2021
Annual Report

Step Into The Future
Here for good

standard chartered

CONTENTS

The Future of Banking

Standard Chartered's digital banking journey in Botswana continues to forge ahead, with the launch of the first of its kind Express Banking Centres (EBCs) in the country in 2021. The EBC's were launched in four locations, Jwaneng, Maun, Gaborone CBD and Lobatse. The client journey for SC is a seamless end-to-end journey from account opening to transacting, all from the comfort of one's home. As the SC Mobile app evolves, more partners are coming on board, more services are being offered and we continue to listen to our clients as we walk this journey of digitisation with them. The SC Digital strategy is fully aligned to the country's fourth industrial revolution (4IR) strategy which aims to digitise government services. The platform offers elements which are ahead of market infrastructure to assist in the acceleration of such infrastructure adoption.

Batswana are showing their appreciation for the platform and the convenience that it offers to them. In 2021, the average daily download rate was 280% higher than that of 2019 when the SC Mobile App was launched.

Our Brand

The Standard Chartered brand was refreshed in early 2021. The new, brighter more streamlined look and feel for the Bank is aligned to our digital strategy and speaks directly to our heritage and where we are journeying to.

Changes to the Bank's advertising roll out ensured that – images for all campaigns were localised, the visibility of the Bank was enhanced through always-on media across various platforms including radio, print and digital advertising.

Despite the harrowing impact of the COVID-19 pandemic, the Bank was able to launch various campaigns and ensure a steady uptake of Banking products through the SC Mobile App.

Sustainability

Sustainability and being good corporate citizens are at the core of the Bank's brand promise – Here for good. This is premised on us contributing sustainably to both our clients and the communities within which we operate.

To this end, the Bank launched its first fully solar powered EBC in Lobatse which beckoned a new era for Standard Chartered Bank Botswana, as we begin to firmly embed sustainability and the pursuit of our net zero targets at our core – both as a Bank driving towards reducing our carbon emissions in our own internal operations as well as ensuring we share our insights and learnings with our clients to assist their own consciousness of their carbon footprint.

Furthermore, through our Standard Chartered Foundation, and following the resounding success of our initial local initiative we launched Futuremakers 2.0 the second iteration of our youth employability programme with our partners – Young Africa Botswana. Future-makers by Standard Chartered is our global initiative to tackle inequality by promoting greater economic inclusion in our markets. Futuremakers supports disadvantaged young people, especially girls and people with visual impairments, to learn new skills and improve their chances of getting a job or starting their own business.

Simply put, we are seeking initiatives and partners to help young people to learn, to earn, and to grow.

In 2021, Futuremakers programmes reached more than 304,000 young people, and more than 671,000 young people between 2019 and 2021 across 41 markets. In Botswana, Futuremakers has donated approximately P2 million since 2019 and reached over 1,000 youth to start new businesses or find scale in existing businesses.

Employee Volunteering

Good citizenry in the Bank is not just encouraged at the corporate level, but at the employee level as well. The Bank's Employee Volunteering (EV) programme encourages staff to seek opportunities to impact their communities in various ways, with the Bank offering all employees up to three full working days (at the Bank's cost) to give back.

The global pandemic has created challenges with face-to-face interaction with the community compared with pre-pandemic years, however, much like all sectors of the economy, virtual channels have offered an opportunity to remain engaged sustaining our positive impact. The key focus for the 2021 EV drive was focused on mentorship with the Futuremakers participants as well as tree planting in a range of public spaces and community centres and blood donation to support the great need across the country.

About this Report

For more information please visit sc.com/bw/investor-relations/

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A Message
From Board Chairperson

2021 was no doubt a year that challenged Standard Chartered Bank Botswana Limited's resilience in the face of a devastating COVID-19 pandemic.

Economic Update

Botswana's economic transformation has been slow, partly because of sluggish economic diversification and declining revenue from minerals, particularly diamonds however there was significant recovery in 2021, despite absorbing multiple and repeated health, societal and economic shocks over the past two years.

The economic recovery, which started in the second half of 2020 and continued throughout 2021, was underpinned by a strong global rebound driven by a surge in demand for goods, which fuelled a strong rally in international commodity prices . Economic growth rebounded to an estimated 12.1 percent in 2021.

According to the IMF, GDP grew by an estimated 9.2%, mainly driven by a rebound in diamond exports and an increase in domestic demand. In the coming years, the country's economy should continue to grow, albeit at a slower pace.

