identification and management of ICS risk. The Bank also embeds security and resilience by design, automating processes to drive efficiency where possible and at each stage of client journeys to protect the Bank and our clients' information assets, supporting technology infrastructure and services. The Bank has put in place processes to identify and manage control weaknesses, and that horizon-scanning takes place to identify emerging threats and control gaps. Staff are adequately trained to securely use information assets, systems and technology infrastructure and monitor their usage to detect and report potential security incidents. Third parties who use, or process bank information assets, systems or technology infrastructure comply with policy and standards.
Financial crime	Potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to international sanctions, anti-money laundering and anti-bribery and corruption and Fraud. The Bank allocates responsibilities for the financial crime risk management in a manner consistent with the Three Lines of Defence model supported by ongoing risk assessment, governance, 2nd LOD oversight and challenge, independent financial crime risk function owned 2nd line processes, learning and awareness, assurance and testing and data management. The Bank has no appetite for breaches in laws and regulations related to Financial Crime, recognising that whilst incidents are unwanted, they cannot be entirely avoided.

Model	Model risk is defined as the potential loss that may occur as a consequence of decisions or the risk of mis-estimation that could be principally based on the output of models due to errors in the development, implementation, or use of such models. Models are inherently uncertain and using models in decision-making carries risks. The degree of a model's riskiness is a function of its materiality and uncertainty. The Bank aims to control Model Risk through appropriate level of governance and oversight to protect the franchise from losses that may occur as a consequence of decisions or the risk of mis-estimation that could be principally based on the output of models due to errors in the development, implementation or use of such models. The Bank allocates responsibilities for the model risk management in a manner consistent with the three LOD model. All models within the bank adhere to the requirements of the model risk policy and standards for the various stages in the model life cycle, are independently validated and regularly monitored to ensure models continue to be fit for their intended usage.
Strategic	While this is not a PRT, Strategic risk refers to the potential for opportunity loss arising from failure to optimise the earnings potential of the Bank. The Board approves the Bank's strategy as formulated by top management in line with the Banks approved risk appetite mandates, while the Chief Executive Officer and the Country Management Team have overall responsibility for strategy implementation. The Board conducts quarterly reviews of the strategy and its continued applicability.

Our Risk Profile in 2020

Through our well-established risk governance structure and risk management framework, we closely manage our risks with the objective of maximising risk-adjusted returns while remaining in compliance with the Risk Appetite Statement.

Non-financial risks, specifically Information and Cyber Security, Financial Crime Risk and Compliance were receiving elevated attention mainly on account of disruptive impact and socio economic implications of the COVID-19 pandemic giving risk to new ways of working and elevated health and safety concerns for our staff and clients. The Bank noted increases in credit risk requiring interventions by way of relief measures to support our clients through the difficult period. The Bank's management continues to focus on identifying and mitigating identified risks and emerging risks.

Board of Directors

Doreen Cilla Khama
Chairperson

She is the founder and senior partner at Doreen Khama Attorneys, a private law firm established in 1982 which provides legal advice to corporate and individual clients on commercial matters and general litigation. She is also the honorary of Austria to Botswana.

She has sat on the boards of Botswana Savings Bank, ABC Holdings and BancABC Botswana where she served as a Non Executive Director and Chairperson.

Jerry Kweku Boi Bedu – Addo
Non-Executive Director

Kweku Bedu-Addo was appointed as the CEO of Standard Chartered Bank for South Africa & Southern Africa in August 2017. He joined SCB Ghana in 2000 and became the first Ghanaian Chief Executive by 2010. Prior to joining SCB, Kweku worked in the Ministry of Finance in Ghana during the implementation of Ghana's Structural Adjustment Program.

Kweku also served as the past Chairman of the Ghana Stock Exchange and past Vice Chairman of the Ghana Fixed Income Market Council. He was on the Global Investment Committee, Acumen Fund, New York from 2012 to 2016. Kweku holds a Bachelor of Science degree in Agricultural Economics from the University of Ghana and a Masters degree in Economic Policy Management from Columbia.

Mpho Masupe
Chief Executive Officer
Chairman Acting: Risk committee

Mpho Masupe joined Standard Chartered Bank Botswana Limited in 2013 as Chief Financial Officer and was appointed as Chief Executive Officer in 2017. Prior to joining the Bank, he spent 10 years at Debswana Diamond Company in the Accounting and Shared Services Divisions. Mpho has a strong financial background acquired over 24 years leading finance and administration departments.

Mpho holds a Bachelor of Commerce Degree from the University of Botswana and a Masters in Strategic Management from the University of Derby. Mpho also sits on the Boards of Standard Chartered Insurance Agency (Pty) Ltd, Standard Chartered Investment Services (Pty) Ltd and Standard Chartered Botswana Nominees (Pty) Ltd.

John Stevens
Independent Non-Executive Director
Chairman: Audit Committee

John Stevens was appointed to the board as a Non-Executive Director in 2013. He served Deloitte & Touche in South Africa and Botswana for over 33 years, 8 of those years as partner in charge of Delotte & Touche Botswana.

John retired from Deloitte & Touche in 2007 and took up the challenge of private consultancy. He holds a B.Comm Degree from Rhodes University and is a fellow shareholder of the Botswana Institute of Chartered Accountants, a shareholder of the South African Institute of Chartered Accountants and a shareholder of the Institute of Chartered Accountants of England and Wales. John is also a shareholder of the Board for Cresta Marakanelo Limited.

Rodgers Thusi
Independent Non-Executive Director

Rodgers Thusi was appointed to the board as an Independent Non- Executive Director in July 2019. Mr Thusi is the co – founder of Gidary Technical Solutions, a consultancy company which has undertaken a number of projects covering technical investigations, mineral resource evaluation including projects and operations management support at various mines.

He holds a Bachelors Degree of Science specialising in Mineral Processing from the University of Wales, a post Graduate Diploma in Management Studies from Management College of Southern Africa and a Certificate in Advanced Operations Management from the University of Cape Town. He is a shareholder of Botswana Institute of Engineers, a registered engineer by the Engineering Registration Board Botswana and a project management professional through project management institute.

Thari Pheko
Independent Non-Executive Director

Thari Gilbert Pheko was appointed to the Board as an Independent Non-Executive Director in February 2020. Mr Pheko is a Consultant at ZBL Investments (Pty) Limited, a company that provides consultancy services in broad spectrum of Information and Communication Technology (ICT).

He has over 10 years experience in Executive Management positions of various organisations, he served as a Chief Executive for Botswana Telecommunications Authority and is a founding Chief Executive of Botswana Communications Regulatory Authority (BOCRA). He holds a Master's Degre in Management Information Systems, a Bachelors Degree in Business Finance and Economics from the University of East Anglia, Norwich, United Kingdom.

Rapelang Rabana
Independent Non-Executive Director

Rapelang Rabana was appointed to the board as an Independent Non-Executive Director in December 2020.

Ms Rabana is an internationally lauded technology entrepreneur. Her areas of expertise include digital transformation, innovation, strategy and product development, operations and process engineering, communications and brand development. She has received numerous awards as recognition for her skills, experience and expertise such as the 15 Women Changing the World by the World Economic Forum in 2015, Entrepreneur for the World by the World Entrepreneurship Forum in 2014.

She sits as a board member to the African Leadership University in Mauritius and Imagine Worldwide in San Francisco, United States of America.

Ms Rabana holds a Bachelor of Business Science (Computer Science Honours), a Master's of Science (Property Studies) from the University of Cape Town (UCT), South Africa, a FAIS Regulatory Exams RE1 (Key Individuals), RE3 (Key Individuals), RE5 (Representatives), and a Venture Capital Intensive Course from Venture University in San Francisco, USA.

Chazha Kgalemang
Company Secretary

Chazha was admitted as an Attorney of the High Court of Botswana in 2006. She has gained extensive experience on corporate, commercial, banking and finance law through working as a practising attorney and as in-house counsel for the past 7 years. Chazha holds a Masters of Laws, majoring in Corporate and Commercial Law (University of Melbourne) and a Bachelor of Laws (Rhodes University).

Statement on Corporate Governance

As a key player in the banking industry, Standard Chartered Bank Botswana Limited ("the Company") recognises its responsibility to practise high standards of corporate governance and to contribute to the promotion of an environment where such are upheld and practiced by all industry players.

Exemplary governance is key to the Company's long-term success, enabling the delivery of sustainable shareholder value.

The Company has an integrated approach to governance which ensures that the Company is effectively managed and controlled, in line with the strategy, and with regard to the requirements of key stakeholders. The Code of Conduct review and recommitment by staff is an annual requirement to ensure that the key principles underpin the conduct of all employees in their dealings with one another, customers, suppliers and other stakeholders.

The valued behaviours are embedded as guidelines for the expected behaviour of all employees and also form part of the contractual obligations for all the main suppliers of the Company in the conduct of business in as far as it relates to the Company but also as expected of all ethical businesses.

The Board Composition

The Board is collectively responsible for the long-term success of the Company and for ensuring leadership within a framework of effective controls. The Board sets the strategic direction of the Company, approves the strategy and takes the appropriate action to ensure that the Company is suitably resourced to achieve its strategic aspirations. The Board considers the impact of its decisions and its responsibilities to all stakeholders, including employees, shareholders, regulators, clients, suppliers, the environment and the communities in which it operates.

The Board has the appropriate mix of skills, knowledge and experience to perform its role effectively. The areas of expertise of the directors are as follows:

Name	Areas of expertise
D Khama	Law
T Pheko	Information Technology
R Thusi	Operations, Technology and Risk Management
R Rabana	Digital Transformation, Innovation and Strategy Development
K Bedu-Addo	Banking and Economics
J. Stevens	Accounting and Financial Management
M Masupe*	Banking and Financial Management

*Executive Director

Statement on Corporate Governance cont.

There exists a cordial working relationship between the non-executive and executive directors, characterised by a healthy level of challenge and debate. The executive team ensures that the non-executive directors receive comprehensive reports on the business as well as on the economic and competitive landscape.

The Board continues to review the matters reserved for the Board, key among them being the review and tracking of the Company's strategy, financial performance, approving any changes to capital, ensuring there is a sound system of internal controls and risk management, delegation and monitoring of authorities for expenditure, lending, people management and compensation, material outsourcing, and other significant commitments. In 2020, the Board spent significant time providing oversight over action taken to steer the Company through the challenges presented by the COVID-19 pandemic.

Diversity and mix of skills

The Chairman is committed to ensuring the overall effectiveness of the Board and that it achieves the appropriate composition and balance of directors. At yearend 2020, the Board had 7 members; five independent non-executive directors including the Chair, one non-executive director and one executive director.

The Board has a good mix of skills and experience to drive the business forward whilst maintaining a tight control on risk management and good corporate governance. It has the primary responsibility for ensuring adherence to the code of corporate governance. The Board has a charter which is publicly available to investors. The Board members are required to disclose any potential area of conflict that may compromise or undermine their position or service as directors.

With respect to Board diversity, the Board Charter describes the approach the Board takes to ensure that diversity in its broadest sense remains a central feature of the Board. The Company has a long history of diverse board membership. All Board appointments are based on merit with each candidate assessed against objective criteria, with the prime consideration of maintaining and enhancing the Board's overall effectiveness.

This notwithstanding, the Board strives to maintain diversity recognising the benefits of a diverse mix of gender, social and ethnic backgrounds, knowledge, personal attributes, skills and experience. This diversity provides a mix of perspectives which we believe contributes to effective Board dynamics.

Board selection and appointment principles

The Board has a formal and transparent procedure for the appointment of Board members based on a set of broad principles:

- The Board should have sufficient independence of mindset to challenge the executives as well as an appropriate balance of skills, knowledge, diversity (this includes diversity of gender and perceptions) and experience relevant to the Company's business.
- At least one third of the Board members must be comprised of independent directors.
- Prospective independent directors are interviewed by the Board Chair, The Regional Chairman Africa region and the Cluster Chief Executive, Southern Africa, who assess their suitability and whether their values and behaviours are aligned with the Company's culture and values.
- Independent directors should not serve longer than nine years. Where the Board considers the value and experience of an independent director, who is serving his/her ninth year, outweighs the nine-year term requirement, reasons for an extended term are clearly documented.
- In accordance with the Company's policy, due diligence/screening checks must be completed prior to the appointment of any independent director to ensure there is no undue risk posed to the Company in relation to integrity, financial soundness, conflicts of interest, related party relationships.
- All directors should have the capacity to devote sufficient time and commitment to attend all Board, Board Committee meetings, as well as engage in other Company's events.
- A key consideration for an appointment from within the Standard Chartered Group is the candidate's ability to bring broad knowledge of the Group to the Board's deliberations and provide context, so that the independent directors fully understand the Group's strategic direction and key priorities.
- The Board has established and maintains robust succession plans to ensure sound planning and a balance of knowledge and skills as well as appropriate continuity.
- A list of prospective independent directors is maintained by the Company Secretary and reviewed at least annually by the Board Chair.

Director induction

The Company has a comprehensive and tailored induction process for new directors covering its business operations and in particular the risk and compliance functions, as well as the legal, regulatory and other personal obligations of a director of a listed company. Upon joining the Board, a new director receives a briefing on various aspects of the business from the Executive Directors, the Company Secretary, Business Heads and other Senior Executives.

A key part of the induction programme is to ensure that the directors have a good understanding of the governance environment, including a comprehensive understanding of their statutory duties, obligations and responsibilities as directors of a Company carrying on banking business. The Company Secretary plays a key role in supporting new directors through the induction process.

Directors are kept appraised on all regulations and laws that are enacted which may affect the operations of the Company.

The directors are advised of the legal, regulatory and other obligations of a director of a listed company on an ongoing basis. The directors also receive training on corporate governance. The directors have access to independent professional advice to enable them to discharge their duties.

Directors ongoing development

In view of the changing business environment, continuous Board members' development is undertaken in order to enhance governance practices within the Board itself and in the interest of the Company.

The continuous development programme is needs-based and is designed for individual directors or for the Board to facilitate competence up-skilling of the Directors. We ensure that directors secure at least twelve hours of development per year on areas of governance from credible sources.

Following from the annual evaluation exercise, the directors identify areas that require further consideration by the Board and individual Directors and these are addressed through training and board presentations. The Board Committees also receive specialist presentations and training relevant to the work of their Committees as may be required.

During the year, all directors received a combination of mandatory learning and training, internal and external briefings, presentations from guest speakers and papers on a range of topics to ensure the directors are well-informed and that the Board remains highly effective. The Board received training in 2020 on various aspects including:

- Sustainable Finance incorporating Environmental and Social Risk Management;
- Emerging technologies, and the emerging challenges and opportunities;
- Refresher awareness session on IFRS-19 and a look at the impact of COVID 19;
- Cyber Security Risk Management training and emerging trends; and
- Financial Crime Control (FCC) risks;
- Anti-Bribery and Corruption;
- Cyber resilience and cyber readiness in the age of cyber threat.

BOARD EFFECTIVENESS

The Effective Board

The Board encourages open, transparent and constructive dialogue amongst the members. In addition to this, the Board has a carefully structured Board agenda which acts as a guideline to ensure that the minimum standards of governance are adhered to. The Board held a special strategy session in November 2020 to review, discuss and agree the Company's strategy. There was sufficient time to examine the emerging risks and opportunities in detail.

Board effectiveness evaluation

The annual Board evaluation was conducted in March 2020 through a process led by the Board Chair and supported by the Company Secretary. The evaluation entailed a peer evaluation for each director, and of the overall Board interactions, conduct of business meetings and scope of control exercised by the directors as well as evaluation of the functioning of the Board Committees. Following the evaluation exercise, the directors identified areas that required further consideration by the Board and these issues have been actioned.

Statement on Corporate Governance cont.

The Board continues to operate effectively. There is a high level of engagement from the non-executive directors and meaningful interaction with the executive directors and the senior management.

Roles of the Board Chairman and Chief Executive Officer

The separate roles of the Board Chairman and the Chief Executive Officer are clearly defined in the Board Charter which has been approved by the Board.

Except for direction and guidance on general policy, the Board has delegated the conduct of the day-to-day business to the Chief Executive Officer and the Executive Committee.

Succession planning

The Company has in place a succession plan for the directors which is updated regularly and a plan to maintain a balance of critical skills on the Board of Directors.

Access to information

Directors have unrestricted access to information and Management. They are provided with timely information and comprehensive reports on material operational, risk management and financial matters of the Company to facilitate informed discussions during meetings.

All the directors have access to the advice of the Company Secretary, who provides support to the Board and is responsible for advising the Board on governance matters. Directors also have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as directors.

BOARD ACTIVITIES

To enable the Board to use its time most effectively and efficiently, supported by the Company Secretary, it maintains a scheduled programme of meetings and a rolling agenda. There is sufficient flexibility in the programme for specific items to be added to any agenda to ensure that the Board can focus on the key matters at the appropriate time.

The Board also schedules informal sessions and interactions, which allows Board members to discuss areas of the business, strategy and the external environment with members of the Management Team and/or external advisers.

In 2020, due to restrictions imposed on gatherings by virtue of the COVID-19 pandemic, the Board held its meetings virtually.

Board meetings and attendance

The Board meets regularly, with at least four formal meetings a year and a strategy session. A formal schedule of matters reserved for discussion is maintained. The directors receive appropriate and timely reports to enable them to exercise full and effective control over strategic, financial, operational, risk, compliance and governance issues.

A careful balance of formal and informal meetings throughout the year exists and there is an atmosphere of cordial relations. This creates an environment that encourages challenge, consultation, information sharing, innovative thinking and openness in communication. The Board also has opportunities to interact with the staff.

The directors have full access to corporate information and sufficient detail to enable a productive and open discussion. There is diversity in the Board which ensures that the level of debate is both detailed and of a high technical standard.

The following table shows the number of Board meetings held during the year and the attendance by the directors:

	Scheduled	Ad Hoc
D Khama (Chairman)	4/4	1/1
T Pheko	4/4	1/1
J Stevens	4/4	1/1
K Bedu Addo	4/4	1/1
M Masupe	4/4	1/1
R Thusi	4/4	1/1

BOARD COMMITTEES

The Board has two primary Committees with specific delegated authorities. These are the Board Audit Committee and the Board Risk Committee, all chaired by independent directors.

The respective Chairs present their reports to the Board at each scheduled meeting. The Asset and Liability Committee (ALCO), are management committees chaired by the CEO and report quarterly to the Board.

Details of these committees and membership are shown below:

BOARD AUDIT COMMITTEE

Committee Composition

Directors	
J Stevens	Chairperson
R Thusi	Independent Non Executive Director
T Pheko	Independent Non-Executive Director

* By invitation	
M Mbo*	Chief financial Officer
C Kgalemang*	Secretary
T Ntwaetsile*	Head of Internal Audit
E Mokgatlhe*	Head of Conduct, Financial Crime and Compliance
Ernst & Young*	Statutory Auditors

The Committee members have detailed and relevant experience and bring an independent mindset to their role. The Board is satisfied that Mr John Stevens, as Chairperson, has the relevant financial experience to lead the committee and that all other committee members have broad experience and sufficient knowledge of financial reporting and the attendant requirements.

Highlights for 2020

In 2020, the Committee discharged its mandate as set out in its Terms of Reference as follows:

- Closely monitored audit findings and the actions thereon from the external and internal auditors;
- Continued to robustly monitor the controls in place for management of capital and liquidity positions, especially in line with the regulatory requirements;
- reviewed and approved the financial statements of the Company for each quarter;
- Satisfied itself that the Company's accounting policies and practices are appropriate;
- Monitored the integrity of the published financial statements, reviewing the significant financial judgements and accounting issues;
- Reviewed COVID-19 legislation enacted during the year following the advent of the COVID-19 pandemic;
- Ensured action and follow up on all compliance monitoring reports;
- Provided oversight of the work undertaken by the statutory auditor; and
- Provided oversight of the External Auditor transition:
  - Received and discussed updates on the status of the transition to Ernst & Young (EY) as the Company's statutory auditor by 2020 to ensure a seamless and timely handover
  - Reviewed and discussed EY's Audit Plan and sought and received assurance that EY's handover with KPMG and transition as auditor to the Company had taken place effectively and seamlessly. EY attended one Committee meeting and presented the audit plan to the Committee. in Q4, 2020 following appointment at the annual general meeting and subsequent regulatory approval.

Role and function

The Committee has a Charter that specifies the responsibilities and procedures of the Committee including conduct of special investigations. The Committee's role is to review, on behalf of the Board, the Company's internal financial controls. It is also responsible for oversight and advice to the Board on matters relating to financial reporting and has exercised oversight of the work undertaken by the Company's Head of Conduct, Financial Crime and Compliance, Head of Internal Audit and the statutory auditor. The Committee reports to the Board on its key areas of focus following each Committee meeting.

The key responsibilities of the Committee are:

Financial reporting

The Committee reviews the integrity of the financial statements of the Group and Company and recommends the statements for approval to the Board. The Committee considers Management's recommendations in respect of impairment on loans and advances as well as other disclosure requirements.

Statement on Corporate Governance cont.

Oversight of internal controls

The Committee regularly reviews and reports to the Board on the effectiveness of the Company's system of internal control. The Committee discusses the root causes of the issues reported by the Head of Internal Audit, and reviews Management's responses and remedial actions.

Internal and external audit reports

The Committee receives reports on the findings of the internal and external audits and tracks the actions on audit findings.

The Committee also reviews the proposed work plans for the Internal Audit and Compliance functions at the beginning of each year and guides on the areas of focus.

The Committee receives regular reports from the Head, Internal Audit on internal audits, compliance and legal risks and on the assurance framework. The Head, Conduct, Financial Crime and Compliance also submits reports on regulatory, compliance and conduct issues. The Chief Financial Officer, Head, Internal Audit, Head, Conduct, Financial Crime and Compliance, the external auditors and the Business Heads are regularly invited to the meetings to provide reports or respond to issues as required. The independent non-executive directors hold meetings with the Head, Internal Audit and External Auditors without management to freely discuss issues arising from the audits and monitor progress on the audit plan for the year.

The Committee held six meetings in the year. Areas of focus in the year were:

- approval of the audit and compliance monitoring plans;
- review of the enhanced regulatory reporting;
- Central Bank of Kenya mandated Information & Communication Technology audit;
- Central Bank of Kenya mandated Anti-Money Laundering report;
- review of audit reports; and
- review of the Group and Company financial statements.