According to IMF forecasts, GDP growth is expected to reach 4.7% in 2022 and 4.4% in 2023. Investment in the mining sector and the rebound of the prices of hard commodities (diamond, copper, and nickel) should contribute to this performance.

This should have a stabilising affect and lead to a steady improvement in sentiment, which in turn should gradually feed positively into the business environment.

Performance

Our results as at 30 June 2021 were below expectation, the business however recovered in the second half of the year resulting in satisfactory full year results, despite a challenging operating environment. Details of the Bank's performance can be found in full in the Chief Executive Officer's report and Chief Financial Officer's review. The Bank is highly liquid and well capitalised with a Common Equity Tier 1 ('CET1') ratio of 14.1 per cent. The Board has recommended a final dividend of 20.21 thebe then per share, or BWP60.3 million. Overall, our results show evidence of resilience and commitment with performance improving despite the testing circumstances.

Strategic Priorities

In 2021 the board continued its regular strategic discussions at board and committee meetings, as well as during its annual board and management strategy engagement in 2021. The board debated and provided input into the Bank's strategy, before signing off the business plan, financial targets and relevant risk appetites in November 2021.

We reviewed our refined strategy 'Chapter 3' that introduces our Stand as a new dimension to our purpose and brings focus on our strategy & enablers considering the changes around us.

The essence of Chapter 3 is derived from accelerating change, adopting innovation and facilitating our own transformation.

Enabling innovation

To remain relevant and competitive in this digital age, the Board has been proactive and focused on innovation as one of its key governance responsibilities.

We realise that life for our employees, clients and other stakeholders, as well as the world of banking, is likely to be materially different after the COVID-19 pandemic, we therefore need to prepare for the future, both for our employees and our delivery model for clients.

Board matters

The Board remains dedicated to retaining and elevating core governance principles as guided by King IV Code on Corporate Governance ("King IV"), with all Board members dedicated to delivering our business strategy through a fiduciary oversight role.

Thank you

Many lives have been lost as a result of the pandemic.

We unfortunately lost one employee Ms Refilwe Siele, may her soul rest in peace Our sincerest condolences to our employees, clients and stakeholders who have lost loved ones during this period. May we all find the courage to tap into our resilience and carry on living with full gratitude for the gift of life.

On behalf of the Board, I would like to send heartfelt gratitude to my fellow Directors and all Bank employees across Botswana. Your outstanding efforts and performance as individuals and teams have not gone unnoticed.

Doreen C. Khama
Board Chairperson

Chief Executive Officer's Report

Consolidating our gains

In 2021, we have continued to consolidate our gains and are confident that we are on the right path to deliver sustainable value to our investors and shareholders.

One of our key performance indicators is Return on Equity, which improved by 110bps to 5.8%. A final dividend pay-out of 20.21 thebe per ordinary share, up by 26% from 2020 has ensured that we return value back to our shareholders while remaining well capitalised with a Common Equity Tier 1 ('CET1') ratio of 12.4% and a capital adequacy ratio of 15.5% .

Strategy Update

Our recently launched Chapter 3 Strategy, identified priorities which have remained relevant and even accelerated against the backdrop of the COVID-19 pandemic.

- **Affluent**: As we seek to grow our affluent segment, we enhanced the value proposition by introducing unique investment products - Offshore Mutual Funds and Fixed Income. Further enhancements have been slated for 2022 where we have taken a client centric approach as we aspire to offer clients personalized wealth advice and solutions.

- **Retail and Network:** To augment our digital offering and heed the call of our clients, we introduced the card-less cash solution on our mobile banking app. We shall continue to leverage on our digital capabilities across the Group as we seek to accelerate digital adoption and have 80% of our clients transact digitally by 2022. 98% of all on-boarding is currently conducted digitally and over 70 services are offered on the SC Mobile app.

- **Sustainability:** The sustainability agenda is a key priority to Standard Chartered and we have set in motion various initiatives to be the most sustainable and responsible Bank. We launched our first green Express Banking Centre, this is a fully solar powered 24/7 centre that is expected to reduce greenhouse emissions by 3.8 tonnes per year, as well as reduce overall operational costs.

Staff Well Being

Ensuring staff well-being as the world navigated its way through the pandemic was a priority to the Bank. We recognize that our workforce is a significant source of value that drives our performance and productivity. To ensure the well-being of our workforce, we hosted several informative virtual sessions led by health professionals to discuss the impact of covid on all facets of life. We further adopted a split working arrangements with majority of staff working from home and only critical staff working from the office. The Bank further provided the necessary resources and tools to support remote working and continues to avail medical support to all staff that may be impacted by COVID-19.