Appropriateness of the expertise and experience of the Chief Financial Officer (CFO)

The committee on an annual basis, considers the appropriateness of the expertise and experience of the Chief Financial Officer. This mandate is in line with the Botswana Stock Exchange listing Rules, the committee has executed the mandate as required and is satisfied that the Chief Financial Officer has the requisite expertise and experience to continue serving in office.

BOARD AUDIT COMMITTEE

Attendance	Scheduled
Number of meetings held in 2020	
J Stevens (Chairperson)	4/4
T Pheko	4/4
R Thusi	4/4

BOARD RISK COMMITTEE

Members	
M Masupe	Committee Chair (Acting)
K Bedu-Addo	Member
R Ochieng*	Chief Risk Officer
C Kgalemang*	Secretary
T Pheko*	
R Thusi*	

* By invitation

Role and function

Risk management

The Committee is responsible for exercising oversight of and reviewing prudential risk. It reviews the Company's overall Risk Appetite Statement and makes recommendations to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Company's risk management systems, considering the implications of material regulatory change proposals, reviewing reports on principal risks to the business and ensuring effective due diligence on material acquisitions and disposals. The Committee reports to the Board on its key areas of focus following each Committee meeting.

The Chief Risk Officer presents a report to the Committee at every scheduled meeting and the Committee discusses the major risks faced by the Company across the businesses. The Committee also reviews the Company's risk appetite periodically.

The directors provide critical guidance and feedback to Management.

The Committee is responsible for ensuring that there are written policies, procedures and processes for identifying and managing all risks within the Company. The Committee receives reports on all aspects of risk management from the risk sub-committees and risk managers.

Highlights for 2020

The Committee held four meetings in the year and the areas of focus were:

- Enhanced focus on emerging risks including capital, liquidity and market risk;
- Focus on heightened risk arising from COVID-19 pandemic;
- Comprehensive review of the Company's risk appetite;
- Reviewed its membership and revised its rolling agenda to ensure all risks are reviewed by the Committee, and;
- Monitored the Company's capital adequacy and liquidity positions.
- Monitored measures implemented to strengthen the balance sheet to maintain adequate capital and liquidity, considering the COVID-19 pandemic.

Attendance	Scheduled
Number of meetings held in 2020	
M Masupe (Acting Chairman)	4/4
K. Bedu-Addo	3/4

CORPORATE GOVERNANCE POLICIES

BOARD CHARTER

The Board Charter outlines the specific roles and responsibilities of the Board which are separate from those of Management. The Charter provides for composition of the Board and its committees, and their respective Terms of Reference. Additionally, it covers areas relating to Board structure, functions, processes, effectiveness, diversity, and internal controls. The Charter is published on the Company's website.

INTERNAL CONTROLS

The Board is committed to managing risk and to controlling the Company's business and financial activities in a manner which enables it to maximise profitable business opportunities, manage and ensure compliance with applicable laws and regulations, and enhance resilience to external events.

The Company has a process in place to ensure that any changes in legislation are captured and monitored effectively. The Legal department reviews and undertakes a comprehensive gap analysis once the laws are in place and advises the impact of the changes to the Company. The Compliance department ensures that the business units put in place controls to ensure compliance with the various laws and regulations. As required by the Code a legal and compliance audit will be undertaken in 2021.

The effectiveness of the Company's internal controls system is reviewed regularly by the Board through a Management framework and the Internal Audit function.

The Internal Audit function monitors compliance with policies and standards and the effectiveness of internal control structures of the Group through its programme of business audits. The work of the Internal Audit function is focused on the areas of greatest risk as determined by a risk-based assessment methodology. The Internal Audit function reports to the Board Audit Committee and the Country Non-Financial Risk Committee (CNFRC).

The Company's business is conducted within a developed control framework, underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk, including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management framework that clearly defines roles, responsibilities and reporting lines. Delegated Authorities are documented and communicated.

The performance of the Company's business is reported by Management to the Board. Financial information is prepared using appropriate accounting policies, which are applied consistently. Operational procedures and controls have been established to facilitate complete, accurate and timely processing of transactions and the safeguarding of assets.

CONFLICT OF INTEREST

All directors are under a duty to avoid conflicts of interest. This entails not engaging, directly or indirectly in any business that competes or conflicts with the Company's business.

Statement on Corporate Governance cont.

The Company has established a robust process requiring directors to disclose outside business interests before they are entered into. Any potential or actual conflicts of interest are reported to the Company Secretary and a register of directors' interests is maintained.

The provisions on conflict of interest as outlined in the Prudential Guidelines are embodied in the directors' letters of appointment. The Company has a comprehensive policy on Conflicts of Interest and staff as well directors are required to comply with it.

CODE OF CONDUCT

The Board had adopted a Code of Conduct, relating to the lawful and ethical conduct of business which is supported by the Company's core values. All directors, management and employees are required to observe the Code and are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators. The Code of Conduct can be found here.

WHISTLE BLOWING POLICY

Speaking Up is our confidential and anonymous whistleblowing programme. It includes independent and secure channels for anyone – employees, contractors, suppliers and members of the public – to raise concerns.

The public, employees, contractors and suppliers are encouraged to report alleged irregularities of a general, operational and financial nature in the Company to the directors or designated official through the "Speak Up" portal. All "Speak-Up" cases are investigated and the required action taken to ensure feedback is provided as appropriate.

ANTI-BRIBERY AND CORRUPTION

Anti-bribery and corruption (ABC) policies aim to prevent employees, directors or third parties working on our behalf, from participating in active or passive bribery or corruption, or from making facilitation payments. To embed the policy, the Company regularly carries out training on all staff and the Board regarding the ABC risk. Further, the Company has worked with its third parties to raise awareness on the ABC risk, embed strict requirements in the contractual documents, and share best practices on controls to manage the risk.

RELATED PARTY TRANSACTION STANDARD

The Company has established a Related Party Transactions Standard that aims to set out requirements for the creation of any new Related Party and maintaining controls to prevent or identify Non-Exempt Transactions that are entered into with existing Related Parties.

INSIDER TRADING

The Company has a policy on insider trading which is observed and implemented through the Group Transactional Conflicts and Information Walls Standard and the Group Personal Account Dealing Standard. Directors, management and employees are aware that they ought not to trade in the Company's shares while in possession of any insider information not available to the public or during a closed period. The closed period is a specified period before the publication of the Company's annual and half year financial results and each interim management statement. Further, directors, management, and employees in possession of inside information must not deal directly or indirectly in any financial instruments to which the inside information relates, including Company shares. The Group Personal Account Dealing Standard which requires specific staff to declare any dealings with securities or company shares all year round.

GOING CONCERN

The directors have assessed the Group and Company's ability to continue as a going concern. This assessment has been made having considered the impact of COVID-19 and macroeconomic headwinds, and has included:

- A review of the Strategy and Corporate plan, including a review of the actual performance to date, loan book quality and legal and regulatory matters;
- Consideration of the capital adequacy stress testing performed, including a COVID-19 stress scenario; and
- Analysis of the funding and liquidity position of the Group, including a review of the Group's emerging risks, to which COVID-19 has been added.

Based on the analysis performed, the directors confirm they are satisfied that the Group and Company have adequate resources to continue in business for a period of at least 12 months from the date of approval of these financial statements.

For this reason, the Group continues to adopt the going concern basis of accounting for preparing these financial statements.

RELATIONS WITH SHAREHOLDERS

The Board recognises the importance of good communications with all shareholders. The virtual Annual General Meeting (AGM) as well as the published annual report are used as an opportunity to communicate with all shareholders. The Company always gives shareholders the 21 days' notice of the AGM as provided for in the Companies Act, Cap 42:01 and shareholders are encouraged to submit questions and appoint proxies to represent them where they are unable to attend. Ad hoc shareholder requests for information are handled on an on-going basis and on the floor of the AGM.

In upholding and protecting shareholders' rights, the Board recognises that every shareholder has a right to participate and vote at the general shareholders meeting. The Board also invites shareholders to seek clarity on the Group and Company performance in general meetings. The Board also holds an interactive informal meeting once a year with the shareholders.

The Board has engaged the services of a professional Registrar to allow for quick resolutions of all shareholder queries and smooth the transfer of shares.

COMPETENCE, QUALIFICATION AND EXPERIENCE OF THE COMPANY SECRETARY

As required by the Botswana Stock Exchange Listing Rules, the board has considered, and it is satisfied that the Company Secretary is competent, adequately qualified and experienced to continue serving in office and supporting the Board.

Directors' remuneration

The remuneration policy supports the achievement of the strategic objectives through balancing reward for both short-term and long-term sustainable performance.

The Board received shareholders' authorisation to fix the directors' remuneration by a resolution passed at the Annual General Meeting held on 29th June 2020. The Committee monitors the competitiveness of directors' remuneration to ensure the Group is able to motivate and retain individuals of the appropriate calibre as directors. The remuneration of the executive directors is as per negotiated employment contracts.

In determining remuneration for Independent non-executive directors, regular surveys on the market rates for non-executive directors and the levels of remuneration are carried out for consideration by the Committee. All the remuneration and privileges accorded to the directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity as the Group.

Compensation is set to attract Independent non-executive directors (INEDs) who together with the Board as a whole have a broad range of skills and experience to determine the Group's strategy and oversee its implementation.

The INEDs are paid an annual fee.
INEDs are also reimbursed for expenses, such as travel and subsistence, incurred in the performance of their duties.
During the financial year, the Board of Directors consisted of:

- Five Independent Non-Executive directors: Doreen Khama, Thari Pheko, Rogers Thusi, John Stevens and Rapelang Rabana
- One Non-Executive Directors: Kweku Bedu Addo
- One Executive directors: Mpho Masupe

All Directors are subject to retirement by rotation and re-election by shareholders. The Company's directors were appointed on the dates indicated below:

Name	Appointment Date
Doreen Khama	16/09/2018
***John Stevens**	01/08/2013
Rogers Thusi	19/07/2019
Thari Pheko	10/02/2020
****Kweku Bedu-Addo**	01/09/2018
Mpho Masupe	01/10/2017
Rapelang Rabana	13/12/2020

* South African
** Ghanian

Non-executive directors' remuneration and policy

The Company has put in place a policy that defines the remuneration and related privileges received by the non-executive directors of the Company.

Statement on Corporate Governance cont.

All the remuneration and privileges accorded to the directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a comparable size and complexity. The components in the policy are directors' fees, travel, and accommodation.

The fees payable reflect the time commitment and responsibilities of a non-executive director of the Company. The non-executive directors employed by Standard Chartered Group are not remunerated by the Company.

Service contracts for Independent non-executive directors

Independent Non-executive directors are appointed for fixed terms not exceeding three years, which may be renewed subject to their re-election by shareholders at annual general meetings. Independent non-executive directors are bound by letters of appointment issued for and on behalf of the Company. Other than as set out above, there are no obligations in the Independent non-executive directors' letters of appointment which could give rise to payments for loss of office.

Executive directors' remuneration policy

Executive directors typically receive a salary, pension, and other benefits, and are eligible to be considered for variable remuneration (determined based on both the Company and individual performance). The Company's remuneration approach is consistent with effective risk management and the delivery of the Company strategy, underpinned by the principles of:

- a competitive remuneration opportunity that enables the Company to attract, motivate and retain the executive directors;
- a clearly defined performance management framework that ensures executive directors have clear objectives and receive ongoing feedback;
- remuneration outcomes that relate to the performance of the executive director and the Company. The Company aims to ensure the executive director is aligned to deliver long-term sustainable growth of the Company in the interest of stakeholders;
- variable remuneration and deferred options that recognises the achievement, conduct, behaviours and values of each executive director, ensuring reward is aligned to the Company's performance. The Company takes into account both what is achieved and how it is achieved;
- an appropriate mix of fixed and variable remuneration, with the level of fixed remuneration based on each executive director's role;
- remuneration that is fair and transparent. An equal pay review is undertaken as part of the pay review process; and
- a core level of benefits that protects the executive directors and reflects the Company's commitment to employee wellbeing.

There were no changes in remuneration policy from the prior year.

Service contracts for executive directors

The remuneration policy provides for a combination of permanent terms and renewable fixed term employment contracts for executive directors on international assignments.

KING IV REPORT

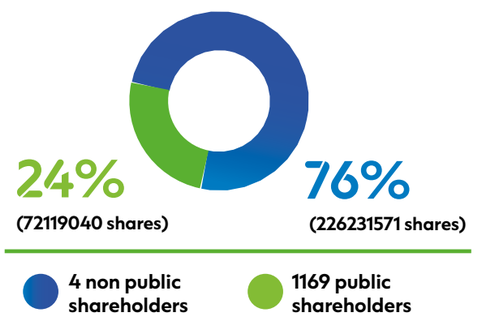
The Company has over the years always committed itself to aligning and adopting the recommendations of the King Code on Corporate Governance. Having adopted the recommendations of King IV in 2017, the Board developed a programme for implementation of those of its principles that were practical for implementation in our business environment. As at December 2020, most of the principles were being applied, save for those where we had achieved partial application.

Almost all the principles had been applied, the principle that was determined to not have been applied relates to the Risk Committee composition. the Risk Committee operated without an Independent Non Executive Director for most of the year under review. This has been rectified and the committee is chaired by an Independent Non-Executive Director.

King IV Principle	Status
Principle 1: The governing body should lead ethically and effectively	**Complied**
Principle 2: The governing body should govern the ethics of the organization in a way that supports the establishment of an ethical culture	**Complied**
Principle 3: The governing body should ensure that the organization is and is seen to be a responsible corporate citizen	**Complied**
Principle 4: The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	**Complied**
Principle 5: The governing body should ensure that reports issued by the organization enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects.	**Complied**
Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.	**Complied**
Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	**Complied**
Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and the effective discharge of its duties.	**Complied**
Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members support continued improvement in its performance and effectiveness.	**Complied**
Principle 10: The governing body should ensure that the appointment of, and delegation to, management contribute to the role clarity and the effective exercise of authority and responsibilities.	**Complied**
Principle 11: The governing body should govern risk in a way that supports the organization in setting and achieving its strategic objectives.	**Complied**
Principle 12: The governing body should govern technology and information in a way that supports the organization in setting and achieving its strategic objectives.	**Complied**
***Principle 13:** The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organization being ethical and a good corporate citizen.	**Partial Compliance**
Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	**Complied**
Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and external reporting purposes.	**Complied**
Principle 16: In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organization over time.	**Complied**
Principle 17: The governing body of an institutional investor should ensure responsible investment.	**Not Applicable**

Shareholder Information

The company has a total of 1173 shareholders with 298 350 611 issued shares categorised as follows:



The company's majority shareholder is Standard Chartered Holdings (Africa) B.V with 221 246 286 shares representing 74.156% of the entire shareholding.

Standard Chartered Bank Botswana Limited

Consolidated and Separate Annual Financial Statements for the year ended 31 December 2020

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Directors' Report for the year ended 31 December 2020

The directors have pleasure in submitting to the members their report and the financial statements of the Group and Company for the year ended 31 December 2020.

Activities

The Group continues to be engaged in the business of commercial banking and provides a wide range of financial services. The Group comprises of four subsidiaries, namely Standard Chartered Bank Insurance Agency (Proprietary) Ltd, Standard Chartered Bank Investment Services (Proprietary) Ltd, Standard Chartered Botswana Education Trust and Standard Chartered Botswana Nominees (Proprietary) Ltd.

Results

The Group results are disclosed in the statements of profit and loss and other comprehensive income on page 58 and reflect the following:

P102 million
Profit before taxation
(2019 : P70 million)

P49.7 million
Profit after taxation
(2019 : P55 million)

P55 million
Dividends declared and paid
(2019: P24 million)

Stated capital

There was no additional capital issued during the year.

Additional Tier 1 Capital

There was no Additional Tier 1 capital injection during the year **(2019: Nil)**.

Events after reporting date

The Directors are not aware of any matters or circumstances arising since the end of the financial year, not dealt with in this report or these financial statements, that would significantly affect the operations of the group or the results of its operations.

Refer to note 38 for dividend declared.

Going Concern

The financial statements were approved by the Board of Directors on the 10th of March 2021. The Directors have made a comprehensive assessment of the Bank's ability to continue as a going concern, and this entailed a review of the impact of Covid-19 on the business (present and expected), macroeconomic outlook and any other horizon risks.

In particular, the review entailed;

- A re-assessment of the Bank's strategy, and the revised corporate plan for 5 years to 2025 (profitability, capital adequacy, liquidity and cashflows, with special emphasis in the next 12 months).
- A detailed analysis of capital adequacy and its makeup, liquidity profile and diversification of sources, current and forecast performance against prudential ratio thresholds and the ICAAP (a summary of the bank's capital and risk assessment processes, assesses its capital requirements and the adequacy of resources to meet them).
- An assessment of current performance in terms of profitability against budgets, liquidity and funding against Risk Appetite thresholds, loan book quality and impairments, regulatory compliance and any impeding legal matters.
- A consideration of the bank's performance under an ICAAP stress scenario (A Slow Recovery Scenario imposed by Covid-19).
- The liability and asset maturity profile, the liquid assets profile, outstanding debts and the bank's overall solvency and leverage.

Directors' Report for the year ended 31 December 2020 cont.

- The emerging trends on average run rates for sales of primary products, banks prospects on raising client deposits at requisite levels and issuance of medium-term debt instruments.

Based on the above, supported by a continuous scanning of horizon risks within the framework of established principal risk types, the Directors are satisfied that the Bank has adequate resources to continue running as a going concern for the next 12 months and beyond. As such, the financial statements of the Bank are prepared on a going concern basis.

Holding company

The Group's ultimate holding company is Standard Chartered Bank PLC, a company incorporated and domiciled in the United Kingdom.

Directors

The following were directors of the Bank during the year and at the date of approval of the financial statements:

Doreen Khama	**(Board Chairperson)**
Mpho Masupe	**(Executive)**
John Yendall Stevens	
Jerry Kweku Boi Bedu-Addo	
Rodgers Majwabe Thusi	
Thari Gilbert Pheko	**(appointed 18 February 2020)**
Rapelang Rapana	**(appointed 13 December 2020)**

Company Secretary: **Chazha Kgalemang**

Auditors

Ernst & Young
2nd Floor, Plot 22,
Khama Crescent
P.O. Box 41015
Gaborone
Botswana

By order of the Board

Chazha Kgalemang
Company Secretary

Directors' Responsibility Statement for the year ended 31 December 2020

The directors are responsible for the preparation of the consolidated and separate annual financial statements of Standard Chartered Bank Botswana Limited that give a true and fair view, which comprise the statements of financial position at 31 December 2020, the statements of consolidated profit or loss and other comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies, in accordance with International Financial Reporting Standards. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for maintaining adequate accounting records and an effective system of risk management.

The directors, supported by the Audit Committee, are satisfied that management introduced and maintained adequate internal controls to ensure that dependable records exist for the preparation of the Group annual financial statements, to safeguard the assets of the Group and to ensure all transactions are duly authorised.

The directors have made an assessment of the ability of the Company and its consolidated entities to continue as going concerns and have no reason to believe that the entities will not be going concerns in the year ahead. An impact assessment of the Corona virus Covid-19 pandemic has been conducted.

The auditor is responsible for reporting on whether the consolidated and separate financial statements give a true and fair view in accordance with the applicable financial reporting framework.

Approval of the consolidated and separate annual financial statements:

The consolidated and separate annual financial statements of Standard Chartered Bank Botswana Limited, were approved by the board of directors on the 10th of March 2021 and are signed by:

Doreen Khama
Chairperson

Mpho Masupe
Managing Director

EY Building a better working world

Independent Auditor's Report

To the Shareholders of Standard Chartered Bank Botswana Limited Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Standard Chartered Bank Botswana Limited and its subsidiaries (the Group) and company set out on pages **58 to 137**, which comprise the consolidated and separate statements of financial position as at 31 December 2020, and the consolidated and separate statements of profit or loss and comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Standard Chartered Bank Botswana Limited as at 31 December 2020, and of its consolidated and separate financial performance and of its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act (CAP 42:01) and the Banking Act (CAP 46:04).

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 are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with other ethical requirements that are relevant to our audit of the consolidated financial statements in Botswana. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 period. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the consolidated and separate Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Independent Auditor's Report
To the Shareholders of Standard Chartered Bank Botswana Limited
Report on the Audit of the Consolidated and Separate Financial Statements **cont.**

Key Audit Matter	How the matter was addressed in the audit
Credit Impairment of loans and advances to customers (Consolidated and separate financial statements) At 31 December 2020 the Group and Company reported total credit impairment of P41m (2019: P32m). Management's judgements and estimates which are especially subjective to audit due to significant uncertainty associated with the assumptions used in the estimation in respect of the timing and measurement of expected credit losses (ECL) include: • Allocation of assets to stage 1, 2, or 3 on a timely basis using criteria in accordance with IFRS 9 considering the impact of COVID-19 and related government support measures, such as payment deferrals, on customer behaviours; • Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL considering the impact of COVID-19 on model performance and any additional data to be considered in the ECL calculation; • There are significant judgements involved with the determination of parameters used in Monte Carlo Simulation and the evaluation of the appropriateness of using Monte Carlo Simulation in the context of COVID-19 with regards to whether the simulation can sufficiently capture the non-linearity of expected credit losses and appropriately generate a wide range of possible outcomes.	We evaluated the design and operating effectiveness of controls relevant to the Group and Company's processes over material ECL balances, including the judgements and estimates noted, involving EY specialists to assist us in performing our procedures to the extent it was appropriate. These included: - controls over the allocation of assets into stages such as management's monitoring of stage effectiveness; - the governance and review of post model adjustments; - risk event overlays; - completeness and accuracy of data; - multiple economic scenarios; - credit monitoring; and

Independent Auditor's Report
To the Shareholders of Standard Chartered Bank Botswana Limited
Report on the Audit of the Consolidated and Separate Financial Statements **cont.**

• Appropriateness, completeness and valuation of post model adjustments and COVID-19 specific risk event overlays given the increased uncertainty and less reliance on modelled outputs increasing the risk of management override; and • Measurement of individual provisions including the assessment of probability weighted scenarios and the impact COVID-19 had on exit strategies, collateral valuations and time to collect. Refer to the Use of judgements and estimation uncertainty (Note 2) Significant accounting policies (Note 3) Accounting policies; Expected credit loss on financial assets (Note 9); and relevant credit risk disclosures (Note 4)	- individual provisions. • We obtained papers and minutes of the executive forums that evaluate credit models and ECL provisions for evidence of executive review and challenge. • We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the overall credit quality of the Group and Company's portfolios, risk profile, impact of COVID-19 and high-risk industries. We also assessed the effect of government support measures e.g. payment deferrals, which may delay and mask stage migrations. Our assessment also included the evaluation of the macroeconomic environment by considering trends in the economy and industries to which the Group and Company are exposed. • We evaluated the criteria used to allocate financial assets to stage 1, 2 or 3 in accordance with IFRS 9. We reperformed the staging distribution for a sample of assets and assessed the reasonableness of staging downgrades applied by management. • We performed a risk assessment on models involved in the ECL calculation to select a sample of models to test. • Our modelling specialists evaluated a sample of ECL models by assessing the reasonableness of underpinning assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design and formulae used, alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default.

Independent Auditor's Report
To the Shareholders of Standard Chartered Bank Botswana Limited
Report on the Audit of the Consolidated and Separate Financial Statements **cont.**

	• We also assessed the material post-model adjustments which were applied as a response to model ineffectiveness and risk event overlays as a result of COVID-19. With our modelling specialists, we also considered the completeness and appropriateness of these adjustments by considering the judgments, methodology and governance applied. • In response to new models implemented this year which addressed known weaknesses, we performed more extensive substantive procedures in testing the modelled ECL. • To test credit monitoring, we challenged the risk ratings for a sample of performing loans and focused our testing on high risk industries impacted by COVID-19. • To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including balance sheet data used to run the models. We also tested a sample of the ECL data points from the calculation engine through to the general ledger and disclosures. • We included COVID-19 specific data points in this testing. • We involved economic specialists to assist us in evaluating the reasonableness of the base forecast and the range of economic scenarios produced by the Monte Carlo Simulation. • Procedures performed included benchmarking a sample of core macro-economic variables to a variety of external sources. • For material models, in collaboration with our economists and modelling specialists, we also challenged the completeness and appropriateness of the macroeconomic variables used as inputs to these models. When recalculating a sample of individually assessed provisions, our procedures included challenging management's forward-looking economic assumptions of the recovery outcomes identified and assigning individual probability weightings.

Independent Auditor's Report
To the Shareholders of Standard Chartered Bank Botswana Limited
Report on the Audit of the Consolidated and Separate Financial Statements **cont.**

	• We also engaged our valuation specialists to test the value of the collateral used in management's calculations. Our sample was based on quantitative thresholds and qualitative factors including vulnerable sectors. • We considered the impact COVID-19 had on collateral valuations and time to collect. • We also considered whether planned exit strategies remained viable under COVID-19. • We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations including expectations of COVID-19 specific disclosures.

Other Matter

The financial statements of the Company for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those financial statements on 14 April 2020.

Other Information

Other information comprises the information included on page **48 to 50** of the document titled "Standard Chartered Bank Botswana Limited Annual Financial Statements for the year ended 31 December 2020", which includes the Directors' Responsibility Statement and the Director's Report as required by the Companies Act (CAP 42:01), which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. The directors are responsible for the other information. 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 on the other information obtained prior to the date of this auditor's report, 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.

Independent Auditor's Report
To the Shareholders of Standard Chartered Bank Botswana Limited
Report on the Audit of the Consolidated and Separate Financial Statements **cont.**

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act (CAP 42:01) and the Banking Act (CAP 46:04) 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 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 or company or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group and Company's financial reporting processes.

Our objectives are to obtain reasonable assurance about whether the 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 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 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 company to cease to continue as a going concern.

Independent Auditor's Report
To the Shareholders of Standard Chartered Bank Botswana Limited
Report on the Audit of the Consolidated and Separate Financial Statements **cont.**

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 and separate financial statements. We are responsible for the direction, supervision and performance of the group and company 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 period 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.

Practicing member: Thomas Chitambo
Partner
Certified Auditor
Membership number: 20030022
Gaborone
31 March 2021

Statement of profit or loss and other comprehensive income for the year ended 31 December 2020

	Note	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Interest revenue calculated using the effective interest method	5	745,154	762,047	745,154	762,047
Interest expense calculated using the effective interest method	6	(280,891)	(326,388)	(279,321)	(322,826)
Net interest income		**464,263**	**435,659**	**465,833**	**439,221**
Fee and commission income	7	229,779	238,387	204,378	205,260
Fee and commission expense	7	(29,151)	(35,459)	(29,151)	(35,459)
Net fee and commission income		**200,628**	**202,928**	**175,227**	**169,801**
Net trading income	8	88,376	85,013	88,376	85,013
Credit loss expense on financial assets	9	(41,305)	(32,187)	(41,305)	(32,187)
Liability written off	9.1	48,049	-	-	-
Net operating income		**760,011**	**691,413**	**688,131**	**661,848**
Operating expenses					
Employee benefits	10	(252,344)	(225,119)	(252,344)	(225,119)
Rental expenses		(1,079)	(1,214)	(1,079)	(1,214)
Depreciation and amortisation	19 & 20	(45,484)	(38,704)	(45,484)	(38,704)
Administration expenses	11	(358,984)	(356,797)	(346,710)	(346,789)
Total operating expenses		**(657,891)**	**(621,834)**	**(645,617)**	**(611,826)**
Profit before taxation		**102,120**	**69,579**	**42,514**	**50,022**
Income tax expense	12	(52,397)	(14,734)	(51,375)	(9,501)
Profit/ (loss) for the year attributable to parent		**49,723**	**54,845**	**(8,861)**	**40,521**
Other comprehensive income					
Other comprehensive income that will be reclassified to the income statement					
Change in fair value of financial instruments at fair value through other comprehensive income, net of tax	17	(12,886)	(1,374)	(12,886)	(1,374)
Other comprehensive income that will not be reclassified to the income statement					
Revaluation of property, net of tax	19	-	2,005	-	2,005
Other comprehensive income for the year, net of tax		(12,886)	(10,646)	(12,886)	631
Total comprehensive income/(loss) for the year, net of tax attributable to parent		**36,838**	**55,476**	**(21,747)**	**41,152**
Basic and diluted earnings per share (Thebe)	14	16.81	18.54		

The notes on pages **63 to 137** are an integral part of these financial statements

Statement of financial position as at 31 December 2020

	Note	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Assets					
Cash and balances with the Central Bank	15	975,991	870,350	973,484	867,731
Loans and advances to banks	16	2,501,471	3,458,459	2,501,471	3,458,459
Investment securities	17	2,113,719	3,073,599	2,113,719	3,073,599
Loans and advances to customers	18	8,115,680	7,919,227	8,115,680	7,919,227
Other assets	21	168,809	182,514	168,779	142,169
Taxation refundable	25	-	1,665	-	1,665
Property and equipment and right-of-use assets	19	112,720	131,883	112,720	131,883
Intangible assets and goodwill	20	38,781	31,327	38,781	31,327
Investment in subsidiaries	30	-	-	30	30
Deferred taxation	26	37,534	61,305	37,534	61,305
Total assets		**14,064,704**	**15,730,327**	**14,062,198**	**15,687,395**
Liabilities					
Deposits from other banks	22	436,471	1,020,928	436,471	973,746
Deposits from customers	23	11,849,610	12,875,805	11,849,610	12,875,805
Unsettled Treasury bills	27.1	29,878	-	29,878	-
Other liabilities	27.2	268,503	286,251	296,113	261,703
Provisions	27.3	23,158	-	23,158	-
Taxation payable	25	8,097	496	7,440	-
Senior & subordinated loan	24	389,000	439,000	389,000	439,000
Total liabilities		**13,004,717**	**14,622,480**	**13,031,670**	**14,550,254**
Equity					
Stated capital		179,273	179,273	179,273	179,273
Capital contribution		428,213	428,213	428,213	428,213
Retained earnings		452,501	500,361	423,042	529,655
Total equity attributable to parent		1,059,987	1,107,847	1,030,528	1,137,141
Total equity and liabilities		**14,064,704**	**15,730,327**	**14,062,198**	**15,687,395**

The notes on pages **63 to 137** are an integral part of these financial statements

Statement of cash flows for the year ended 31 December 2020

	Note	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Cashflow from operating activities					
Profit/(loss) for the year		**49,723**	**54,845**	**(8,861)**	**40,521**
Adjustments for:					
Interest income		(745,154)	(762,047)	(745,154)	(762,047)
Interest expense		280,891	323,747	279,321	320,185
Taxation		52,397	14,734	51,375	9,501
Depreciation	19	30,243	23,792	30,243	23,792
Amortisation on intangibles	20	14,403	14,912	14,403	14,912
Profit on disposal of assets		-	(140)	-	(140)
Net impairment loss on loans and advances	9	25,058	26,168	25,058	26,168
Movement in operating lease accrual	31	-	(5,908)	-	(5,908)
Unrealised foreign exchange (gains)/losses		(1,614)	243	(1,614)	243
Liability written off		(48,049)	-	-	-
Movement in provisions		23,158	(30,674)	23,158	30,674
Changes before changes in working capital		**(318,944)**	**(340,328)**	**(332,072)**	**(302,099)**
Change in investment securities		978,246	974,490	978,246	974,490
Change in loans and advances to customers		(221,511)	(460,160)	(221,511)	(460,160)
Change in other assets		12,319	61,626	(27,995)	(4,546)
Change in deposits from other banks		(584,457)	266,499	(537,275)	262,576
Change in amounts due to non bank customers		(1,026,195)	535,144	(1,026,195)	535,144
Payment of unsettled Treasury bills		-	(1,348,939)	-	(1,348,939)
Change in other liabilities		47,206	(25,752)	48,961	(13,314)
		(1,113,338)	(337,419)	(1,117,842)	(356,846)
Taxation refunded		-	13,150 -	13,150	
Taxation paid		(17,081)	(5,883)	(13,609)	(1,665)
Interest received		742,975	762,047	742,975	762,047
Interest paid		(255,886)	(291,454)	(254,316)	(320,185)
Net cash generated/(used) in operating activities		**(643,329)**	**140,441**	**(642,791)**	**96,500**
Cash flow from investing activities					
Acquisition of property and equipment	19	(11,308)	(111,299)	(11,308)	(111,299)
Acquisition of intangibles	20	(21,857)	(16,873)	(21,857)	(16,873)
Proceeds from sale of assets		-	140	-	140
Net cash used in operating activities		(33,165)	(128,032)	(33,165)	(128,032)
Cash flow from financing activities					
Redemption of senior debt	24	(50,000)	(247,260)	(50,000)	(247,260)
Interest paid on senior and subordinated debt	6	(25,005)	(32,293)	(25,005)	-
Lease liability interest payments	31	(2,184	-	(2,184)	-
Lease liability capital payments	31	(13,210)	-	(13,210)	-
Dividends paid		(54,419)	(23,844)	(54,845)	(23,844)
Distribution payment to holders of subordinated capital securities		(30,035)	(30,889)	(30,035)	(30,889)
Net cash from financing activities		**(174,852)**	**(334,286)**	**(175,278)**	**(301,993)**
Decrease in cash and cash equivalents		(851,347)	(321,878)	(851,235)	(333,524)
Cash and cash equivalents at 1 January 2020		4,264,337	4,687,481	4,261,718	4,696,509
Net foreign exchange differences		64,472	(36,795)	64,472	(36,795)
Cash and cash equivalents as 31 December 2020	**28**	**3,477,462**	**4,328,809**	**3,474,955**	**4,326,190**

The notes on pages **63 to 137** are an integral part of these financial statements

Statement of changes in equity for the year ended 31 December 2020

Group	Stated Capital P'000	Revaluation reserve P'000	Statutory credit risk reserve P'000	Retained earnings P'000	Capital Contri-bution P'000	Treasury Share reserve P'000	Fair value reserve P'000	Total P'000
Balances 1 January 2019	**179,273**	**23,691**	**19,152**	**483,734**	**428,213**	**(31,566)**	**6,282**	**1,108,779**
Total comprehensive income								
Profit for the year	-	-	-	54,845	-	-	-	54,845
Other movements	-	-	-	(1,675)	-	-	-	(1,675)
Other comprehensive income								
Fair value adjustment: items measured at fair value through other comprehensive income	-	2,005	-	-	-	-	(1,374)	631
Transactions with owners of the bank								
Dividends to equity holders - paid	-	-	-	(23,844)	-	-	-	(23,844)
Issue of share capital								
Distributions to holders of subordinated capital securities	-	-	-	(30,889)	-	-	-	(30,889)
Balance at 31 December 2019	**179,273**	**25,696**	**19,152**	**482,171**	**428,213**	**(31,566)**	**4,908**	**1,107,847**
Balances 1 January 2020	**179,273**	**25,696**	**19,152**	**482,171**	**428,213**	**(31,566)**	**4,908**	**1,107,847**
Total comprehensive income								
Profit for the year	-	-	-	49,723	-	-	-	49,723
Other movements	-	-	-	(244)	-	-	-	(244)
Other comprehensive income								
Fair value adjustment: items measured at fair value through other comprehensive income	-	-	-	-	-	-	(12,886)	(12,886)
Transactions with owners of the bank								
Dividends to equity holders - paid	-	-	-	(54,419)	-	-	-	(54,419)
Distributions to holders of subordinated capital securities	-	-	-	(30,035)	-	-	-	(30,035)
Balance at 31 December 2020	**179,273**	**25,696**	**19,152**	**447,197**	**428,213**	**(31,566)**	**(7,978)**	**1,059,987**
Company								
Balance at 01 January 2019	**179,273**	**23,691**	**19,152**	**494,185**	**428,213**	**-**	**6,282**	**1,150,796**
Total comprehensive income								
Other movements	-	-	-	(73)	-	-	-	-
Profit for the year	-	-	-	40,521	-	-	-	40,521
Other comprehensive income								
" Fair value adjustment items measured at fair value through other comprehensive income "	-	2,005	-	-	-	-	(1,374)	631
Transactions with owners of the bank					-			
Dividends to equity holders - paid	-	-	-	(23,844)	-	-	-	(23,844)
Distributions to holders of subordinated capital securities	-	-	-	(30,889)	-	-	-	(30,889)
Balance at 31 December 2019	**179,273**	**25,696**	**19,152**	**479,900**	**428,213**	**-**	**4,908**	**1,137,214**
As 1 January 2020	**179,273**	**25,696**	**19,152**	**479,900**	**428,213**	**-**	**4,908**	**1,137,141**
Total comprehensive income								
Other movements	-	-	-	14	-	-	-	14
Profit for the year	-	-	-	(8,861)	-	-	-	(8,861)
Other comprehensive income	-	-	-	-	-	-	-	-
" Fair value adjustment items measured at fair value through other comprehensive income "	-	-	-	-	-	-	(12,886)	(12,886)
Transactions with owners of the bank					-			
Dividends to equity holders - paid	-	-	-	(54,845)	-	-	-	(54,845)
Distributions to holders of subordinated capital securities	-	-	-	(30,035)	-	-	-	(30,035)
Balance at 31 December 2020	**179,273**	**25,696**	**19,152**	**386,172**	**428,213**	**-**	**(7,978)**	**1,030,528**

The notes on pages **63 to 137** are an integral part of these financial statements

Statement of changes in equity for the year ended 31 December 2020 cont.

Stated capital

Authorised ordinary shares
The Company's stated capital consists of 400 000 000 ordinary shares of no par value (2019: 400 000 000).

Issued ordinary shares
298 380 611 ordinary shares of no par value (2019: 298 350 611). All issued shares are fully paid.

Unissued ordinary shares
As at 31 December 2020, unissued shares totalled 101 619 389 (2019: 101 649 389).

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the entity. All shares rank equally with regard to the Bank's residual assets.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group and its individually regulated operations have all complied with externally imposed capital requirements throughout the period.

Revaluation reserve

The revaluation reserve comprises the net cumulative increase in the fair value of property.

Statutory credit risk reserve

This reserve represents a statutory reserve required under the Banking Act, 1995.

Capital contribution

This consists of part of the consideration for the acquisition of the custody business (P28m) and the subordinated undated capital securities (P400m).

Fair value reserve

This represents the cumulative movement on debt instruments measured at fair value through other comprehensive income until the instrument is derecognised or impaired, in which case the cumulative amount recognised in other comprehensive income is released to profit or loss.

Retained earnings

Retained earnings represent the cumulative net profit or loss realised by the Group after deducting dividends to shareholders and other utilisation of the reserve.

Treasury share reserve

The reserve for the company's treasury shares comprises the cost of the Bank's shares held by the Group. As at the reporting date, the Group held 0.84% of the Company's shares (2019: 0.84%) as treasury shares.

Notes to the financial statements for the year ended 31 December 2020

1. Reporting entity

Standard Chartered Bank Botswana Limited ("Bank") was incorporated in Botswana as a Bank with limited liability under the Botswana Companies Act and is licensed to operate as a commercial bank under Section 6 of the Banking Act, 1995 (Chapter 46:04). The Company's registered address is Standard Chartered Bank Botswana Limited, Standard House, Plot 1124-30 Queens Road, Main Mall, Gaborone, Botswana. The Company is listed on the Botswana Stock Exchange (BSE Code: STANCHART). The consolidated financial statements for the year ended 31 December 2020 comprise the Company and its controlled entities (together referred to as the "Group"). The Company has four subsidiaries, namely Standard Chartered Bank Insurance Agency (Proprietary) Limited, Standard Chartered Investment Services (Proprietary) Limited, Standard Chartered Botswana Nominees (Proprietary) Limited and Standard Chartered Botswana Educational Trust. Standard Chartered Bank PLC, incorporated in United Kingdom is the ultimate parent. These financial statements represent the Group's and Bank's statutory financial statements.

2. Basis of preparation

(a). Statement of compliance
These financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04).

These financial statements were approved by the board of directors on 10 March 2021.

(b) Functional and presentation currency
These financial statements are presented in Botswana Pula (P). The functional currency of the Bank is the Botswana Pula. Except where indicated, the financial information presented in Botswana Pula has been rounded to the nearest thousand.

(c) Basis of consolidation
Entities controlled by the Group are consolidated. The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that are presently exercisable are taken into account. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Business combinations are accounted for using the acquisition method under IFRS 3, i.e. the date of acquisition is the date on which control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The excess of consideration transferred over net fair value of identifiable assets acquired is recorded as goodwill (refer note 3(j). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss

Investment in subsidiaries
Investment in subsidiaries are held at cost less impairment .

Transactions eliminated on consolidation
Inter-group balances and transactions, and any unrealised income and expenses arising from inter-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the financial statements for the year ended 31 December 2020 cont.

2. Basis of preparation (continued)

(d) Segmental reporting

A segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment results include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis.

(e) Use of judgement and of estimation uncertainty

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies of the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision of estimates are recognised prospectively.

Further information about key assumptions concerning the future, and other key sources of estimation uncertainty and judgement are set out in the relevant disclosure notes and accounting policies for the following areas:

Credit impairment (note 4)
Valuation of financial instruments (note 4)
Deferred tax assets (note 3)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities (unless otherwise specified in the note below on changes in accounting policies). The accounting policies disclosed for the consolidated financial statements apply equally to the Bank's separate financial statements unless otherwise specified. Certain comparative amounts for the Group have been restated as a result of the correction of a prior period error.

(a) Changes in accounting policies

The Group has adopted the following relevant new standards, including any consequential amendments to other standards, which were effective for the financial year beginning on 1 January 2020:

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16IFRIC 23: IBOR reform Phase 2) which is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

Definition of Material - Amendments to IAS 1 and IAS 8, effective for annual periods beginning on or after 1 January 2020.

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to, the Group.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.

(b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognised in profit or loss.

(c) Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in profit or loss include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest rate basis; and
- interest on investment securities measured at fair value through other comprehensive income calculated on an effective interest basis.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(c) Interest

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest in suspense

If there are any recoveries on stage 3 loans, any contractual interest earned while the asset was in stage 3 is recognised in the credit impairment line. No stage 3 assets cured during the year where interest was previously suspended.

(d) Fees and commission

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Fees and commission income consists of income from fiduciary activities, commission on insurance brokerage activities and other fees which includes placement fees and syndication fees which are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are rendered.

The determination of the services performed for the customer, the transaction price, and when the services are completed depends on the nature of the product with the customer. The main considerations on income recognition by product are as follows:

Transaction Banking

The Bank recognises fee income associated with transactional trade, cash management and custody activities at the point in time the service is provided. The Bank recognises income associated with trade contingent risk exposures (such as letters of credit and guarantees) and periodic custody activities over the period in which the service is provided.

Payment of fees is usually received at the same time the service is provided. In some cases, letters of credit and guarantees issued by the Bank have annual upfront premiums, which are amortised on a straight-line basis to fee income over the year.

Financial Markets and Corporate Finance

The Bank recognises fee income at the point in time the service is provided. Fee income is recognised for a significant non-lending service when the transaction has been completed and the terms of the contract with the customer entitle the Bank to the fee. Fees are usually received shortly after the service is provided.

Insurance Brokerage

For commission on brokerage activities, customers are entitled to a pro-rata refund of insurance premiums paid in advance if their loans are early settled. As a result, a portion of the commission on brokerage activities may need to be refunded. Refund on commission earned on these insurance premiums collected are accounted for as variable consideration. The commission income is estimated, and recognised only to the extent that it is highly probable that a significant reversal of revenue will not occur (the constraint). The amount received but not recognised as revenue is accounted for as a claw-back liability, until such time as the premiums are refunded or the constraint is removed. Clawback liability is included in other liabilities note (27.2).

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(e) Net trading income

Net trading income comprises foreign currency gains and losses which are included in the profit or loss in the period they arise.

(f) Dividend income

Dividend income is recognised when the right to receive dividend income is established. Usually this is the ex-dividend date for quoted equity securities. The dividend income forms part of revenue.

(g) Loans and advances

Loans and advances captions in the statement of financial position include loans and advances measured at amortised cost, they are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method. Included in loans and advances are loans and advances to banks, advances to customers and investment securities. When the Group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement is accounted for as a loan or advance.

(h) Financial instruments

The Group classifies its financial assets into the following measurement categories: a) amortised cost b) fair value through other comprehensive income and c) fair value through profit or loss. Financial liabilities are classified at amortised cost or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition or, where appropriate, at the time of reclassification. The Group policy for 'Regular way purchase or sale' of a financial asset (other than loans and receivables) shall be accounted based on trade date accounting.