Outlook

Celebrating 125 years in Botswana this year, we look back with pride at our achievements over the years. Our legacy speaks to many milestone events over the years including such firsts as - introducing the first ATM in Botswana, being the first Bank to offer end to end digital onboarding experience and offering over 70 services on a digital platform. This is a true testament of our resilience and our relevance to Botswana, and our bold promise, to be, Here for good.

The Bank has navigated its way through the height of the COVID-19 pandemic and shall continue to be agile and ready to adapt to a constantly changing landscape. We are confident that we will deliver on our 2022 strategy, building on 2021 business momentum which is steadily returning to pre-COVID-19 levels in line with the recovery of the economy.

As our clients accelerate their pivot to digital, we will continue to digitize our products and services with the intent to deliver world class solutions. In line with this digital agenda, we started the year on a high note, with the official launch of the Straight2Bank NextGen (S2B NG), an upgrade to the award winning S2B online banking platform which provides our corporate clients with superior, real time, intuitive and flexible online banking.

We are confident that we will deliver a sustainable performance in 2022 and increase shareholder value.

Mpho Masupe
Managing Director

Management Team

Mpho Masupe
Chief Executive Officer

Lloyd Kusano
Chief Operating Officer (Acting)

Emily Namugowa
Chief Risk Officer (Acting)

Bame Moremong
Head, Corporate Affairs, Brand & Marketing

Bino Rasedisa
Head, Consumer, Private and Business Banking

Asuquo Nkposong
Head, Corporate, Commercial and Institutional Banking

Esther Mokgatlhe
Head, Compliance

Tapiwa Butale
Chief Financial Officer

Lizzynet Maponga
Head, Human Resources

Sinqobile Magenga
Head, Financial Markets

Neo Kwape
Head, Internal Audit

Chazha Kgalemang
Head, Legal and Company Secretary

STRATEGIC REPORT

Review of Segments
and functions

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

Consumer, Private and Business Banking

Segment Overview

Consumer, Private and Business Banking (CPBB) serves individuals and small-medium businesses. We provide banking solutions which we primarily deliver through our digital channels.

While circumstances have spurred changing consumer behaviours, our investments in technology and strengthening our digital infrastructure have paid off in delivering our products and services. Our digital transformation initiatives are bearing fruit: 98% of client acquisitions and 80% servicing is done digitally, and over 70% of our clients are active on the digital channels.

During the year we introduced a full range of investment and new wealth management products to grow, invest, and protect, the wealth of our valued clients. By enhancing our client value proposition, we have grown income as well as attracted new clients by offering outstanding personalised wealth advice and exceptional service. We will continue to invest in this area.

Strategic Priorities

- Provide best-in-class structuring and financing solutions and drive creation through client initiatives.
- Continued discipline in cost management and efficiencies, along with strong risk management culture.
- Our clients are accelerating their pivot to digital with increasing willingness and desire for digital-first banking, we will continue to invest on digital solutions.
- New ways of working as standard approach, for faster, better, more agile execution.
- Sustainability is critical and an increasing priority for both clients and governments – and we are uniquely positioned to support them.

Progress

- Launched Investment products: Offshore Mutual funds and Fixed Income. Providing access to sustainable investments is a key differentiator we will continue to leverage.
- Rolled out Cardless Cash functionality across our ATM network, which has been well received in the market.
- As part of our Sustainability agenda we opened the "First Sustainable" Digital only smart branch which operates 24/7 and we call "Express Banking Centre."
- Made significant strides on service, and outperformed in our client satisfaction metrics.
- Exponential growth in digital onboarding and servicing of our clients.

Performance highlights

Through our decisive actions the segment was able to achieve top line growth. Some of the key highlights are:

7% Revenue Growth Year on Year

4% Client Asset Growth Year on Year

2% Annual Growth in Retail Deposits

70% Digital Adoption with current usage

Best Consumer Digital Bank

Corporate, Commercial and Institutional Banking

CCIB continues on the path to sustainability with positive profits for the second year running albeit at reduced level.

The long -term strategy of aligning to key segments, begins to show positive results, while supporting the Business Banking segment to concentrate on the local corporates.