Financial assets held at amortised cost and fair value through other comprehensive income (FVOCI)

Debt instruments held at amortised cost or held at fair value through other comprehensive income (FVOCI) have contractual terms that give rise to cash flows that are solely payments of principal and interest (SPPI characteristics). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows have SPPI characteristics, 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;
Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Whether financial assets are held at amortised cost or at FVOCI depend on the objectives of the business models under which the assets are held. A business model refers to how the Group manages financial assets to generate cash flows.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Financial assets held at amortised cost and fair value through other comprehensive income (FVOCI) (continued)

The Group makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management. Factors considered include:

- How the performance of the product business line is evaluated and reported to the Group's management;
- How managers of the business model are compensated, including whether management is compensated based on the fair value of assets or the contractual cash flows collected;
- The risks that affect the performance of the business model and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ("hold to collect") are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold to collect and sell") are classified as held at FVOCI.

Both a hold to collect business model and a hold to collect and sell business model involve holding assets to collect the contractual cash flows. However, the business models are distinct by reference to the frequency and significance that asset sales play in meeting the objective under which a particular group of financial assets is managed. Hold to collect business models are characterised by asset sales that are incidental to meeting the objectives under which a group of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in credit risk of financial assets but sales for other reasons should be infrequent or insignificant.

Cash flows from the sale of financial assets under a hold to collect and sell business model by contrast are integral to achieving the objectives under which a particular group of financial assets are managed. This may be the case where frequent sales of financial assets are required to manage the Group's daily liquidity requirements or to meet regulatory requirements to demonstrate liquidity of financial instruments. Sales of assets under hold to collect and sell business models are therefore both more frequent and more significant in value than those under the hold to collect model.

Designated at fair value through profit or loss

Financial assets and liabilities may be designated at fair value through profit or loss when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis (accounting mismatch).

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Designated at fair value through profit or loss (continued)

Financial liabilities may also be designated at fair value through profit or loss where they are managed on a fair value basis or have an embedded derivative where the Group is not able to separate the embedded derivative component.

Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

Financial guarantee contracts and loan commitments

The Group issues financial guarantee contracts and loan commitments in return for fees. Under a financial guarantee contract, the Group undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantee contracts and loan commitments issued at below market interest rates are initially recognised as liabilities at fair value, while financial guarantees and loan commitments issued at market rates are recorded off balance sheet. Subsequently, these instruments are measured at the higher of the expected credit loss provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

Debt investment securities

Debt investment securities are initially recognised and subsequently measured at fair value through other comprehensive income. The Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. On derecognition, gains and losses accumulated in other comprehensive income (OCI) are reclassified to profit or loss.

Fair value of financial assets and liabilities

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 market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Group has access at the date. The fair value of a liability includes the risk that the Bank will not be able to honour its obligations.

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Financial liabilities designated at fair value through profit or loss

Financial liabilities designated at fair value through profit or loss are held at fair value, with changes in fair value recognised in the net trading income line in the profit or loss, other than that attributable to changes in credit risk. Fair value changes attributable to credit risk are recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated at fair value through profit or loss is recognised in profit or loss.

Modified financial instruments

Financial assets and financial liabilities whose original contractual terms have been modified, including those loans subject to forbearance strategies, are modified instruments. Modifications may include changes to the tenor, cash flows and or interest rates among other factors.

Where derecognition of financial assets is appropriate, the newly recognised residual loans are assessed to determine whether the assets should be classified as Purchased or Originated Credit Impaired assets (POCI).

Where derecognition is not appropriate, the gross carrying amount of the applicable instruments is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). The difference between the recalculated values and the pre-modified gross carrying values of the instruments are recorded as a modification gain or loss in the profit or loss.

Gains and losses arising from modifications for credit reasons are recorded as part of credit impairment. Modification gains and losses arising from non-credit reasons for financial assets are recognised within income. Modification gains and losses arising on financial liabilities are recognised within income.

Derecognition of financial instruments

Financial assets

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss except for equity instruments elected FVOCI and cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Financial liabilities

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively. However, where a financial liability has been modified, it is derecognised if the difference between the modified cash flows and the original cash flows is more than 10 percent.

Reclassifications

Financial liabilities are not reclassified subsequent to initial recognition. Reclassifications of financial assets are made when, and only when, the business model for those assets changed. 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.

Reclassified from amortised cost

Where financial assets held at amortised cost are reclassified to financial assets held at fair value through profit or loss, the difference between the fair value of the assets at the date of reclassification and the previously recognised amortised cost is recognised in profit or loss.

For financial assets held at amortised cost that are reclassified to fair value through other comprehensive income, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. Additionally, the related cumulative expected credit loss amounts relating to the reclassified financial assets are reclassified from loan loss provisions to a separate reserve in other comprehensive income at the date of reclassification.

Reclassified from fair value through other comprehensive income

Where financial assets held at fair value through other comprehensive income are reclassified to financial assets held at fair value through profit or loss, the cumulative gain or loss previously recognised in other comprehensive income is transferred to profit or loss.

Reclassified from fair value through profit or loss

Where financial assets held at fair value through profit or loss are reclassified to financial assets held at fair value through other comprehensive income or financial assets held at amortised cost, the fair value at the date of reclassification is used to determine the effective interest rate on the financial asset going forward. In addition, the date of reclassification is used as the date of initial recognition for the calculation of expected credit losses. Where financial assets held at fair value through profit or loss are reclassified to financial assets held at amortised cost, the fair value at the date of reclassification becomes the gross carrying value of the financial asset.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported on 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 to realise the asset and settle the liability simultaneously.

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 in the Group's trading activity

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Credit impairment

The Group's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions. The significant judgments and estimates in determining expected credit loss include:
The Group's criteria for assessing if there has been a significant increase in credit risk; and
Development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit-impairment provisions also involves expert credit judgment to be applied by the credit risk management team based upon counterparty information they receive from various sources including relationship managers and on external market information.

Expected credit losses

Expected credit losses are determined for all financial debt instruments that are classified at amortised cost or fair value through other comprehensive income, undrawn commitments and financial guarantees.

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.

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.

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of an instrument. For less material Retail Banking loan portfolios, the Group has adopted a simplified approach based on historical roll rates or loss rates.

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.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Expected credit losses (continued)

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is a greater risk of downside credit losses than upside gains, multiple forward-looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall expected credit loss amounts. These scenarios are determined using a Monte Carlo approach centred around the Group's most likely forecast of macroeconomic assumptions.

The below table shows the forward looking assumptions incorporated in the ECL calculation:

	2020 Base forecast	2021 Base forecast	2022 Base forecast
GDP growth (real % Year on Year)	-1.9	4.7	4.5
CPI (% annual average)	2.2	2.5	2.4
Policy rate (%)	3.75	3.75	4.25
USD-BWP	11.2	11.0	11.0

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 credit cards or 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 judgment. 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 expected cash shortfalls 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.

Cash flows from unfunded credit enhancements held are included within the measurement of expected credit losses if they are part of, or integral to, the contractual terms of the instrument (this includes financial guarantees, unfunded risk participations and other non-derivative credit insurance). Although non-integral credit enhancements do not impact the measurement of expected credit losses, a reimbursement asset is recognised to the extent of the expected credit losses recorded.

Cash shortfalls are discounted using the effective interest rate on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Expected credit losses (continued)

Cash shortfalls are discounted using the effective interest rate on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

Instrument	Location of expected credit loss
Financial assets held at amortised cost	Loss provisions: netted against gross carrying value
Financial assets held at FVOCI-Debt instruments	Other comprehensive income (FVOCI expected credit loss Reserve) 1
Loan commitments	Provisions for liabilities and charges 2
Financial guarantees	Provisions for liabilities and charges 2

1. Debt and treasury securities classified as FVOCI are held at fair value in the statement of financial position. The expected credit loss attributed to these instruments is held as a separate reserve within OCI and is recycled to profit and loss along with any fair value measurement gains or losses held within FVOCI when the applicable instruments are derecognised.

2. Expected credit loss on loan commitments and financial guarantees is recognised as a liability provision. Where a financial instrument includes both a loan (i.e. financial asset component) and an undrawn commitment (i.e. loan commitment component), and it is not possible to separately identify the expected credit loss on these components, expected credit loss amounts on the loan commitment are recognised together with expected credit loss amounts on the financial asset. To the extent the combined expected credit loss exceeds the gross carrying amount of the financial asset, the expected credit losses are recognised as a liability provision.

Recognition

12 months expected credit losses (Stage 1)

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 reporting date. 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.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Recognition (continued)

Significant increase in credit risk (Stage 2)

If a financial asset experiences a Significant Increase in Credit Risk (SICR) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or roll rate approach is applied to compute expected credit loss, significant increase in credit risk is primarily based on 30 days past due.

Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default (PD) since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent these are correlated to changes in credit risk. The residual lifetime PD at the reporting date is compared to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk.

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

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;

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Recognition (continued)

- 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 obligation/s;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower; and
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

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 cannot be withdrawn.

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.

Expert credit judgment

For Corporate, Institutional & Commercial Banking, borrowers are graded by credit risk management on a credit grading (CG) scale from CG1 to CG14. 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 CG12 the credit assessment and oversight of the loan will normally be performed by Group Special Assets Management (GSAM).

Borrowers graded CG12 exhibit well-defined weaknesses in areas such as management and/or performance but there is no current expectation of a loss of principal or interest. Where the impairment assessment indicates that there will be a loss of principal on a loan, the borrower is graded a CG14 while borrowers of other credit impaired loans are graded CG13. Instruments graded CG13 or CG14 are regarded as non-performing loans, i.e. Stage 3 or credit impaired exposures.

The Group uses the following internal risk mapping to determine the credit quality for loans:

	Corporate, Institutional and Commercial Banking			Retail Banking	
Credit quality description	**Default grade mapping**	**S&P external ratings equivalent**	**PD range (%)**	**Number of days past due**	**ECL Stages**
Strong	Grades 1 - 5	AAA/AA+ to BB+/ BBB-	0.000 – 0.425	Current and past due till 29	1
Satisfactory	Grades 6 – 8	BB+ to BB-/B+	0.426 – 2.350	Past due 30 - 89	2
	Grades 9 -11	B+/B to B-/CCC	2.351 – 15.570		
Higher risk	Grade 12	B-/CCC	15.571 – 50.00	Past due 30 - 89	2

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Expert credit judgment (continued)

For individually significant financial assets within Stage 3, GSAM will consider all judgments 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 judgments 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 Banking portfolio or small business loans, 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 Banking clients are considered credit impaired where they are more 90 days past due. Retail Banking 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.

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgment is required to analyse the available information provided and select the appropriate model or combination of models to use.

Expert credit judgment is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models.

Modified 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 credit impairment in profit or loss 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.

Expected credit loss 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.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Modified financial instruments (continued)

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, tenor extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants. 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 the Group has 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 is recognised in profit or loss within credit impairment and the gross carrying value of the loan reduced by the same amount.

Loans that have been subject to a forbearance modification, but which are not considered credit impaired (not classified as CG13 or CG14), are disclosed as 'Forborne – not credit impaired'. This may include amendments to covenants within the contractual terms.

Write-offs of credit impaired instruments and reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan provision. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment in profit or loss. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the reversal is recognised in the profit or loss.

Loss provisions on purchased or originated credit impaired instruments (POCI)

The Group measures expected credit loss on a lifetime basis for POCI instruments throughout the life of the instrument. However, expected credit loss is not recognised in a separate loss provision on initial recognition for POCI instruments as the lifetime expected credit loss is inherent within the gross carrying amount of the instruments. The Group recognises the change in lifetime expected credit losses arising subsequent to initial recognition in profit or loss and the cumulative change as a loss provision. Where lifetime expected credit losses on POCI instruments are less than those at initial recognition, then the favourable differences are recognised as impairment gains in profit or loss (and as impairment loss where the expected credit losses are greater).

Improvement in credit risk/curing

A period may elapse from the point at which instruments enter lifetime expected credit losses (stage 2 or stage 3) and are reclassified back to 12 month expected credit losses (stage 1). For financial assets that are credit-impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

Modified financial instruments (continued)

For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in credit risk. Where significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to stage 1 when the original PD based transfer criteria are no longer met.

Where instruments were transferred to stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to stage 1. This includes instances where management actions led to instruments being classified as stage 2, requiring that action to be resolved before loans are reclassified to stage 1. A forborne loan can only be removed from the disclosure (cured) if the loan is performing (stage 1 or 2) and a further two year probation period is met.

In order for a forborne loan to become performing, the following criteria have to be satisfied:

- At least a year has passed with no default based upon the forborne contract terms
- The customer is likely to repay its obligations in full without realising security
- The customer has no accumulated impairment against amount outstanding.

Subsequent to the criteria above, a further two year probation period has to be fulfilled, whereby regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

Fair value of financial instruments

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 at that date. The fair value of a liability reflects its non-performance risk. All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the financial instruments are carried at fair value, with changes in fair value either reported within the income statement or within other comprehensive income until the instrument is sold or becomes impaired.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active, including for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data. The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters.

Equity investments that do not have observable market prices are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

IFRS 9 methodology

Approach for determining expected credit losses

Component	Definition
Probability of default (PD)	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), incorporating the impact of forward looking economic assumptions that have an effect on Credit Risk, such as interest rates, unemployment rates and GDP forecasts. 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
Loss Given Default (LGD)	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 cashflows due and those that the bank expects to receive. 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
Exposure at Default (EAD)	The expected balance sheet exposure at the time of default, taking into account expected changes over the lifetime of the exposure. This incorporates the impact of drawdowns of facilities with limits, repayments of principal and interest, amortisation and prepayments

To determine the expected credit loss, these components are multiplied together: PD for the reference period (up to 12 months or lifetime) x LGD x EAD and discounted to the balance sheet date using the effective interest rate as the discount rate. IFRS 9 expected credit loss models have been developed for the Corporate & Institutional Banking and Commercial Banking businesses at Group level, however, the calibration of forward-looking information is assessed at a Botswana level to take into account local macroeconomic conditions. Retail Banking expected credit loss models are country and product specific given the local nature of the Retail Banking business. For his segment's portfolio, loss rate models are applied. These use an adjusted gross charge-off rate, developed using monthly write-off and recoveries over the preceding 12 months and total outstanding balances. While this approach does not incorporate forward-looking information, to the extent that there are significant changes in the macroeconomic forecasts an assessment will be completed on whether an adjustment to the modelled output is required.

The following processes are in place to assess the ongoing performance of the models:

- Quarterly model monitoring that uses recent data to compare the differences between model predictions and actual outcomes against approved thresholds.
- Annual independent validations of the performance of material models by Group Model Validation (GMV); an abridged validation is completed for non-material models.

Application of lifetime

Expected credit loss is estimated based on the period over which the Bank is exposed to Credit Risk. For the majority of exposures this equates to the maximum contractual period. For Retail Banking credit cards and Corporate & Institutional Banking overdraft facilities however, the Bank does not typically enforce the contractual period, which can be as short as one day. As a result, the period over which the Bank is exposed to Credit Risk for these instruments reflects their behavioural life, which incorporates expectations of customer behaviour and the extent to which Credit Risk management actions curtail the period of that exposure. The average behavioural life for Retail Banking credit cards is between 3 and 6 years, and 24 months for corporate overdraft facilities.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

IFRS 9 methodology (continued)

Post model adjustments

As at 31 December 2020, there were no material PMA related ECLs on the book.

Key assumptions and judgements in determining expected credit loss
Incorporation of forward-looking information

The evolving economic environment is a key determinant of the ability of a bank's clients to meet their obligations as they fall due. It is a fundamental principle of IFRS 9 that the provisions banks hold against potential future Credit Risk losses should depend not just on the health of the economy today but should also take into account potential changes to the economic environment. For example, if the bank was to anticipate a sharp slowdown in the world economy over the coming year, it should hold more provisions today to absorb the credit losses likely to occur in the near future. To capture the effect of changes to the economic environment, the PDs and LGDs used to calculate ECL incorporate forward-looking information in the form of forecasts of the values of economic variables and asset prices that are likely to have an effect on the repayment ability of the Bank's clients. The 'Base Forecast' of the economic is based on management's view on the five-year outlook, supported by projections from Standard Chartered PLC (Group)'s in-house research team and outputs from a third-party model that project specific economic variables and asset prices. The research team takes consensus views into consideration and senior management review projections for some core local variables against consensus when forming their view of the outlook.

For the period beyond five years, management utilises the in-house research view and third-party model outputs, which allow for a reversion to long-term growth rates or norms. All projections are updated on a quarterly basis.

Forecast of key macroeconomic variables underlying the expected credit loss calculation

The Base Forecast, which represents the management's view of the most likely outcome, is that the prospects for a path out of the COVID-19 crisis have improved with progress on vaccines and virus treatments. Early into 2021, this has raised confidence over the economic outlook and is expected to support the recovery of economic activity over the next two years. Global GDP is expected to grow by around 5 per cent in 2021, well above the average of 3.7 per cent for the ten years between 2010 to 2019. However, this follows a contraction of almost 4 per cent in 2020, the worst performance since the Great Depression of 1929-31. Recovery will strengthen in the second half of 2021 as investment picks up around the world. With the global recovery under way, many countries are expected to be close to their forward-looking long-term – or future potential – growth levels by the end of the next two years. However, the outlook remains highly uncertain. A faster distribution of vaccines will likely support stronger growth, while delays and disruptions will hold it back. The current (and any future) resurgence of the virus in many countries could also force governments to tighten restrictions on economic activity for longer than anticipated. The sub-Saharan economy is forecast to experience a modest recovery of 3.2% in 2021 following an estimated degrowth of 2.6% in 2020, comparing unfavourably with a 3.9% growth in 2019. Supply chains, trade and investments were severely disrupted for the better part of 2020 leading to pronounced current account deficits amongst exporting nations, Botswana included.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

IFRS 9 methodology (continued)

A rebound is widely anticipated for the local economy, with the 2021 growth rate pegged at 8.8%. Much of this recovery is dependant on the recovery of the world economy, a wide availability and efficacy of Covid-19 vaccines, recovery in diamond markets (demand and prices) as well as opening up of international travel, among others. The Government of Botswana has in place a comprehensive Economic Recovery and Transformation Plan to capture all possibilities and propel growth. There are high expectations that vaccine roll out will progress well into 2021 across the country and reach the majority of the target population by the third end of the year.

While the quarterly base forecasts inform the strategic plan, one key requirement of IFRS 9 is that the assessment of provisions should consider not just one possible outcome on future economic environment. For example, the economy may grow more quickly or more slowly than the Base Forecast, and these variations would have different implications for the provisions that the bank should hold today. As the negative impact of an economic downturn on credit losses tends to be greater than the positive impact of an economic upturn, if the bank sets provisions only on the ECL under the Base Forecast it might maintain a level of provisions that does not appropriately capture the range of potential outcomes. To address this property of skewness (or non-linearity), IFRS 9 requires reported ECL to be a probability weighted ECL calculated over a range of possible outcomes. To assess the range of possible outcomes, the Group level model simulates a set of 50 scenarios around the Base Forecast, calculates the ECL under each of them and assigns an equal weight of 2 per cent to each scenario outcome. These scenarios are generated by a Monte Carlo simulation, which addresses the challenges of crafting many realistic alternative scenarios. This naturally means that each of the 50 scenarios do not have a specific narrative, although collectively they explore a range of hypothetical alternative outcomes for the economy, including scenarios that turn out better than expected and scenarios that amplify anticipated stresses.

The Base Case
In Botswana, baseline assumption is that the lockdown and other restrictions imposed by the Government to contain the virus are short term and, will therefore materially eased off during 2021. The baseline also assumes that globally, the Covid-19 crisis abates progressively into rest of 2021, resultantly, trade links and supply chains re -open. The Bank assumes a near normal economic activity within the early part of 2021 leading to a strong rebound in 2021 due to a low base effect and raise our growth forecast to 4.7%. Inflation is likely to remain below the Bank of Botswana's objective range; weak growth and lower oil prices will help. We lower our average CPI inflation forecasts to 2.2% for 2020 and 2.5% for 2021. The Bank of Botswana (BoB) cut the policy rate further in Q3 of 2020 to 3.75% and we expect it to stay at this level through end-2021. Given weak demand for diamonds, Botswana is unlikely to record current account surpluses in the medium term. We now expect C/A deficits of 4.7%, 3.9% and 3.1% of GDP in 2020, 2021 and 2022. The fiscal deficit is also likely to widen on weaker mining revenue. We now expect a deficit of 6.2% in FY 2021.

The Worst Case - A Slow Recovery Scenario
Prevalent lockdowns
The immediate priority of governments in response to the Covid-19 scourge has been to contain its spread, typically through lockdowns and limitations on mobility of households. This has already extracted a sizeable toll on economic activity in many countries. In the slow recovery scenario these measures are assumed to be insufficient as major economies exhibit increasing numbers of cases. Current lesser affected economies are assumed to start to follow a similar path, therefore, intermittent lockdowns are assumed for greater part of 2021, albeit with softer impact compared to 2020. This necessitate restrictions of economic activity to covering basic needs and smaller businesses continue to suffer, with unemployment figures rising sharply for many countries. Cross-border trade is halted, and government debt jumps to stimulate the economy and keep the private sector afloat.

Notes to the financial statements for the year ended 31 December 2020 cont.

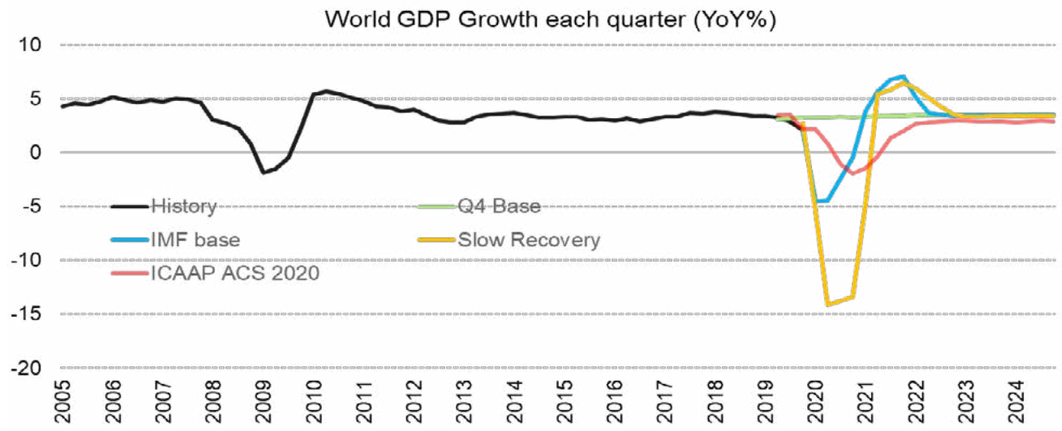
3. Significant accounting policies (continued)

(h) Financial instruments (continued)

IFRS 9 methodology (continued)

The deep U-shaped global recession
The global economy is expected to contract by almost 12% in the Slow Recovery Scenario, characterised by deep contractions in output in 2020. This compares with the 3% contraction assumed by the IMF for their base. SCB Global Research expect the global economy to contract by just over 2%.

With the lockdown extended in the scenario and government measures to support their economies also proving insufficient, GDP is expected to remain broadly unchanged from Q2 levels for many economies. The recovery in 2021 will also be muted. World GDP is expected to grow by 3.3% in 2021. Excluding 2019, this would be the slowest pace since the global financial crisis when world GDP contracted by 0.1% in 2009. It is also almost half the GDP growth of 5.8% forecast by the IMF for 2021. SCB Global research expect an expansion of 5.4%.



Domestic Stress
Covid 19 cases persist and therefore Lock downs and extreme social distancing measures are intermittently re-introduced throughout the first half of 2021. Disruptions to economic activities are prolonged. In this scenario, Output from mining, the country's economic anchor, is expected to drop by at least 33%. Production, particularly for Diamond is expected to materially slow down while sales plummet. All sights are heavily impacted due to inability of buyers to freely travel to Botswana to view and purchase the stone. Trade, Hotels and restaurant industries would slump by considerable proportions. Unemployment shoots up, household incomes plummet by at least 9.5% in stress due to business closures and job cuts.

The Covid-19 pandemic continues to lower domestic demand pressures. Some developments have pushed prices down, such as global oil and commodity prices, which will eventually contribute to lower domestic inflation. Reduced demand generally will also be deflationary. But supply chain constraints and possible shortages will have the opposite effect. Extreme social distancing measures and erosion of household incomes are likely to pull the demand side of the equation much more strongly.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

IFRS 9 methodology (continued)

Below is a summary of macroeconomic variable assumptions adopted by management:

Macroeconomic Indicator - Base	2019A	2020F	2021F	2022F	2023F	2024F
Real GDP growth rate (%)	3.0	(1.9)	4.7	4.5	4.5	4.5
Inflation, CPI (%)	2.8	2.2	2.5	2.4	2.8	2.8
Policy rate	4.75	3.75	3.75	4.25	4.25	4.50
Equity Index	5.4	(5.0)	20.0	10.0	7.5	7.5
FX rate (per USD 1.00)	10.9	11.2	11.0	11.0	11.0	11.0
Household Income	7.5	3.5	10.0	7.5	7.5	7.5
Imports (value of)	3.3	(15.0)	15.0	10.0	10.0	10.0
Exports (value of)	(8.7)	(20.0)	5.0	15.0	10.0	10.0
Macroeconomic Indicator - Stress	2019A	2020S	2021S	2022S	2023S	2024S
Policy rate	4.75	3.75	3.75	4.00	4.25	4.50
Equity Index	5.4	(24.4)	11.5	10.1	8.8	7.4
Household Income	7.5	(9.5)	5.2	8.6	8.3	8.1
Imports (value of)	3.3	(28.4)	1.5	15.1	12.3	9.5
Exports (value of)	(8.7)	(40.7)	1.8	12.2	11.1	10.0
Stress severity		1in25	1in7	1in5	1in3	1in3

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(h) Financial instruments (continued)

IFRS 9 methodology (continued)

Covid 19 Relief measures offered by the Bank

The Bank offered credit relief measures to clients who were demonstrably impacted by Covid-19, and the relief was only available for clients whose exposures were classified as Stage 1 under IFRS 9. For clients whose obligations were current as at date of implementing the relief measures and offered a payment holiday, interest during the payment holiday period accrued but was parked as broken period interest to be paid at the end of the loan facility. The interest was not capitalized on the loan and therefore did not increase the principal balance of the loans. As at 31 December 2020 there were no loans remaining under the relief measures, while a total of P31,984,212 (2019: Nil) in interest was parked to be paid at the end of the loan facilities. Of this amount, P13,148, 162 relates to retail loans and the balance of P18,836,050 relates to corporate loans.

For clients whose facilities were in arrears as at date of the implementation of the payment holiday, the overdue interest was capitalized on the principal loan balance while the interest for the period of the payment holiday was accrued and parked as broken period interest payable at the end of the loan. For clients who opted for other form of relief measures e.g. Tenor Extension, interest was paid by the client based on revised payment schedule. As at 31 December 2020, a total of P27,185,940 (2019: Nil) in interest was capitalized into principal outstanding, and form part of gross loans reported. Of this amount, P8,762,253 relate to retail loans and the balance of P18,423,687 relates to corporate loans.

Exposures on clients who qualified for the relief measure remained classified within Stage 1 under IFRS 9 during the term of the credit relief measures. Clients who failed to honour their payments at expiry of the credit relief measures moved to stage 2 and remain subject to ordinary IFRS 9 rules. Stage 2 & 3 exposures were not eligible for Covid 19 relief measures. Formal forbearance programs applied and continue to apply accordingly, along with the associated ordinary IFRS 9 rules.

As at 31 December 2020, no loans qualifying for relief measures was outstanding, and none had migrated from Stage 1 to stage 2.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(i) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Buildings are measured at revalued amount less related accumulated depreciation and impairment losses. Land is measured at revalued amount. Revaluations are carried out periodically by the directors using independent valuers on the open market basis. The directors consider the fair value of land and buildings every three years. Surpluses and deficits arising on the revaluation of land and buildings are transferred to or from the revaluation reserve through other comprehensive income and accumulated in equity. The reserve is utilised on the sale of the asset.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other income in profit or loss.

Subsequent cost

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Land (owned)	**Land is not depreciated**
Leasehold properties	**Shorter of useful life / period of lease**
Buildings	**50 years**
Equipment	**3 - 5 years**
Motor vehicles	**3 years**
Furniture, fixtures and fittings	**7 – 10 years**

Capital work in progress comprises expenses incurred in constructing plant and equipment that are directly attributable to the construction of the asset. These items are not yet available for use and therefore not depreciated. Assets remain in capital work in progress until they have been put into use or commissioned, whichever is the earlier date. At that time they are transferred to the appropriate class of property, plant and equipment as additions and depreciated.

Leasehold properties comprises of office buildings and ATMs.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(i) Property and equipment

Repairs and maintenance

Repairs and maintenance costs are recognised in profit or loss during the financial period in which these costs are incurred. The cost of a major renovation is included in the carrying amount of the related asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset or until the next major renovations, whichever period is shorter.

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

(j) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. IFRS 16 introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value which has been determined as less than P50,000 for the Group. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 19 Property, equipment and right-of-use asset; and are subject to impairment in line with the Bank's policy as described in Note 3 (l) - Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

Lease liabilities are reported in other liabilities on note 27.2.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

Intangible assets

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill included in the intangible assets is assessed at each reporting date for impairment and measured at cost less any accumulated impairment losses. Gains and losses at disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Cash generating units (CGU) represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments. The recoverable amount of the CGU was based on value in use, estimated using discounted cash flows (budget). Five years of cashflows were included in the discounted cashflow model. The CGU was taken to be Corporate and Institutional Banking (CIB) segment. This was made by considering the value add that accrued to CIB as a result of acquisition of the custody business. A GDP contraction of 810 bps would cause the CGU's carrying amount to equal its recoverable amount. The key assumptions used in the estimation of the recoverable amount are set out below;

In percent	2021	2020	2019
Discount rate (weighted average cost of capital)	6.42	6.42	5.91
GDP growth rates	4.7	-1.90	4.30
Effective tax rate	22	22	22

The recoverable amount of the CGU, P526m as at 31 December 2020, has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The carrying amount of the CGU as at 31 December was a negative P3 622m. As a result of the analysis, there is headroom of P4 149m and management did not identify an impairment for the CGU.

Acquired intangibles
Acquired intangibles comprise of customer relationships, capitalised software and work in progress. At the date of acquisition of a subsidiary, intangible assets that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity and are amortised on the basis of their expected useful lives; with the exception of work in progress which is not amortised. At each reporting date these assets are assessed for indicators of impairment. In the event that the asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Amortisation
Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate. Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss over the estimated useful lives of intangible assets, other than goodwill, from the month that they are available for use. The estimated useful life of software is 8 years and 10 years for customer relationships.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(k) Impairment of non-financial assets
The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash generating units. Goodwill arising from business combination is allocated to cash generating units or groups of cash generating units that are expected to benefit from synergies of the combination.

The 'recoverable amount' of an asset or cash generating unit is assessed as the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one cash generating unit. Corporate assets are allocated to cash generating units on a reasonable and consistent basis and tested for impairment as part of the testing of the cash generating unit to the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units, and then to reduce the carrying amounts of the other assets in the cash generating units on a pro rata basis. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Stated capital
Ordinary shares are classified as equity. Stated capital is recognised at the fair value of the consideration received. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from the initial measurement of the equity instrument

(m) Capital contribution
The capital contribution is part of the Group's sources of funding. The Group classifies capital contributions as equity or financial liabilities, in accordance with the substance of the contractual terms of the instruments, there is no contractual obligation to deliver cash and at any event that would require the Bank to deliver cash is at its option. The Group's capital securities are redeemable at the option of the issuer, and are therefore classified as equity.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(n) Taxation

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or refundable on the taxable income or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax is measured using tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax. Deferred tax is not recognised for the following temporary differences: those arising on the initial consideration of goodwill; differences arising on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits or losses; and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current taxation liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Withholding tax that arise from the distribution of dividends by the Bank are recognised as a liability to pay the revenue authority at the same time the dividend is recognised. Withholding tax of 7.5% is payable on the gross value of the dividends paid, the rate is 5% for UK shareholders under the Double Taxation Agreement. Effective 1 April 2021, tax on gross dividends will be withheld at an increased rate of 10%.

(o) Employee benefits

Retirement benefits

The Group operates a defined contribution pension plan. Contributions by the Group to the plan are recognised in profit or loss. The plan is externally administered, therefore there is no liability to the Group apart from the monthly contributions. There are no post-retirement medical funding obligations.

Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short term cash bonus or profit sharing class if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Accruals relating to short term employee benefits are included in other non-financial liabilities.

Other staff costs

Other staff costs mainly consists of staff subsidy on staff loans charged as a periodic cost based on the differential between the market interest rate and staff rate over the period of service.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(p) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. Throughout the financial year, there were no dilutive potential shares which would result in Diluted EPS being different to EPS.

(q) New standards and interpretations

A number of new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2020 have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory. The group has only considered the below new standards and interpretations relevant to the Group. The following accounting standards not yet effective and these are not expected to have a significant impact on the financials statements of the Group.

Standard/Interpretation

Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The Bank has not early adopted the requirements of 'Interest Rate Benchmark Reform – Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16' (IBOR reform Phase 2) which is effective for annual periods beginning on or after 1 January 2021 with earlier adoption permitted.

The bank is still considering the adoption of Interest Rate Benchmark Reform – Phase 2 Amendments.

IBOR reform Phase 2 includes a number of reliefs and additional disclosures. The reliefs apply upon the transition of a financial instrument from an IBOR to a risk-free-rate (RFR).

Changes to the basis for determining contractual cash flows as a result of interest rate benchmark reform are required as a practical expedient to be treated as changes to a floating interest rate, provided that, for the financial instrument, the transition from the IBOR benchmark rate to RFR takes place on an economically equivalent basis.

The amendment is not expected to have an impact to the Group as it does not currently have hedging relationships.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(q) New standards and interpretations not yet effective
A number of new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2020 have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory.

The group has only considered the below new standards and interpretations relevant to the Group. The following accounting standards not yet effective and these are not expected to have a significant impact on the financials statements of the Group.

Standard/Interpretation
IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.
IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. The Group is currently in the process of assessing the impact of adopting IFRS 17 on its financial statements.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
As part of its 2018-2020 Annual Improvements to IFRS standards process, the IASB issued an amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual period in which it will first apply the amendment and does not expect this will result in a material impact on its financial statements.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment (PP&E), any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual periods beginning on or after 1 January 2022 and no impact is expected on the bank's assets.

Classification of Liabilities as Current or Noncurrent - Amendments to IAS 1
In January 2020, amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements were issued to specify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual periods beginning on or after 1 January 2023. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument, would the terms of a liability not impact its classification.

Notes to the financial statements for the year ended 31 December 2020 cont.

3. Significant accounting policies (continued)

(q) New standards and interpretations not yet effective (continued)
The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Covid-19-Related Rent Concessions – Amendment to IFRS 16
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment is not expected to have an impact on the consolidated financial statements of the Group.

(r) Other payables
Other payables comprises mostly of VAT accruals and payroll accruals. The accounting policy for payroll related accruals is set out in (p) employee benefits.

4. Financial risk management

4.1 Introduction and overview

The Group has exposure to the following risks from financial instruments:

- capital risk
- credit risk
- liquidity risk
- market risk
- operational risk

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adhere to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit and Risk Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit and Risk Committee is assisted in these functions by management as well as the Compliance and Internal Audit department. They undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit and Risk Committee.

The Group implemented an enterprise management framework. The Enterprise Risk Management Framework ("ERMF") sets out the Bank's approach to risk management and the control framework within which risks are managed with the objective of maximising risk-adjusted returns while remaining within the Group's risk appetite.

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.1 Introduction and overview (continued)

The ERMF:

- establishes common principles and standards for the management and control of all risks, and to inform behaviour across the organisation;
- provides a shared framework and language to improve awareness of risk management processes and provides clear accountability and responsibility for risk management.

There were no changes from the prior year in how the applicable risks are managed.

4.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's loans and advances to customers and other banks and its investment in securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets is managed independently; and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk. Further details are provided in note 4.6.

Management of credit risk

(a) The Board of Directors have overall responsibility for managing credit risk. A separate Group Credit department, reporting to the Board, is responsible for management of the Group's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Establishing the authorisation structure for the approval and renewal of credit facilities. Larger facilities require approval by the Head of Credit, with expert input from Group Credit department and the Board of Directors as appropriate.

- Reviewing and assessing credit risk. The Group Credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process. Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

- Developing and maintaining the Group's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management of the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of fourteen grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Group Credit department.

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.2 Credit risk (continued)

Risk grades are subject to regular reviews by Group Credit department.

- Reviewing compliance of business units with agreed exposure limits, including those of selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to the Group Credit department who may require appropriate corrective -action to be taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement credit policies and procedures, according to credit approval authorities delegated. Each business unit has a Head of Credit Risk who reports on all credit related matters to management and the Group Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Business units and credit functions carry out regular assurance checks and control self-testing with independent oversight from Country Operational Risk unit. Group Internal Audit does carry out periodic independent audits of the business units and credit processes.

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.2 Credit risk (continued)

Exposure to credit risk – Group and Company

Assets at amortised cost	Loans and advances to customers 2020 Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000	Loans and advances to banks 2020 Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Invest-ment security 2020 Stage 1 P'000	Stage 2 P'000	Stage 3 P'000
Credit impaired:										
Grade 13: Substandard	-	-	214,679	214,679	-	-	-	-	-	-
Grade 14: Loss	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**-**	**-**	**214,679**	**214,679**	**-**	**-**	**-**	**-**	**-**	**-**
Specific-Expected credit losses	-	-	(110,249)	(110,249)	-	-	-	-	-	-
Portifolio-Expected credit losses	-	-	(12,386)	(12,386)	-	-	-	-	-	-
	-	**-**	**92,044**	**92,044**	**-**	**-**	**-**	**-**	**-**	**-**
Not credit impaired comprises:										
Grade 12-past due loans up to 90 days										
01 – 30 days	31,842	145,478	-	177,320	-	-	-	-	-	-
31 – 60 days	1,372	32,366	-	33,738	-	-	-	-	-	-
61 – 90 days	-	7,255	-	7,255	-	-	-	-	-	-
Gross carrying amount	**33,214**	**185,099**	**-**	**218,314**	**-**	**-**	**-**	**-**	**-**	**-**
Not credit impaired:										
Grade 1-5: Strong	7,115,335	-	-	7,115,335	- 2,501,550	-	2,113,719	-	-	
Grade 6-8 Satisfactory	714,501	10,223	-	724,724	-	-				
Grade 9-11 Satisfactory	-	51,336	-	51,336	-	-				
Gross carrying amount	7,829,836	61,559	-	7,891,395	- 2,501,550	-	2,113,719	-	-	
ECL impairment provision	(71,068)	(15,005)	-	(86,073)	- (79)	-	-	-	-	
	7,791,982	**231,653**	**92,044**	**8,115,680**	**- 2,501,471**	**-**	**2,113,719**	**-**	**-**	

Expected credit loss on loans and advances to banks (note 16), investments securities (note 17), other financial assets (note 21) and related parties (note 29) and related parties is considered immaterial.

Credit impaired loans
Credit impaired loans are loans and advances for which the Group determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan. These loans are graded CG13 and CG14 in the Group's internal credit risk grading system.

Not credit impaired loans
Not credit impaired loans, are those for which contractual interest or principal payments are past due, but the Group believes that specific impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.2 Credit risk (continued)

Write off policy
The Group writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Group Credit department determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated annually for commercial properties and every three years for residential properties during the life of the loan until the loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowed activity. Collateral usually is not held against investment securities, and no such collateral was held at the current or previous reporting date.

Exposure to credit Risk - Group and Company

Assets at amortised cost	Loans and advances to customers 2019 Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000	Loans and advances to banks 2019 Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Invest-ment security 2019 Stage 1 P'000	Stage 2 P'000	Stage 3 P'000
Credit impaired:										
Grade 13: Substandard	-	-	182,487	182,487	-	-	-	-	-	-
Grade 14: Loss	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**-**	**-**	**182,487**	**182,487**	**-**	**-**	**-**	**-**	**-**	**-**
Specific-Expected credit losses	-	-	(88,736)	(88,736)	-	-	-	-	-	-
Portifolio-Expected credit losses	-	-	(8,767)	(8,767)	-	-	-	-	-	-
	-	**-**	**84,984**	**84,984**	**-**	**-**	**-**	**-**	**-**	**-**
Not credit impaired comprises:										
Grade 12-past due loans up to 90 days										
01 – 30 days	18,960	2,471	538	21,968	-	-	-	-	-	-
31 – 60 days	-	24,108	1,347	25,455	-	-	-	-	-	-
61 – 90 days	-	11,629	1,021	12,650	-	-	-	-	-	-
Gross carrying amount	**18,960**	**38,208**	**2,906**	**60,073**	**-**	**-**	**-**	**-**	**-**	**-**
Not credit impaired:										
Grade 1-5: Strong	6,746,442	-	-	6,746,442	-	3,458,461	-	3,073,599	-	-
Grade 6-8 Satisfactory	801,454	239,208	-	1,040,662						
Grade 9-11 Satisfactory	13,210	64,970	-	78,180						
Gross carrying amount	7,561,106	304,178	-	7,865,284	-	3,458,461	-	3,073,599	-	-
ECL impairment provision	(67,545)	(23,569)	-	(91,114)	-	(2)	-	-	-	-
	7,493,561	**280,609**	**-**	**7,774,170**	**-**	**3,458,459**	**-**	**3,073,599**	**-**	**-**
Net loans and advances	7,512,521	318,817	87,890	7,919,227	-	3,458,459	-	3,073,599	-	-

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.2 Maximum credit exposure

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for loans and advances to customers.

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
As at 1 January 2020	7,580,065	(67,545)	342,387	(23,569)	185,392	(97,503)	8,107,844	(188,617)
Transfers to Stage 1	243,143	(17,314)	(243,143)	17,314	-	-	-	-
Transfers to Stage 2	(974,297)	3,284	974,297	(3,284)	-	-	-	-
Transfers to Stage 3	-	-	(59,368)	-	59,368	-	-	-
Net change in exposures	1,058,960	(43,387)	(746,059)	(1,104)	(93,526)	129,715	219,376	85,223
Impact on ECL of transfers	-	1,414	-	(1,849)	-	(0)	-	(435)
Changes in risk parameters	-	42,960	-	(230)	-	(188,902)	-	(146,172)
Recoveries	-	-	-	-	-	40,865	-	40,865
Exchange translation differences	(44,821)	9,520	(21,455)	(2,283)	63,444	(6,810)	(2,832)	427
At 31 December 2020	**7,863,051**	**(71,068)**	**246,658**	**(15,005)**	**214,679**	**(122,635)**	**8,324,388**	**(208,708)**
As at 1 January 2019	6,858,095	(94,620)	499,613	(21,941)	306,083	(61,995)	7,663,791	(178,556)
Transfers to Stage 1	106,708	(16,406)	(106,708)	16,406	-	-	-	-
Transfers to Stage 2	(167,348)	1,342	167,348	(25,897)	-	24,555	-	-
Transfers to Stage 3	-	-	(33,109)	149	33,109	(149)	-	-
Net change in exposures	782,598	32,945	(181,851)	22,048	(156,714)	(12,784)	444,032	42,209
Impact on ECL of transfers	-	1,018	-	(1,614)	-	-	-	(596)
Changes in risk parameters	-	8,154	-	(12,720)	-	(47,130)	-	(51,696)
Exchange translation differences	12	22	-	-	9	(0)	21	22
At 31 December 2019	**7,580,065**	**(67,545)**	**345,292**	**(23,569)**	**182,487**	**(97,503)**	**8,107,844**	**(188,617)**

Accrued interest receivable on loans and advances is reported in other assets; accrued income (Note 21).

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.2 Maximum credit exposure (continued)

A reconciliation of changes in gross carrying amount and corresponding allowance for contingent liabilities and commitments.

	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL	Gross carrying amount	ECL
As at 1 January 2020	4,613,597	(1,856)	504,048	(1,445)	3,106	-	5,120,751	(3,301)
Transfers to Stage 1	799,042	(4,819)	(799,042)	4,819	-	-	-	-
Transfers to Stage 2	(658,991)	1,818	658,991	(1,818)	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Net change in exposures	1,615,635	(55)	(110,064)	517	2,678	13	1,508,249	475
Impact on ECL of transfers	-	1,900	-	(939)	-	-	-	962
Changes in risk parameters	-	2,674	-	(1,796)	-	(496)	-	383
Exchange translation differences	(957)	(112)	2,153	1	-	(0)	1,196	(111)
At 31 December 2020	**6,368,326**	**(450)**	**256,086**	**(660)**	**5,784**	**(483)**	**6,630,196**	**(1,593)**
As at 1 January 2019	5,707,572	(1,691)	487,146	(1,455)	6,537	-	6,201,255	(3,146)
Transfers to Stage 1	364,080	(1,606)	(364,070)	1,606	(10)	-	-	-
Transfers to Stage 2	(653,283)	835	653,283	(835)	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Net change in exposures	(804,051)	(838)	(272,541)	1,221	(3,476)	-	(1,080,068)	383
Impact on ECL of transfers	-	725	-	(1,173)	-	-	-	(448)
Changes in risk parameters	-	723	-	(806)	-	-	-	(83)
Exchange translation differences	(721)	(4)	230	(3)	55	-	(436)	(7)
At 31 December 2019	**4,613,597**	**(1,856)**	**504,048**	**(1,445)**	**3,106**	**-**	**5,120,751**	**(3,301)**

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.2 Maximum credit exposure

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for loans and advances to banks.