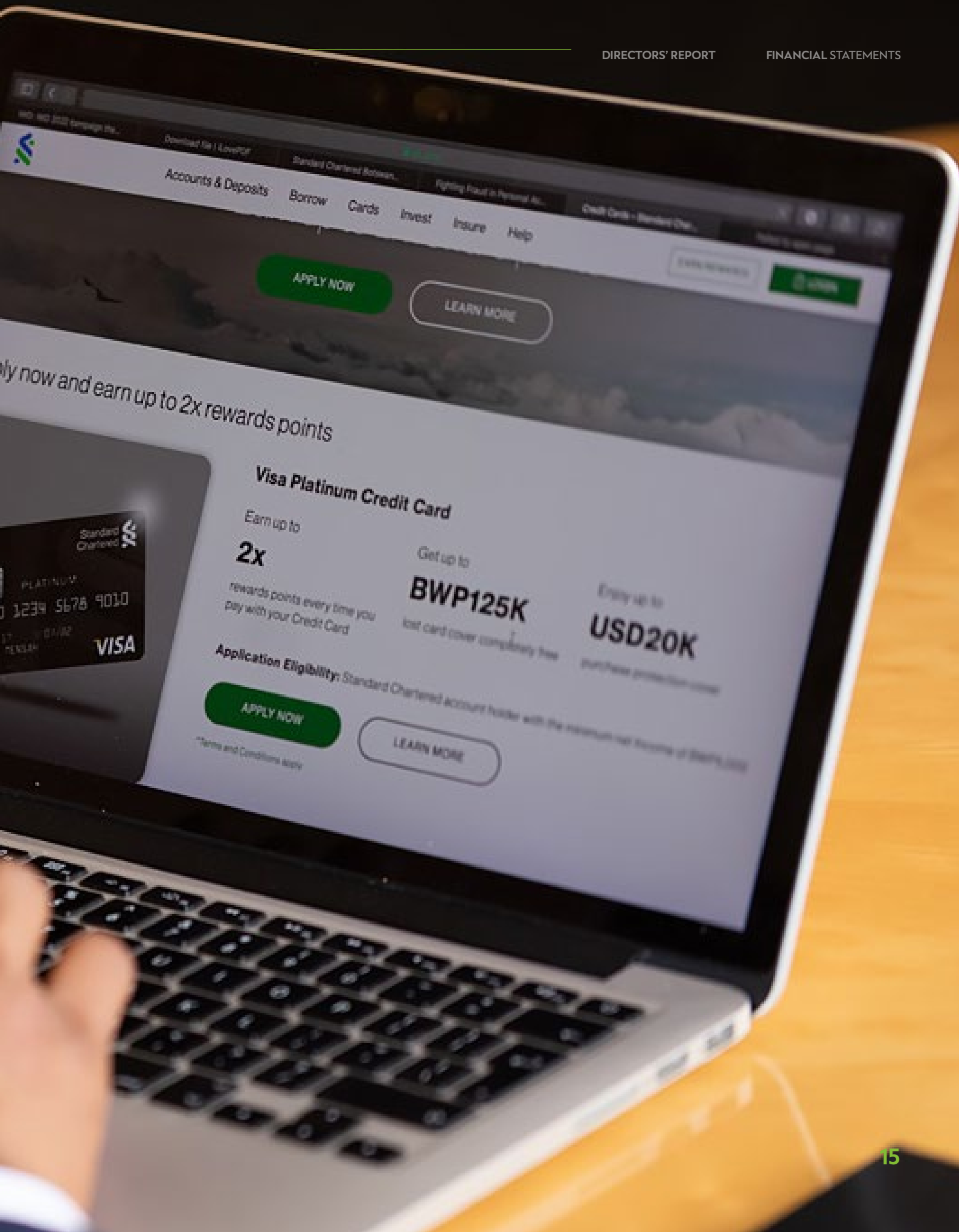
The segment saw subdued income, due to low momentum in the early part of the year as our clients emerged from COVID-19 challenges and the re-alignment to focus on key segments of Financial Institutions, Public Sector and Multinational Corporates.

A pipeline of transactions and mandates is expected to be converted early in the current year to the income momentum.

Balance sheet drop in advances to clients is a function of the segment's balance sheet composition, which is predominantly short term and transactional. Deposits from clients have shown resilience amid the re-alignment strategy and posted 8.7% growth, indicating that the fundamental base of the segment and strategy is strong.

Our investments in digital platforms to deliver our digital strategy have started to yield results with costs starting to decline by 3.4% year on year to BWP189 million. The digital strategy aims to avail a full digital experience to our clients for any transaction they undertake with the Bank.

Credit impairments remain well controlled with a release of BWP29 million from a loss of BWP20 million in the prior year as the segment continues in its quest of sustainable growth.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Human Resources

Employees 2022

We recognise that our workforce is a significant source of value that drives our performance and productivity and that the diversity of our people, cultures and networks sets us apart.