	Stage 1 Gross carrying amount	ECL	Stage 2 Gross carrying amount	ECL	Stage 3 Gross carrying amount	ECL	Total Gross carrying amount	ECL
As at 1 January 2020	3,458,462	(3)	-	-	-	-	3,458,462	(3)
Net change in exposures	(956,911)	(76)	-	-	-	-	(956,911)	(76)
At 31 December 2020	**2,501,550**	**(79)**	**-**	**-**	**-**	**-**	**2,501,550**	**(79)**
As at 1 January 2019	3,488,495	(4)	-	-	-	-	3,488,495	(4)
Net change in exposures	(30,036)	(3)	-	-	-	-	(30,036)	(3)
Changes in risk parameters	-	4	-	-	-	-	-	4
Exchange translation differences	3	-	-	-	-	-	3	-
At 31 December 2019	**3,458,462**	**(3)**	**-**	**-**	**-**	**-**	**3,458,462**	**(3)**

A reconciliation of changes in gross carrying amount and corresponding allowance for ECL by stage for Investment securities.

	Stage 1 Gross carrying amount	ECL	Stage 2 Gross carrying amount	ECL	Stage 3 Gross carrying amount	ECL	Total Gross carrying amount	ECL
As at 1 January 2020	3,073,599	(5)	-	-	-	-	3,073,599	(5)
Net change in exposures	(959,880)	(312)	-	-	-	-	(959,880)	(312)
Changes in risk parameters	-	157	-	-	-	-	-	157
At 31 December 2020	**2,113,719**	**(160)**	**-**	**-**	**-**	**-**	**2,113,719**	**(160)**
As at 1 January 2019	4,049,463	64	-	-	-	-	4,049,463	64
Net change in exposures	(975,864)	(328)	-	-	-	-	(975,864)	(328)
Changes in risk parameters	-	259	-	-	-	-	-	259
At 31 December 2019	**3,073,599**	**(5)**	**-**	**-**	**-**	**-**	**3,073,599**	**(5)**

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.2 Credit risk (continued)

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers and banks is shown below. The Group is not permitted to resale or repledge the securities in the absence of default.

	Group					Company				
	2020 Carrying amount	Collateral	2019 Carrying amount	Collateral	Security Held	2020 Carrying amount	Collateral	2019 Carrying amount	Collateral	Security Held
	P'000	P'000	P'000	P'000		P'000	P'000	P'000	P'000	
Stage 3	214,679	245,317	182,487	633,119	Property and guarantees	214,679	245,317	182,487	633,119	Property and guarantees
Stage 1 and 2	8,109,709	3,656,509	7,925,357	4,099,782	Property and guarantees	8,109,709	3,656,509	7,925,357	4,099,782	Property and guarantees

The bank obtained court judgement to foreclose property held as security worth P22 253 682 (2019: P52 672 804).

The quality of collateral held in 2020 broadly remains inline with the exposures held.

Notes to the financial statements for the year ended 31 December 2020 cont.

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000

4. Financial risk management (continued)

4.2 Credit risk (continued)

The bank monitors concentration of credit risk by sector. Gross loans and advances at the reporting date is disclosed below:

Analysis by industry				
Finance and insurance	198,328	267,972	198,328	267,972
Construction	147,091	72,351	147,091	72,351
Manufacturing	29,619	41,651	29,619	41,651
Trade, restaurant and bars	681,642	726,120	681,642	726,120
Community, social and personal services	62,230	209,049	62,230	209,049
Transport	8,773	48,461	8,773	48,461
Households	7,196,705	6,742,240	7,196,705	6,742,240
Total gross loans	**8,324,388**	**8,107,844**	**8,324,388**	**8,107,844**
Loans and advances to banks	2,501,471	3,458,461	2,501,471	3,458,461
Investment securities	2,113,719	3,073,599	2,113,719	3,073,599
Contingent liabilities and commitments	6,630,196	5,120,751	6,630,196	5,120,751
Other assets	163,529	174,172	163,499	133,859
Maximum credit risk exposure	**19,733,303**	**19,934,827**	**19,733,273**	**19,894,514**

Credit concentration risk in Corporate & Institutional Banking segment and Commercial Banking segment is managed through the use of various concentration dimensions that include industry sector, geographic spread, credit rating, customer segment and exposure to single counterparties or groups of related counterparties.

Credit concentration risk in Retail Banking segment is managed within exposure limits set for each product. These limits are reviewed at least annually and are approved by the responsible business and risk officers in accordance with their delegated authority level.

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.3 Liquid risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, both under stressed and normal conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Assets and Liabilities Committee (ALCO), which has been mandated by the Board of Directors. Daily reports cover the liquidity position of both the Group and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Group relies on deposits from customers and banks, and issued debt securities and subordinated liabilities as its primary sources of funding. While the Group's debt securities and subordinated liabilities have maturities of over one year, deposits from customers and banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Group's liquidity risk and the Group actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. This limit requires that total liquid assets divided by total deposits must be at least 10%.

Liquidity ratio has been assessed as noted below:

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
Total liquid assets	2,033,117	3,149,453	2,033,117	3,149,453
Total Customer deposits	(11,849,610)	(12,875,805)	(11,849,610)	(12,875,805)
Ratio	**17.2%**	**24.5%**	**17.2%**	**24.5%**

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity Analysis

Group - 31 December 2020

ASSETS	Carrying amount P'000	Gross Nominal inflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 yeras P'000
Financial assets by type							
Non derivative assets							
Cash and balances with the Central Bank	975,991	975,991	975,991	-	-	-	-
Loans and advances to banks	2,501,471	2,501,471	2,501,471	-	-	-	-
Investment securities	2,113,719	2,113,719	1,250,319	206,000	150,000	507,400	-
Loans and advances to customers	8,115,680	8,115,681	874,895	122,395	104,767	3,569,722	3,443,901
Total financial assets due from customers and banks	**13,706,861**	**13,706,862**	**5,602,676**	**328,395**	**254,767**	**4,077,122**	**3,443,901**
Other financial assets*	163,529	163,529	163,529	-	-	-	-
Total financial assets	**13,870,390**	**13,870,391**	**5,766,205**	**328,395**	**254,767**	**4,077,122**	**3,443,901**

*Other financial assets includes prepayments and accrued interest.

Group - 31 December 2019

ASSETS

Financial assets by type							
Non derivative assets							
Cash and balances with the Central Bank	870,350	870,350	870,350	-	-	-	-
Loans and advances to banks	3,458,459	3,458,459	3,458,459	-	-	-	-
Investment securities	3,073,599	3,037,000	-	2,300,000	470,000	267,000	-
Loans and advances to customers	7,919,227	7,919,227	841,778	60,617	266,569	2,714,858	4,035,405
Total financial assets due from customers and banks	**15,321,634**	**15,285,036**	**5,170,587**	**2,360,617**	**736,569**	**2,981,858**	**4,035,405**
Other financial assets	178,760	178,760	178,760	-	-	-	-
Total financial assets	**15,500,394**	**15,463,796**	**5,349,347**	**2,360,617**	**736,569**	**2,981,858**	**4,035,405**

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity Analysis (continued)

Company - 31 December 2020

ASSETS	Carrying amount P'000	Gross Nominal inflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 yeras P'000
Financial assets by type							
Non derivative assets							
Cash and balances with the Central Bank	973,484	973,484	973,484	-	-	-	-
Loans and advances to banks	2,501,471	2,501,471	2,501,471	-	-	-	-
Investment securities	2,113,719	2,113,719	1,250,319	206,000	150,000	507,400	-
Loans and advances to customers	8,115,680	8,115,680	874,895	122,395	104,767	3,569,722	3,443,901
Total financial assets due from customers and banks	**13,704,354**	**13,704,355**	**5,600,169**	**328,395**	**254,767**	**4,077,122**	**3,443,901**
Other financial assets*	163,499	163,499	163,499	-	-	-	-
Total financial assets	**13,867,853**	**13,867,854**	**5,763,668**	**328,395**	**254,767**	**4,077,122**	**3,443,901**

*Other financial assets includes prepayments and accrued interest.

Company - 31 December 2019

ASSETS

Financial assets by type							
Non derivative assets							
Cash and balances with the Central Bank	867,731	867,731	867,731	-	-	-	-
Loans and advances to banks	3,458,459	3,458,459	3,458,459	-	-	-	-
Investment securities	3,073,599	3,037,000	-	2,300,000	470,000	267,000	-
Loans and advances to customers	7,919,227	7,919,227	841,778	60,617	266,569	2,714,858	4,035,405
Total financial assets due from customers and banks	**15,319,016**	**15,282,417**	**5,167,968**	**2,360,617**	**736,569**	**2,981,858**	**4,035,405**
Other financial assets	138,447	138,447	-	-	-	-	-
Total financial assets	**15,457,463**	**15,420,864**	**5,167,968**	**2,360,617**	**736,569**	**2,981,858**	**4,035,405**

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity Analysis

Group - 31 December 2020

LIABILITIES	Carrying amount P'000	Gross Nominal Outflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 yeras P'000
Demand deposits	7,236,729	(7,236,729)	(7,236,729)	-	-	-	-
Term deposits	4,612,881	(4,818,797)	(736,616)	(1,225,191)	(2,578,719)	(278,271)	-
Deposits from banks	436,471	(436,471)	(436,471)	-	-	-	-
Total financial liabilities to customers and banks	**12,286,081**	**(12,491,997)**	**(8,409,816)**	**(1,225,191)**	**(2,578,719)**	**(278,271)**	**-**
Other financial liabilities**	129,540	(129,540)	(129,540)	-	-	-	-
Lease liability	46,821	(52,191)		(13,098)	(32,174)	(6,919)	
Senior and subordinated debt	389,000	(409,304)	-	-	(4,512)	(404,792)	-
Total financial liabilities	**12,851,442**	**(13,083,033)**	**(8,539,357)**	**(1,225,191)**	**(2,596,329)**	**(715,237)**	**(6,919)**

** Other financial liabilities includes accrued interest payable, accruals and other suspense accounts.

Group - 31 December 2019

LIABILITIES

Demand deposits	7,921,772	(7,921,772)	(7,921,772)	-	-	-	-
Term deposits	4,954,033	(4,954,033)	(1,281,472)	(1,380,254)	(2,176,542)	(115,765)	
Deposits from banks	1,020,928	(1,020,928)	(1,020,928)	-	-	-	-
Total financial liabilities to customers and banks	**13,896,733**	**(13,896,733)**	**(10,224,172)**	**(1,380,254)**	**(2,176,542)**	**(115,765)**	**-**
Financial liabilities	248,646	(248,646)	(248,646)	-	-	-	-
Senior and subordinated debt	439,000	(439,000)	-	-	(50,000)	-	(389,000)
Total financial liabilities	**14,584,379**	**(14,584,379)**	**(10,472,818)**	**(1,380,254)**	**(2,226,542)**	**(115,765)**	**(389,000)**

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity Analysis

Company - 31 December 2020

LIABILITIES	Carrying amount P'000	Gross Nominal Outflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 yeras P'000
Demand deposits	7,236,729	(7,236,729)	(7,236,729)	-	-	-	-
Term deposits	4,612,881	(4,612,881)	(733,421)	(1,209,887)	(2,452,886)	(216,688)	-
Deposits from banks	436,471	(436,471)	(436,471)	-	-	-	-
Total financial liabilities to customers and banks	**12,286,081**	**(12,286,081)**	**(8,406,621)**	**(1,209,887)**	**(2,452,886)**	**(216,688)**	**-**
Other financial liabilities**	170,838	(170,838)	(170,838)	-	-	-	-
Lease liability	46,821	(46,821)		(46,821)			
Senior and subordinated debt	389,000	(389,000)	-	-	-	(389,00)	-
Total financial liabilities	**12,892,740**	**(12,892,740)**	**(8,577,459)**	**(1,209,887)**	**(2,452,886)**	**(652,509)**	**-**

** Other financial liabilities includes accrued interest payable, accruals and other suspense accounts.

Company - 31 December 2019

LIABILITIES

Demand deposits	7,921,772	(7,921,772)	(7,921,772)	-	-	-	-
Term deposits	4,954,033	(4,954,033)	(1,281,472)	(1,380,254)	(2,176,542)	(115,765)	-
Deposits from banks	973,746	(973,746)	(973,746)	-	-	-	-
Total financial liabilities to customers and banks	**13,849,551**	**(13,849,55)**	**(10,176,990)**	**(1,380,254)**	**(2,176,542)**	**(115,765)**	**-**
Financial liabilities	238,881	(238,881)	(238,881)	-	-	-	-
Senior and subordinated debt	439,000	(439,000)	- -	(50,000)	-	(389,000)	
Total financial liabilities	**14,527,432**	**(14,527,432)**	**(10,415,871)**	**(1,380,254)**	**(2,226,542)**	**(115,765)**	**(389,000)**

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.4 Capital Management

Bank of Botswana (BoB) sets and monitors the capital requirements for the Bank and requires the Bank to maintain a minimum Capital Adequacy Ratio (CAR) of 15 percent of risk-weighted assets (RWA). At the onset of Covid-19 impact to the economy, BoB set this ratio at 12.5%, and it will remain there until further notice. The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence to sustain the future development of the business. There were no breaches to this requirement in the current or previous year, as the Bank maintained its CAR at above 15%. The Bank has developed Capital risk appetite which defines the capital tolerance levels both minimum (floor) and maximum (ceiling) which is monitored and tracked on a monthly basis through various governance forums. The Bank's regulatory capital is analysed in two parts:

- Tier I capital, which includes stated capital, additional Tier 1 capital (AT1), retained earnings, accumulated other comprehensive income and other disclosed reserves, common shares issued by consolidated subsidiaries of a bank and held by third parties, regulatory adjustments applied in the calculation of CET1 capital.

- Tier II capital, which includes unpublished profits for the current year, subordinated debt and impairments.

The calculation of both the above ratios is as follows:

Company	2020 P'000	2019 P'000
Capital adequacy		
Core capital		
Stated capital	179,273	179,273
Other revenue reserves	386,172	479,974
Capital contribution	28,213	28,213
Statutory credit risk reserve	19,152	19,152
Less regulatory adjustments	(60,199)	(60,398)
	552,611	**646,214**
Additional Tier 1 Capital (AT1)	400,000	400,000
Total Tier 1 Capital	**952,611**	**1,046,214**
Supplementary capital		
Non-specific impairment	86,073	88,977
*Subordinated debt	311,200	389,000
	397,273	**477,977**
Risk weighted assets		
Credit	6,921,071	7,118,133
Market	33,959	49,952
Operational	722,185	761,215
	7,677,215	**7,929,300**
Capital adequacy ratio	**17.6%**	**19.2%**

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.4 Capital Management (continued)

During the year, dividends amounting to P55 million were declared and paid (2019: P24m).

A distribution of P30.8m was paid to holders of subordinated undated AT1 capital securities during the year (2019: P30.9m).

*Subordinated debt instrument is now within 5 years of maturity and has been amortised on a straight line basis at 20% inline with the regulatory requirements from July 2020.

4.5 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, equity prices and credit spreads (not relating to changes in the obligor/issuer's credit standing) will affect the Group's income or the value of its holding of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Exposure to market risks

The principal tool used to measure and control market risk exposure within the Group's portfolios is Value at Risk (VaR). The VaR is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes an 8-day holding period.

The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

An 8-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.

A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR. VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day. The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.5 Market risk (continued)

The Group uses VaR limits for total market risk and specific foreign exchange, interest rate, equity, credit spread and other price risks. The overall structure of VaR limits is subject to review and approval by ERC. VaR limits are allocated to portfolios. VaR is measured at least daily and reports of utilisation of VaR limits are submitted to Market Risk department and regular summaries are submitted to ERC.

A summary of the VaR position of the Group's portfolios as at 31 December and during the period is as follows:

	At 31 Dec P'000	Average P'000	Maximum P'000	Minimum P'000
2020				
Foreign currency risk	147	30	147	4
Interest rate risk	1,215	566	1,559	169
Overall	**1,362**	**596**	**1,706**	**173**
2019				
Foreign currency risk	7	15	124	4
Interest rate risk	315	219	579	115
Overall	**322**	**234**	**703**	**119**

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each portfolio. In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios, such as periods of prolonged market illiquidity on individual trading portfolios and the Group's overall position.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury department in its day-to-day monitoring activities.

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.5 Market risk (continued)

Exposure to interest rate risk in the banking book

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are on a monthly basis include a 100 basis point parallel fall or rise in yield curves worldwide and a 50 basis points rise or fall in greater than 12-month portion of yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

Group - 31 December 2020

	Zero rate	Floating rate	Fixed Rate instruments					
	P'000	P'000	0-1 month P'000	1-6 months P'000	6-12 months P'000	1 to 5 years P'000	Over 5 years P'000	Total P'000
Total financial assets	1,468,000	8,040,941	2,718,000	1,194,000	6,000	583,000	-	14,009,941
Total financial liabilities	(274,941)	(8,457,000)	(1,028,000)	(2,717,000)	(1,266,000)	(267,000)	-	(14,009,941)
Net Mismatch	**1,193,059**	**(416,059)**	**1,690,000**	**(1,523,000)**	**(1,260,000)**	**316,000**	**-**	**-**
Interest sensitivity gap- Floating rate bucket								
Impact of decrease in interest rates								
50 basis points		2,080						
100 basis points		4,161						

Group - 31 December 2019

Total financial assets	776,405	8,300,000	4,713,000	864,000	613,000	286,000	-	15,552,405
Total financial liabilities	(470,489)	(9,410,000)	(1,520,000)	(2,967,000)	(1,090,000)	(66,000)	(50,000)	(15,573,489)
Net Mismatch	**305,916**	**(1,110,000)**	**3,193,000**	**(2,103,000)**	**(477,000)**	**220,000**	**(50,000)**	**(21,084)**
Interest sensitivity gap- Floating rate bucket								
Impact of decrease in interest rates								
50 basis points		5,550						
100 basis points		11,100						

A decrease in interest rates is seen to have an equal and opposite effect on profits and equity as noted above. Fixed and zero rate instruments are by their very nature not affected by a change in interest rates.

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.5 Market risk (continued)

Exposure to interest rate risk in the banking book (continued)

Sensitivity analysis (PV01)
PV01 (price value per basis point) is a measure of sensitivity to a 1bp (basis point) change in interest rates. It can be shown for a set of assets or liabilities, and also the difference between the two which is known as active PV01. The outcomes may be positive or negative reflecting the change in value for say a rise or fall in interest rates. A positive P V01 implies a -ve net balance sheet gap in a particular tenor (More liabilities than assets), while a negative PV01 implies +ve balance sheet gap (More assets than liabilities).

This metric is strategically used to indicate immunization completeness (attempt to have a zero active PV01 or as close to Zero as possible). Where balance sheet gaps are perfectly immunized, the assets would fund the liabilities in each time period, however to optimise revenue generation, assets and liabilities cannot be perfectly matched. The metric assists in ensuring risk arising from balance sheet mismatch (difference between assets and liabilities in various tenors) remains within our risk appetite.

Company - 31 December 2020

	Zero rate	Floating rate	Fixed Rate instruments					
			0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Total Assets	1,468,000	8,040,941	2,718,000	1,194,000	6,000	583,000	-	14,009,941
Total Liabilities and shareholders' funds	(274,941)	(8,457,000)	(1,028,000)	(2,717,000)	(1,266,000)	(267,000)	-	(14,009,941)
Net Mismatch	**1,193,059**	**(416,059)**	**1,690,000**	**(1,523,000)**	**(1,260,000)**	**316,000**	**-**	**-**
Interest sensitivity gap- Floating rate bucket								
Impact of decrease in interest rates								
50 basis points		2,080						
100 basis points		4,161						

Company - 31 December 2019

Total Assets	728,014	8,300,000	4,713,000	864,000	613,000	286,000	-	15,504,014
Total Liabilities and shareholders' funds	(1,320,000)	(9,410,000)	(1,520,000)	(2,967,000)	(1,090,000)	(66,000)	(50,000)	(16,423,000)
Net Mismatch	**(591,986)**	**(1,110,000)**	**3,193,000**	**(2,103,000)**	**(477,000)**	**220,000**	**(50,000)**	**(918,986)**
Interest sensitivity gap- Floating rate bucket								
Impact of decrease in interest rates								
50 basis points		5,550						
100 basis points		11,100						

A decrease in interest rates is seen to have an equal and opposite effect on profits and equity as noted above. Fixed and zero rate instruments are by their very nature not affected by a change in interest rates.

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.6 Foreign exchange rate risk management

The responsibilities of Financial Markets department include monitoring of foreign exchange risk. Foreign exchange rate risk is the potential impact of adverse currency rates movements on earnings and economic value. This involves the risk of the Group incurring financial loss on settlement of foreign exchange positions taken in both the trading and banking books. The foreign exchange positions arise from the following activities:

- Trading in foreign currencies through spot and forwards transactions as a market maker or position taker, including the de-hedged position arising from customer driven foreign exchange transactions.
- Holding foreign currency position in the Bank's books (e.g. in the form of loans, deposits and cross border investments).

The Group's Financial Markets division is responsible for:

- Setting the foreign exchange risk management strategy and tolerance levels.
- Ensuring that effective risk management systems and internal controls are in place.
- Monitoring significant foreign exchange exposure.
- Ensuring that foreign exchange operations are supported by adequate management information systems which complement the risk management strategy.
- Reviewing the policies, procedures and currency limits regularly in line with changes in the economic environment.

The ALCO regularly monitors the controls put in place by the Group Financial Markets division, which are approved and reviewed by the Board from time to time.

The table below sets out principal structural foreign exchange exposures of the Group for only major currencies at 31 December 2020 and 2019.

Group and Company	**2020**			**2019**		
	Assets / (liabilities)	**Sensitivity***		**Assets /(liabilities)**	**Sensitivity***	
	millions	**1%**	**5%**	**millions**	**1%**	**5%**
American Dollar	37	(0.37)	(1.84)	39	(0.39)	(1.95)
British Pound	39	(0.39)	(1.94)	5	(0.05)	(0.26)
Euro	105	(1.05)	(5.27)	247	(2.47)	12.36)
South African Rand	167	(1.67)	(8.33)	29	(0.29)	(1.44)

* A 1% and 5% weakening of the Pula against the above currencies will decrease profit or loss by the amounts shown above. The analysis assumes that all other variables in particular interest rates, remain constant.

The strengthening of the Pula against the above currencies will have an opposite and equal effect on profit or loss and equity.

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.7 Classification of Financial assets and liabilities

The table below sets out the classification of each class of financial assets and liabilities, and fair value (excluding accrued interest):

In the opinion of directors, the fair values of the Group's financial assets and liabilities approximate the respective carrying amounts. Fair values of financial liabilities are based on discounted cash flows using a discount rate based upon the rate that directors expect would be available to the Group at the reporting date. Financial assets (Investments) fair value is determined using measurement techniques in 3 (i).

Group – 31 December 2020	Note	Fair value through other comprehen-sive income P'000	Amortised cost P'000	Total P'000
Assets				
Cash and balances with central bank	15	-	975,991	975,991
Loans and advances to other banks	16	-	2,501,471	2,501,471
Investment securities	17	2,113,719	-	2,113,719
Loans and advances to customers	18	-	8,115,680	8,115,680
Other financial assets*	21	4,893	158,636	163,529
		2,118,612	**11,751,778**	**13,870,390**

*Other financial assets includes accrued interest income.

Liabilities				
Deposits from other banks	22	-	436,471	436,471
Deposits from customers	23	-	11,849,610	11,849,610
Senior and subordinated debt	24	-	389,000	389,000
Other financial liabilities**	27	-	223,183	223,183
		-	**12,898,264**	**12,898,264**

** Other financial liabilities includes accrued interest payable, accruals and other suspense accounts.

Group – 31 December 2019

Assets				
Cash and balances with central bank	15	-	870,350	870,350
Loans and advances to other banks	16	-	3,458,459	3,458,459
Investment securities	17	3,073,599	-	3,073,599
Loans and advances to customers	18	-	7,919,227	7,919,227
Other financial assets	21	-	174,172	174,172
		3,073,599	**12,422,208**	**15,495,807**
Liabilities				
Deposits from other banks	22	-	1,020,928	1,020,928
Deposits from customers	23	-	12,875,805	12,875,805
Senior and subordinated liabilities	24	-	439,000	439,000
Other financial liabilities	27	-	178,760	178,760
		-	**14,514,493**	**14,514,493**

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.7 Financial assets and liabilities (continued)

Fair value measurement

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models for investment securities classified as level 2 (see below table), including comparisons with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management's judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

Notes to the financial statements for the year ended 31 December 2020 cont.

4. Financial risk management (continued)

4.7 Financial assets and liabilities (continued)

Fair value measurement (continued)

The Group has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to Financial Markets Department, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include: verification of observable pricing inputs and re-performance of models involving both Product Control and Group Market Risk; calibration and back testing of models involving Group Market Risk personnel; and reporting of significant valuation issues to the Group Audit and Risk Committee.

The table below analyses financial and non-financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Note	Level 1	Level 2 P'000	Level 3 P'000	Total P'000
31-Dec-20					
Investment securities	17	-	2,113,719	-	2,113,719
31-Dec-19					
Land and buildings (revaluation amount***)		-	-	2,570	2,570
Investment securities	17	-	3,073,599	-	3,073,599

*** A revaluation was carried out in 2019. The carrying amount of the respective assets based on the cost model would have been P7 944 (2019; P8 173) as at 31 December 2020.

Notes to the financial statements for the year ended 31 December 2020 cont.

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
5. Interest income				
Loans and advances to customers	674,808	644,916	674,808	644,916
Investment securities	49,438	63,696	49,438	63,696
Balances with banks and investments	20,908	53,435	20,908	53,435
	745,154	**762,047**	**745,154**	**762,047**
6. Interest expense				
Amounts due to banks	141,091	163,908	139,522	160,346
Subordinated loan capital	25,005	32,293	25,005	32,293
Amounts due to customers	112,611	127,546	112,611	127,546
Interest expense on lease liabilities	2,184	2,641	2,183	2,641
	280,891	**326,388**	**279,321**	**322,826**
7. Fees and commission				
Transaction Banking	11,036	28,552	10,886	28,368
Fiduciary Activities	12,025	11,713	12,025	11,713
Financial Markets	15,793	3,330	15,793	3,330
Corporate Finance	10,716	-	10,716	-
Lending and Portfolio Management	2,381	4,296	2,381	4,296
Retail Products	152,578	157,554	152,578	157,554
Insurance brokerage	25,251	32,942	-	-
Fees and commission	**229,779**	**238,387**	**204,378**	**205,260**
Commission expenses				
Transaction banking	(168)	(123)	(168)	(123)
Card expenses	(22,616)	(29,204)	(22,616)	(29,204)
Sales commission	(6,367)	(6,132)	(6,367)	(6,132)
Total	**(29,151)**	**(35,459)**	**(29,151)**	**(35,459)**
Net fees and commission	**200,628**	**202,928**	**175,227**	**169,801**

The main considerations on income recognition by product are as follow;

Transaction Banking
The Bank recognises fee income associated with transactional trade, cash management and custody activities at the point in time the service is provided. The Bank recognises income associated with trade contingent risk exposures (such as letters of credit and guarantees) and periodic custody activities over the period in which the service is provided.

Financial Markets and Corporate Finance
The Bank recognises fee income at the point in time the service is provided. Fee income is recognised for a significant non-lending service when the transaction has been completed and the terms of the contract with the customer entitle the Bank to the fee. Fees are usually received shortly after the service is provided.

Retail Products
The Bank recognises most income at the point in time the Bank is entitled to the fee, since most services are provided at the time of the customer's request. Commissions for bancassurance activities are recorded as they are earned through sales of third-party insurance products to customers.

Notes to the financial statements for the year ended 31 December 2020 cont.

		GROUP		COMPANY	
		2020 P'000	2019 P'000	2020 P'000	2019 P'000
8.	**Trading income**				
	Foreign currency	88,376	85,013	88,376	85,013
		88,376	**85,013**	**88,376**	**85,013**
9.	**Expected credit loss on financial assets**				
	Expected credit losses	69,776	65,854	69,776	65,854
	Recoveries	(28,471)	(33,667)	(28,471)	(33,667)
		-	-	-	-
		-	-	-	-
		-	-	-	-
		41,305	**32,187**	**41,305**	**32,187**

Expected credit loss relates to customer loans and advances, loans and advances to banks, investment securities and guarantees and commitments.

9.1	**Liability written off**				
	Liability written off (Refer to note 30)	48,049	-	-	-
	Other impairment	-	-	-	-
		48,049	-	-	-
10.	**Employee benefits**				
	Salaries and wages	204,098	199,514	204,098	199,514
	Contributions to defined contribution pension plan	15,711	14,961	15,711	14,961
	Other staff costs	9,377	10,644	9,377	10,644
	Restructuring	23,158	-	23,158	-
		252,344	**225,119**	**252,344**	**225,119**

**Other staff costs include P7.7m (2019; P6.9m) staff loan subsidy.

11.	**Administration expenses**				
	Audit fees	2,432	2,040	2,432	2,040
	Consultancy costs	5,226	4,744	5,226	4,744
	Directors Fees	479	383	440	383
	Repairs and maintenance	15,810	16,422	15,810	16,422
	Communication costs	19,619	18,292	19,619	18,292
	Group recharges	209,847	196,393	209,847	196,393
	Advertising and sponsorship	8,629	9,309	8,629	9,309
	Technical support	8,052	7,047	8,052	7,047
	Printing and stationery	2,367	5,469	2,367	5,469
	Security	19,881	24,379	19,881	24,379
	Irrecoverable VAT and WHT on group recharges	39,448	40,123	39,448	40,123
	Other expenses**	27,194	32,196	14,959	22,188
		358,984	**356,797**	**346,710**	**346,789**

**Other expenses include expenses includes Insurance, travel, corporate subscriptions and outsourcing costs.

Notes to the financial statements for the year ended 31 December 2020 cont.

		GROUP		COMPANY	
		2020 P'000	2019 P'000	2020 P'000	2019 P'000
12.	**Income tax expense**				
	Taxation charge for the year				
	Corporate tax current year at 22%	25,687	5,233	22,714	-
	Deferred tax	26,051	9,501	28,661	9,501
	Under provision corporate tax prior year	659	-	-	-
		52,397	**14,734**	**51,375**	**9,501**
	Profit before tax	102,120	69,579	42,514	50,022
	Taxation reconciliation:				
	Taxation at statutory rate: 22%	22,466	15,307	9,353	11,005
	Permanent differences**	2,325	1,448	2,325	675
	Exempt income	(10,140)	-	-	-
	Prior year tax adjustment*	37,087	(2,180)	39,697	(2,179)
	Under provision corporate tax prior year	659	-	-	-
		52,397	**14,575**	**51,375**	**9,501**

**Permanent differences include donations and expatriate pension costs.

*The prior year adjustment was a result of accumulated deferred tax asset following adoption of IFRS 9 based on the balance sheet approach. During the year it was clarified that the 1.5% limitation allowance is should be based on the current year (Income statement approach) and not accumulated provisions (Balance sheet approach) resulting in P37m write off.

13.	**Dividends**				
	Dividend declared and paid (Gross of withholding tax)	54,419	23,844	54,845	23,844
		54,419	**23,844**	**54,845**	**23,844**
	Calculated dividend per share (Thebe)	**18.39**	**8.06**		
14.	**Earnings per share**				
	Profit attributable to ordinary shareholders	49,723	54,845		
	Weighted average number of ordinary shares	295,844	295,844		
	Treasury shares	2,506	2,506		
	Total weighted average number of ordinary shares	298,351	298,351		
	Calculated earnings per share (Thebe)	**16.81**	**18.54**		

Notes to the financial statements for the year ended 31 December 2020 cont.

		GROUP		COMPANY	
		2020 P'000	2019 P'000	2020 P'000	2019 P'000
15.	**Cash and balances with the Central Bank**	975,991	870,350	973,484	867,731
16.	**Loans and advances to banks**				
	Bank balances	590	21,657	590	21,657
	Placements and other investments	2,500,881	3,436,802	2,500,881	3,436,802
		2,501,471	3,458,459	2,501,471	3,458,459
		2,501,471	**3,488,495**	**2,501,471**	**3,500,093**
17.	**Investment securities**				
	Bank of Botswana Certificates	1,474,932	2,298,912	1,474,932	2,298,912
	Government bonds	638,787	774,687	638,787	774,687
		2,113,719	**3,073,599**	**2,113,719**	**3,073,599**
	Change in fair value of financial instruments (FVOCI)	16,520	1,762	16,520	1,762
	Tax	(3,634)	(388)	(3,634)	(388)
	Net of tax	12,886	1,374	12,886	1,374
		2,117,353.46	**-**	**2,117,353.46**	**-**
18.	**Loans and advances to customers**				
	Loans and advances - originated	8,324,388	8,161,991	8,324,388	8,161,991
	Less: allowance for impairment (note 9)	(208,708)	(242,764)	(208,708)	(242,764)
		8,115,680	**7,919,227**	**8,115,680**	**7,919,227**

Accrued interest on loans and advances is included in Other assets (Note 21)

Notes to the financial statements for the year ended 31 December 2020 cont.

19. Property, equipment and right-of-use assets - Group and company

						Right-of-use assets		
	Land and buildings	Equip-ment	Motor vehicles	Furniture, fixtures and fittings	Capital WIP	Buildings	ATMs	Total
2020 Cost or valuation	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Balances at 1 January 2019	58,244	79,954	595	21,312	2,358	-	-	162,463
Effect of adoption of IFRS 16 as at 1 January 2019	-	-	-	-	-	55,330	5,283	60,613
Revaluation of property	2,570	-	-	-	-	-	-	2,570
Additions	-	8,502	-	1,231	7,503	14,319	2,406	33,961
Disposals	-	(76)	(595)	-	-	-	-	(671)
At 31 December 2019	60,814	88,380	-	22,543	9,861	69,649	7,689	258,936
Additions	-	8,949	-	717	1,325	(436)	754	11,308
Disposals	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	(228)	-	-	(228)
At 31 December 2020	**60,814**	**97,328**	**-**	**23,260**	**10,958**	**69,213**	**8,443**	**270,016**
Depreciation								
At 1 January 2019	(16,850)	(73,181)	(595)	(13,306)	-	-	-	(103,932)
Depreciation charge for the year	(2,951)	(2,118)	-	(2,425)	-	(13,768)	(2,530)	(23,792)
Disposals	-	76	595	-	-	-	-	671
At 31 December 2019	**(19,801)**	**(75,223)**	**-**	**(15,731)**	**-**	**(13,768)**	**(2,530)**	**(127,054)**
Depreciation charge for the year	(2,561)	(8,455)	-	(2,594)	-	(13,766)	(2,867)	(30,243)
Disposals	-	-	-	-	-	-	-	-
At 31 December 2020	(22,362)	(83,678)	-	(18,325)	-	(27,534)	(5,397)	(157,296)
Net book value								
At 31 December 2020	38,452	13,651	-	4,935	10,958	41,679	3,046	112,720
At 31 December 2019	41,013	13,157	-	6,812	9,861	55,881	5,159	131,883

	Group 2020 P'000	Group 2019 P'000	Company 2020 P'000	Company 2019 P'000
Revaluation of property	-	2,570	-	2,570
Tax	-	(565)	-	(565)
Net of tax	**-**	**2,005**	**-**	**2,005**

Land and buildings comprises of commercial and residential properties. Buildings are disclosed at revalued amount less accumulated depreciation and impairment.

The transfer of capital work in progress has been included as part of additions. A register containing the details of each property is available for inspection at the registered office.

Property, equipment comprises of some assets with original cost BWP127million (2019 : 83million) which are fully depreciated and still in use.

The current use of non financial assets is regarded as its highest and best use .

Notes to the financial statements for the year ended 31 December 2020 cont.

19. Property and equipment (continued) - Group and company

Measurement of fair values

Fair value hierarchy
The fair value of the land and buildings was determined by 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 performed on 20 December 2019 using discounted cashflow valuation model. The model considers the present value of property rentals taking into account rental growth rates. The net cashflows are discounted using risk adjusted discount rates of 10%. The valuer provides the fair value of the Group's land and buildings at least every three years; however the directors consider the fair value of land and buildings at each reporting date.

The fair value measurement of land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

The directors have assessed assumptions and estimates in the fair value calculation in determining the fair value of land and buildings. There were no material changes to the estimates. The carrying value approximates the fair value of land and buildings.

Valuation technique and significant unobservable inputs
The following table shows the valuation technique used in measuring the fair value of the land and buildings, as well as other unobservable inputs used:

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Discounted cashflows; Comparable method for residential properties and Investment method for commercial properties		The estimated fair value would increase/ (decrease) if:
	• Market yield of between 10 - 14%	• Higher/lower market yields
	• Prime rentals of office space between P80-130/sq.m "	• Increase/decrease in rental per sq.m"

Notes to the financial statements for the year ended 31 December 2020 cont.

20. Intangibles assets and goodwill - Group and Company

	Customer relation-ships	Capita-lised Soft-ware	Good-will	Total
2020	**P'000**	**P'000**	**P'000**	**P'000**
Cost				
At beginning of year	94,684	72,163	29,880	196,727
Additions (Developed)	-	21,857	-	21,857
Total at the end of the year	**94,684**	**94,020**	**29,880**	**218,584**
Amortisation and impairment losses				
At beginning of year	(94,684)	(52,095)	(18,621)	(165,400)
Amortisation for the period	-	(14,403)	-	(14,403)
At 31 December 2020	**(94,684)**	**(66,498)**	**(18,621)**	**(179,803)**
Net book value	**-**	**27,522**	**11,259**	**38,781**
2019				
Cost				
At beginning of year	94,684	55,290	29,880	179,854
Additions	-	16,873	-	16,873
Total at the end of the year	94,684	72,163	29,880	196,727
Amortisation and impairment losses				
At beginning of year	(94,684)	(37,183)	(18,621)	(150,488)
Amortisation for the period	-	(14,912)	-	(14,912)
At 31 December 2019	(94,684)	(52,095)	(18,621)	(165,400)
Net book value	**-**	**20,068**	**11,259**	**31,327**

Software is capitalised on the basis of the costs incurred to bring the software to use. Direct costs of the development of separately identifiable internally generated software are capitalised where it is probable that future economic benefits attributable to the asset will flow from its use (internally generated software). Costs incurred in the ongoing maintenance of software are expensed immediately when incurred. Internally generated software is amortised over its useful life.

Notes to the financial statements for the year ended 31 December 2020 cont.

		GROUP		COMPANY	
		2020 P'000	2019 P'000	2020 P'000	2019 P'000
21.	Other assets				
	Financial				
	Accrued income	130,462	128,283	130,462	128,283
	Other receivables	33,067	45,889	33,037	5,576
	Non financial				
	Prepayments	1,024	4,588	1,024	4,588
	Value added tax recoverable	4,256	3,753	4,256	3,722
		168,809	**182,513**	**168,779**	**142,169**

Accrued income relates to accrued interest receivable on loans and advances reported on note 18.

Other receivables include sundry fee income receivable.

22. Deposits from other banks

Bank Balances	431,061	1,013,046	431,061	965,864
Placements	5,410	7,882	5,410	7,882
	436,471	**1,020,928**	**436,471**	**973,746**

23. Deposits from customers

Demand deposits	7,236,729	7,921,772	7,236,729	7,921,772
Time deposits	4,612,881	4,954,033	4,612,881	4,954,033
	11,849,610	**12,875,805**	**11,849,610**	**12,875,805**

Accrued interest expense on liabilities is reported as part of other liabilities in note 27.2

24. Senior and subordinated loan

Senior debt(SCBB 003)	-	50,000	-	50,000
Sub debt	389,000	389,000	389,000	389,000
	389,000	**439,000**	**389,000**	**439,000**

The group redeemed subordinated loan instruments (SCBB003) amounting to P50 million during the year.

Changes in liabilities arising from financing activities

Senior & subordinated debt				
Opening balance	439,000	686,260	439,000	686,260
Cashflow items				
Redemption during the year	(50,000)	(247,260)	(50,000)	(247,260)
Interest paid	(25,005)	(32,293)	(25,005)	(32,293)
Non-Cash flow items				
Interest accrued	25,005	32,293	25,005	32,293
Balance at the end of the year	**389,000**	**439,000**	**389,000**	**439,000**

Notes to the financial statements for the year ended 31 December 2020 cont.

The terms and conditions of the subordinated notes and the Senior debt for both Group and Company are as follows:

24. Note information	Interest rate	Maturity	2020 P'000	2019 P'000
Senior debt was issued on 20 December 2005. Interest is payable semi-annually. Claims in respect of the loan capital and interest thereon are subordinate to the claims of other creditors and depositors	Fixed interest rate of 10.50% per annum	20-Dec-20	-	50,000
Subordinated debt issued for capital injection	4% above the 91 day BOBC rate	29-Jul-25	389,000	389,000

	Group		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
25. Current taxation payable/refundable				
Opening balance (payable)/refundable	(1,169)	(13,926)	(1,665)	(13,150)
Charge for the year	25,687	5,233	22,714	-
Prior year under provision	659	257	-	-
Income tax refunded	0	13,150	0	13,150
Income tax paid	(17,081)	(5,883)	(13,609)	(1,665)
Balance at the end of the year	**8,096**	**(1,169)**	**7,440**	**(1,665)**

Notes to the financial statements for the year ended 31 December 2020 cont.

26. Deferred taxation

Group- 31 December 2020	Net balance as at 01 Jan 2020	Recognised in profit or loss	Recognised in equity	Closing balance as at 31 Dec 2020
	P'000	P'000	P'000	P'000
Property and equipment	2,500	351	-	2,851
Available for sale securities	2,640	-	(4,890)	(2,250)
Revaluation of property, plant and equipment	5,455	-	-	5,455
Restructuring provision	-	(5,095)	-	(5,095)
Provision for share based payments	(16)	(17)	-	(33)
Bonus Provision	(4,976)	679	-	(4,297)
Unclaimed customer deposits	(46)	-	-	(46)
Expected credit losses	(51,554)	33,369	-	(18,185)
Unrealised gains	-	355	-	355
Income received in advance	(351)	(4,583)	-	(4,934)
Prepayments	1,010	(784)	-	226
Leave pay accrual	(1,906)	(406)	-	(2,312)
Assessed loss	(13,901)	13,901	-	-
Right of Use (ROU) leased assets	(159)	(928)	-	(1,087)
Clawback provisions	-	(2,610)	-	(2,610)
CBR Accruals (No WHT)	-	(8,180)	-	(8,180)
Balance at the end of the year	(61,304)	26,051	(4,890)	(40,143)

Company- 31 December 2020				
Property and equipment	2,500	351	-	2,851
Available for sale securities	2,640	-	(4,890)	(2,250)
Revaluation of property, plant and equipment	5,455	-	-	5,455
Restructuring provision	(6,748)	(5,095)	-	(11,843)
Provision for share based payments	(905)	(17)	-	(922)
Bonus Provision	2,661	679	-	3,340
Unclaimed customer deposits	(46)	-	-	(46)
Expected credit losses	(51,554)	33,369	-	(18,185)
Unrealised gains	-	355	-	355
Income received in advance	(351)	(4,583)	-	(4,934)
Prepayments	1,010	(784)	-	226
Leave pay accrual	(1,906)	(406)	-	(2,312)
Assessed loss	(13,901)	13,901	-	-
Right of Use (ROU) leased assets	(159)	(928)	-	(1,087)
CBR Accruals (No WHT)	-	(8,180)	-	(8,180)
Balance at the end of the year	(61,304)	28,661	(4,890)	(37,533)

Notes to the financial statements for the year ended 31 December 2020 cont.

26. Deferred taxation

Group and company - 31 December 2019	Net balance as at 01 Jan 2020	Recognised in profit or loss	Recognised in equity	Closing balance as at 31 Dec 2020
	P'000	P'000	P'000	P'000
Property and equipment	869	1,631	-	2,500
Available for sale securities	1,581	-	1,059	2,640
Revaluation of property, plant and equipment	4,890	-	565	5,455
Restructuring provision	(6,748)	6,748	-	-
Provision for share based payments	(16)	-	-	(16)
Bonus Provision	(4,087)	(889)	-	(4,976)
Operational loss provision	(46)	-	-	(46)
Expected credit losses	(46,650)	(4,904)	-	(51,554)
Income received in advance	(364)	13	-	(351)
Prepayments	973	37	-	1,010
Leave pay accrual	(1,751)	(155)	-	(1,906)
Assessed loss	(21,079)	7,178	-	(13,901)
Right of Use (ROU) leased assets	-	(159)	-	(159)
Balance at the end of the year	(72,428)	9,500	1,624	(61,304)

There were no unrecognised deferred tax assets and liabilities as at current or previous reporting date.

Notes to the financial statements for the year ended 31 December 2020 cont.

		GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
27.1	**Unsettled treasury bills**	**29,878**	**-**	**29,878**	**-**
27.2	**Other liabilities**				
	Financial				
	Accruals	569	2,436	569	2,436
	Accounts payable	175,793	195,245	217,090	173,617
	Lease liability	46,821	62,828	46,821	62,828
	Non financial				
	Other payables	45,320	25,742	31,633	22,822
		268,503	**286,251**	**296,113**	**261,703**
27.3 (a)	**Provisions**				
	Restructuring provision				
	Balance at the beginning of year	-	-	-	30,674
	Provision made during the year	23,158	-	23,158	-
	Payments / reversals during the year	-	-	-	(30,674)
		23,158	**-**	**23,158**	**-**

The provision relates principally to outcomes of our strategic re-think around digital and delivery channels. The restructuring is expected to be largely completed by 2021.

27.3 (b) Clawback provisions**				
Balance at the beginning of year	11,862	8,162	-	-
Provision made during the year	10,734	10,321	-	-
Realised in P&L	-	-	-	-
Payments during the year	(8,665)	(6,621)	-	-
	13,932	11,862	-	-

**Clawback liability is recognised on credit life on early settlement of loans.

28.	**Cash and cash equivalent**			
Cash and bank balance with Central Bank (note 15)	975,991	870,350	973,484	867,731
Loans and advances to banks (note 16)	2,501,471	3,458,459	2,501,471	3,458,459
	3,477,462	4,328,809	3,474,955	4,326,190

Cash and cash equivalents include cash on hand, balances with Central Bank and placements with other banks with a maturity of less than 3 months and readily convertible into cash at no charge.

The Group held cash and cash equivalents of P3 477 million at 31 December 2020 (2019: P4 329 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the Central Bank and other financial institution counterparties. The Cash and bank balances with Central include a primary reserve requirement of P251m (2019; P506m).

Notes to the financial statements for the year ended 31 December 2020 cont.

29. Related Parties

A number of banking transactions are entered into with related parties in the normal course of business. These transactions are carried out under mutually agreed terms and conditions. These include loans, deposits and foreign currency transactions with the group and purchase of software. During the current year, there was a new dispensation agreed with SCB group to cap recharges at 40% of direct costs.

(a) Balances and transactions with directors and key management personnel
The aggregate value of transactions, compensation and outstanding balances related to key management personnel for both Group and Company were as follows:

(i) Directors and key personnel compensation:

	2020 P'000	2019 P'000
Directors' fees - short term employee benefits	479	461
Directors and key management personnel compensation - short term employee benefits	24,171	19,361
Directors and key management personnel compensation – long term employment benefits	1,243	1,103
Directors' holding in Company shares	483	222

Compensation of the Group's key management personnel includes, short term employee benefits and non-cash benefits.

(ii) Key management personnel and non-executive directors' balances:

	Assets		Liabilities	
Loans	**2020 P'000**	**2019 P'000**	**2020 P'000**	**2019 P'000**
Auto, mortgages and personal	14,843	13,620	-	-
Deposits	-	-	5,635	1,616

Expected credit losses on the related party balances are included in the retail book.

Notes to the financial statements for the year ended 31 December 2020 cont.

	GROUP		COMPANY	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
29. Related parties (continued)				
(a) Balances and transactions with the holding company and with entities within Standard Chartered Group				
Nature of related-party relationships				
Standard Chartered Bank PLC is the holding company and the other companies transacted with are fellow subsidiaries.				
Details of related party at year end are as follows:				
Balances due from:				
Standard Chartered Bank PLC	2,062,325	2,030,047	2,062,325	2,030,047
Standard Chartered Bank New York	29,442	-	29,442	-
Standard Chartered Bank Johannesburg	239,804	202,954	239,804	202,954
Standard Chartered Bank Mauritius	54,302	637,272	54,302	637,272
Other group companies	128,864	84,886	128,864	84,886
Standard Chartered Insurance Agency	-	-	105,846	45,010
	2,514,738	**2,955,159**	**2,620,584**	**3,000,169**
Balances due to:				
Standard Chartered Bank PLC	460,712	620,950	460,712	620,950
Standard Chartered Bank New York	256	388,811	256	388,811
Standard Chartered Bank Johannesburg	6,885	92,623	6,885	92,623
Other group companies	38,721	60,610	38,721	60,610
Standard Chartered Insurance Agency	-	-	163,617	41,490
	506,575	**1,162,994**	**670,192**	**1,204,484**

Balances due to related companies are unsecured, carry variable interest rates, and are short term in nature.

Notes to the financial statements for the year ended 31 December 2020 cont.

29. Related Parties (continued)

Details of related party transactions during the year are as follows:

	Interest income P'000	Interest expense P'000	Group recharges P'000	Group share scheme expense P'000
Group and Company - 2020				
SCB UK Treasury	6,642	20,231	139,214	439
SCB Singapore DBU	-	10	32,552	-
SCB Zimbabwe	79	-	-	-
SCB Japan	-	2	-	-
SCB Kenya	-	4	7,884	-
SCB New York	-	346	-	-
SCB Johannesburg	7,627	1,321	-	-
SCB Mauritius	6,154	-	-	-
SCB Hong Kong	-	-	-	-
MESA Regional Office	-	-	-	-
SCB India	-	1	26,936	-
SCB Malaysia	-	-	2,332	-
Standard Chartered Bank AG	-	3,585	-	-
SCB China	-	0	928	-
SCB others	-	800	-	-
	20,502	**26,300**	**209,847**	**439**
Group and Company - 2019				
SCB UK Treasury	25,297	14,366	143,885	9
SCB Singapore DBU	-	2,379	7,990	-
SCB Srilanka	-	-	-	-
Scope Tokyo	-	-	-	-
SCB Kenya	-	6	10,864	-
SCB New York	2,528	-	-	-
SCB Johannesburg	11,729	8,969	-	-
SCB Mauritius	12,035	-	-	-
SCB Hong Kong	-	-	-	-
MESA Regional Office	-	-	9,367	-
SCB India	-	2,946	21,653	-
SCB Malaysia	-	-	1,726	-
Standard Chartered Bank AG	-	3,585	-	-
SCB China	-	-	888	-
	51,589	**32,251**	**196,373**	**9**

Transaction with other entities in the Standard Chartered Group are in the ordinary course of business on mutually agreed terms and conditions.

Notes to the financial statements for the year ended 31 December 2020 cont.

30. Subsidiaries and other structured entities

The list below provides details of the subsidiaries of the group.

	Stated capital	Ownership interest 2020	2019
Standard Chartered Bank Insurance Agency (Proprietary) Ltd	30 100	100%	100%
Standard Chartered Bank Investment Services (Proprietary) Ltd	100	100%	100%
Standard Chartered Botswana Education Trust	-	100%	100%
Standard Chartered Botswana Nominees (Proprietary) Ltd	100	100%	100%

The Group has not provided any financial support or issued guarantees in favour of the subsidiaries. Standard Chartered Investment Services (Proprietary) Ltd and Standard Chartered Botswana Nominees (Proprietary) Ltd are dormant companies. Standard Chartered Insurance Agency (Proprietary) Ltd operates as an insurance agent for the Group and is managed from the Group's head office. The Agency collects premiums from clients on behalf of a Broker for a commission.

Standard Chartered Botswana Education Trust is a structured entity that was set up to promote educational activities. Standard Chartered Botswana Education Trust acquired 0.84% shareholding in Standard Chartered Bank Botswana Limited.

The Group was directly involved in the design and establishment of the Trust and in determining the activities it undertakes. Standard Chartered Botswana Education Trust obtained a loan of P32.8m from Standard Chartered Bank PLC which was repayable on 31 December 2019. During the year, the loan payable to Standard Chartered Bank PLC was forgiven resulting in a P48m (including capitalised interest) credit on the statement of profit or loss and other comprehensive income.

Investment in subsidiaries	2020 P'000	2019 P'000
As at 1 January**	30	-
Additions	-	30
As at 31 December	30	30

**The amount of share capital as at 1 January 2019 was below one thousand when rounded, hence the Pnil balance.

31. Leases - Right-of-use asset

Interest on lease payments (Note 6)	2,184	2,641
Expenses relating to short-term property leases	1,079	1,214
Amounts recognised in statement of cashflows		
Lease liability payments	15,394	14,941
Interest	2,184	2,641
Principal	13,210	12,300
The Group's commitments under non-cancellable operating leases expiring:		
Within 1 year	13,098	12,305
After 1 year but less than 5 years	32,174	31,151
After 5 years	6,919	6,919
Total undiscounted lease liabilities	52,191	50,375

Notes to the financial statements for the year ended 31 December 2020 cont.

32. Contingent liabilities and commitments

	2020 Stage 1 P'000	Stage 2 P'000	Stage 3 P'000	Total P'000	2019 Total P'000
Grade 1-11: Low - fair risk					
Un-drawn commitments	5,882,806	183,923	-	6,066,729	4,562,944
Guarantees and Letters of credit	485,520	72,163	-	557,683	554,701
Grade 13/14: Substandard/loss					
Un-drawn commitments	-	-	-	-	-
Guarantees and Letters of credit	-	-	5,784	5,784	3,106
Contingent liabilities and commitments	6,368,326	256,086	5,784	6,630,196	5,120,751
Expected credit losses	(450)	(660)	(483)	(1,593)	(3,301)
Contingent liabilities and commitments	6,367,876	255,426	5,301	6,628,602	5,117,450

33. Fiduciary activities

In the normal course of business, the Group is a party to financial investments with off-balance sheet risk to meet the financing needs of customers. These instruments involve, to varying degrees, elements of credit risk which are not reflected in the statement of financial position. The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amount of those instruments. A large majority of these expire without being drawn upon, and as a result the contracted nominal principle amounts are not representative of the actual future credit exposure or liquidity requirements of the Group. Expected credit loss for contingent liabilities and commitments of P1.6m (2019;P3.3m) was recognised under IFRS 9 at the current reporting date.

Based upon the level of fees currently charged taking into account maturity and interest rates together with any change in the credit worthiness of counterparties since origination, the Group has determined that the fair value of contingent liabilities and un-drawn loan commitments is not material.

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

These instruments are held in trust on behalf of customers and are therefore not treated as assets of the Bank and accordingly have not been included in these financial statements.

Notes to the financial statements for the year ended 31 December 2020 cont.

		GROUP		COMPANY	
		2020 P'000	2019 P'000	2020 P'000	2019 P'000
33.	**Fiduciary activities (continued)**				
	Assets held in custody	**15,627,103**	**15,522,519**	**15,627,103**	**15,522,519**

33.1 Litigations

Standard Chartered Bank Botswana Limited together with African Banking Corporation Botswana, African Banking Corporation Zambia and Standard Chartered Bank Johannesburg Branch (Lenders) are defendants in a dispute before the Gauteng High Court, instituted by Mapula Solutions (Pty) Ltd "Mapula". Mapula is claiming damages, to the sum of ZAR577 million, for an alleged breach of contract in respect of a Debt Rescheduling Agreement "DRA".

The DRA was signed between the Lenders and Blue Financial Services Limited. Blue breached the terms of the DRA and the Lenders cancelled the DRA, this cancellation was confirmed by the Johannesburg High Court. Mapula assumed rights by cession from a Related Party of Blue, based on that cession of rights Mapula instituted action against the Lenders.

Mapula in claiming that the Lenders had no right to cancel the DRA. The matter is going through the litigation process at the Johannesburg High Court, accordingly, this has been disclosed as a contingent liability and no provision has been recognised.

34. Segmental reporting

The Group has the following two strategic divisions, which are reportable segments. These divisions offer different products and services and are managed separately based on the Group's management and internal reporting structure. There is no intersegment revenue and all financial income for these segments is earned in Botswana.

As part of our transformation strategy, Corporate & Institutional Banking and Commercial Banking businesses merged into a single segment, the "Corporate, Commercial and Institutional Banking (CCIB)" with a view to leveraging the capabilities within both businesses to deliver superior banking solutions to our clients. As a result of this transformation, 2019 and 2020 segment results are not easily comparable.

Corporate, Commercial and Institutional Banking provides lending, trade finance, cash management, securities services, foreign exchange, risk management, capital raising, corporate finance solutions and advisory services to its customers. The segment focuses on deepening relationships with clients and providing them with solutions.

Retail Banking provides a broad range of products and services to meet the borrowing, wealth management and transactions needs of individuals and small sized enterprises (SEs). While we maintain our strong hold on the Personal segment, more focus will be given to high net worth individuals and SEs paying particular attention to product innovation to attract and retain customers.

The Group's executive committee reviews the internal management reports at least monthly. Information related to each reportable segment is set out below. Segment profit before taxation as included in internal management reports reviewed by the Group's management committee is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments to other entities that operate within the same industries.

Notes to the financial statements for the year ended 31 December 2020 cont.

34. Segmental reporting (continued)

	Retail Banking P'000	Corporate, Commercial and Institutional Banking P'000	Total P'000
2020			
Profit or Loss			
Net interest revenue calculated using the effective interest method	348,652	115,611	464,263
Net fee and commission income	149,320	51,308	200,628
Net trading income	30,796	57,580	88,376
Credit loss expense on financial	(21,373)	(19,932)	(41,305)
Liability written off		48,049	48,049
Net operating income	**507,395**	**252,616**	**760,011**
Operating expenses	(462,628)	(195,263)	(657,891)
Segment profit (loss) before taxation	**44,767**	**57,353**	**102,121**
Income tax expense			(52,397)
Profit for the year			**49,724**
Statement of financial Position			
Investment Securities	-	2,113,719	2,113,719
Loans and advances to customers	7,071,323	1,044,357	8,115,680
Other assets for reportable segments	160,116	3,675,189	3,835,305
Total assets for reportable segments	**7,231,439**	**6,833,265**	**14,064,704**
Deposits from non bank customers	4,149,434	7,700,176	11,849,610
Other liabilities for reportable segments	(56,433)	1,211,540	1,155,107
Total liabilities for reportable segments	**4,093,002**	**8,911,716**	**13,004,717**

Notes to the financial statements for the year ended 31 December 2020 cont.

34. Segmental reporting (continued)

	Retail Banking	Corporate and Institutional Banking	Commercial Banking	Total
	P'000		P'000	P'000
2019				
Profit or Loss				
Net interest revenue calculated using the effective interest method	328,598	84,823	22,238	435,659
Net fee and commission income	156,671	36,731	9,526	202,928
Net trading income	33,750	35,891	15,372	85,013
Credit loss expense on financial	(25,078)	(8,337)	1,228	(32,18)
Net operating income	**493,941**	**149,107**	**48,364**	**691,413**
Operating expenses	(417,695)	(131,660)	(72,479)	(621,834)
Segment profit (loss) before taxation	**76,246**	**17,447**	**(24,115)**	**69,579**
Income tax expense				**(14,734)**
Profit for the year				**54,845**
Statement of financial Position				
Investment Securities	-	3,073,599	-	3,073,599
Loans and advances to customers	6,674,082	1,027,225	217,920	7,919,227
Other assets for reportable segments	115,622	4,628,545	3,509	4,747,676
Total assets for reportable segments	**6,789,704**	**8,729,369**	**221,429**	**15,740,501**
Deposits from non bank customers	3,851,931	8,022,577	1,001,297	12,875,805
Other liabilities for reportable segments	14,352	1,789,892	(49,546)	1,754,698
Total liabilities for reportable segments	**3,866,283**	**9,812,469**	**951,751**	**14,630,503**

Segment balances exclude total equity, property, plant and right of use assets and, other assets and liabilities which cannot be allocated to the segments.

Notes to the financial statements for the year ended 31 December 2020 cont.

	GROUP 2020 P'000	GROUP 2019 P'000	COMPANY 2020 P'000	COMPANY 2019 P'000
35. Issued Capital				
Authorised Shares				
Ordinary shares of P1 each	400,000	400,000	400,000	400,000
Ordinary shares				
Issued and fully paid				
At 1 January 2020 (excluding treasury shares for Group)	295,844	295,844	298,351	298,351
Issued in 2020	-	-	-	-
At 31 December 2020	**295,844**	**295,844**	**298,351**	**298,351**

36. Events after reporting period

Dividend declared

There have been no events, facts or circumstances of a material nature that have occurred subsequent to the reporting date which necessitate an adjustment to the disclosure in these Annual Financial Statements or the notes thereto. The Directors have resolved to award a final dividend of P48m (2019; P55m) gross of withholding tax.

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Annual General Meeting Notice

for the year ended 31 December 2020

Notice is hereby given that the 46th Annual General Meeting of the members of Standard Chartered Bank Botswana Limited will be held on Wednesday 30th June 2021 at 1500 hours via bluejeans for the following purposes:

1. To receive, consider and adopt the Chairperson's report.
2. To receive, consider and adopt the Chief Executive Officer's report.
3. To receive, consider and approve the Annual Financial Statements for the year ended 31st December 2020, together with the Auditor's reports therein.
4. To ratify the declaration of a final dividend of 16 thebe per ordinary share paid to the shareholders on the 19th May 2021.
5. To re- elect as a Director Doreen Cilla Khama who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers herself for re-election. Director Khama is the founder and senior partner of Doreen Khama Attorneys, a private law firm established in 1982 which provides legal advice to corporate, individual clients on commercial matters and general litigation. She has sat on the boards of Botswana Savings Bank, ABC Holdings and Banc ABC Botswana where she served as a Non-Executive Director and a Chairperson.
6. To re- elect as a Director Rodgers Majwabe Thusi who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers himself for re-election. Mr Thusi is the co – founder of Gidary Technical Solutions, a consultancy company which specialises in technical investigations, mineral resource evaluation including projects and operations management support at various mines. He holds a Bachelor's degree of Science specialising in Mineral Processing from the University of Wales, a Post Graduate Diploma in Management Studies from Management College of Southern Africa and a Certificate in Advanced Operations Management from the University of Cape Town. He is a member of Botswana Institute of Engineers, a registered engineer by the Engineering Registration Board Botswana and a project management professional through the Project Management Institute.
7. To ratify and confirm the appointment of Rapelang Rabana as an Independent Non- Executive Director effective 13th December 2020 in accordance with Section 90 of the Companies Constitution. Ms Rabana is an internationally lauded technology entrepreneur. Her areas of expertise include digital transformation, innovation, strategy and product development, operations and process engineering, communications and brand development. She sits as a board member to the African Leadership University in Mauritius and Imagine Worldwide in San Francisco, United States of America. Ms Rabana holds a Bachelor of Business Science (Computer Science Honours), a Master's of Science (Property Studies) from the University of Cape Town (UCT), South Africa, a FAIS Regulatory Exams RE1 (Key Individuals), RE3 (Key Individuals), RE5 (Representatives), and a Venture Capital Intensive Course from Venture University in San Francisco, USA.
8. To approve the remuneration for directors for the year ending 31st December 2021.
9. To approve the remuneration of the auditors, Ernst & Young Botswana for the year ended 31st December 2020.
10. To confirm the appointment of the auditors for the ensuing year.
11. To receive and consider questions and or comments from the shareholders.

Notes:
Any member entitled to attend and vote, is entitled to appoint a proxy to attend and speak and, on a poll, vote in his/her stand. The person so appointed needs not be a member. The instrument appointing such a proxy together with the shareholder's request for the link to attend the meeting should be forwarded to the Company by e-mail not less than 48 hours before the meeting at **Luzibo.Benza@sc.com** alternatively **Chazha.Kgalemang@sc.com**

A copy of the Annual Report is available for download at **www.sc.com/bw,** or at the company's registered office alternatively please request for a copy from the Company Secretary via e-mail at **Chazha.Kgalemang@sc.com**

By order of the Board

Chazha Kgalemang
Company Secretary

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Proxy Form

Please complete in block letters

I/WE_____

Being a shareholder of Standard Chartered Bank Botswana Limited, hereby appoint:

_____or failing him or her

_____or failing him or her

_____or failing him or her

as my proxy to vote on my behalf at the annual general meeting of the company to be held on the 30th June 2021 and at any adjournment of the meeting thereof as follows;

	Resolution	For	Against	Abstain
1.	To receive, consider and adopt the Chairperson's report.			
2.	To receive, consider and adopt the Chief Executive Officer's report.			
3.	To receive, consider and approve the Annual Financial Statements for the year ended 31st December 2020, together with the Auditor's reports therein.			
4.	To ratify the declaration of a final dividend of 16 thebe per ordinary share paid to the shareholders around the 19th May 2021.			
5.	To re- elect as a Director Doreen Cilla Khama who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers herself for re-election			
6.	To re- elect as a Director Rodgers Majwabe Thusi who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers himself for re-election.			
7.	To ratify and confirm the appointment of Rapelang Rabana as an Independent Non- Executive Director effective 13th December 2020 in accordance with Section 90 of the Companies Constitution.			
8.	To approve the remuneration for directors for the year ending 31st December 2021.			
9.	To approve the remuneration of the auditors, Ernst & Young Botswana for the year ended 31st December 2020.			
10.	To confirm the appointment of the auditors for the ensuing year.			

Unless otherwise indicated, my proxy may vote as he/she thinks fit.

Signature_____ Date _____2021

Notes_____

1. Any alteration of this form must be initialled by the signatory

   A copy of the Proxy Form is available for download at www.sc.com/bw or please request for a copy from the Company Secretary via e-mail at Chazha.Kgalemang@sc.com

2. This form of proxy should be completed and returned so as to reach the Secretary of the Company on the 5th floor, Standard House, The Mall, P O Box 496, Gaborone alternatively sent by e-mail to Chazha.Kgalemang@sc.com no later than Friday 25th June 2021.

Notes