To lead the way in addressing the evolving needs of our clients and the advances in technology, we are developing a workforce that is future-ready and are co-creating with our employees a culture that is inclusive and innovative.

It is important to highlight that the delivery of the people agenda was carried out in the context of restructures in our Consumer, Private and Business Banking (CPBB) and Commercial & Corporate Institutional Banking (CCIB) businesses.

They were finalised on 31 December 2021, having been initiated at the start of 2020.

Regardless, indicators show good progress towards people actions in service of the Bank's sustainability aspirations and the people strategy.

Sustainability Aspirations:

People	Progress
Embed an integrated health and well-being strategy to support building and re-skilling a future-ready, diverse workforce	Launched 'Respect at Work' and 'Building Resilience' learning programmes in 2021. 80% and 48% completed the 'Respect at Work' and 'Building Resilience' Learning programmes respectively. Drove awareness and use of the Employee Assistance Programme and the Unmind platform.
Support all employees to develop a personalised growth plan to reflect the future skills needed to respond to the changing and digitised nature of work.	We ended the year at 77% completion rate against a target of 80% for growth plans. Evidence shows that the average hours invested by employees in personal and self-initiated development is at about 35%. Building a learning habit and culture remains a focus area in the next year.
Increase gender representation: 35% women in senior roles (Managing Director and 1 level below)	Proportion of women in senior leadership roles remained at 16%. Outlook for 2022 is 42%.
Increase our 'Culture of Inclusion'	We achieved a combined neutral and favourable score of 84% in 2022. 58% of colleagues indicating high satisfaction with Diversity and Inclusion in the Bank.


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Human Resources cont.

People Strategy:

1. **Shape and enable a client centric and adaptable organisation**
2. **Develop and deploy the right talent (skills and capabilities) in areas of biggest opportunity**
3. **Leverage our diversity to deliver prosperity for our clients and communities**
4. **Build a future ready workforce enabled by digital skills, organisational adaptability, and leadership at every level**

How we serve and engage our Employees

By engaging employees and fostering a positive experience for them, we can better serve our clients and deliver on our Purpose and Stands. An inclusive culture enables us to unlock innovation, make better decisions, deliver our business strategy, live our valued behaviours and embody our brand promise: Here for good. We proactively assess and manage people-related risks, for example, organisation, capability and culture, as part of our risk management framework. Our People Strategy continues to stay relevant and future-focused, with the ongoing pandemic having accelerated many of the future of work trends which informed our approach.

Their interests

Our employees told us they want to:have interesting and impactful jobs; innovate within a unique set of markets and clients; cultivate a brand that sustainably drives commerce and offers enriching careers and development; and be supported by great people leaders. They want these elements to be anchored in competitive rewards and a positive work–life balance.

The Bank initiated work to review the Bank's Employee Value proposition in 2020, in 2021 employer contributions towards pension were approved and implemented effective 01 January 2021. Additionally, enhancements to annual, sick, and compassionate leave entitlements as well as changes to the performance, talent and reward management approach were supported for implementation in 2022. As the impact of the pandemic heightened in 2021, consequently affecting up to 20% of employees, flexible working policies continued to support employees to work from home safely and support them in their recovery where required.

Listening to employees

Frequent feedback from employee surveys helps us identify and close gaps between colleagues' expectations and their experience. In addition to our annual survey, in 2021 we have started deploying continuous listening mechanisms that capture colleague sentiment more frequently, such as a continuous listening survey and surveys at moments-that matter such as at onboarding and at exit. This year, our annual My Voice survey was conducted in June and July. 86% (527) of our employees took part and is higher than previous year.

While we were not surprised that the key measures of employee satisfaction fell in 2021- including the employee engagement index and the employee net promoter score (NPS) (which measures how likely employees are to recommend working for us), we remain encouraged that 93 per cent of employees feel committed to doing what is required to help the Bank succeed, and 81% speak highly of the Bank's products. Through the culture transformation programme, the intention will be to meet and/or exceed the expectations of at least 50% of employees in the coming year, an improvement from 38 per cent scored in 2021.

Employee Well-being

The well-being of our employees is a priority for the bank, the aim is to provide employees with the skills, tools and motivation to manage their wellbeing proactively and to deal with challenges effectively. Throughout the year, we continued to drive awareness of our wellbeing resources that are available to all. These include a mental health app, a physical wellbeing online platform, an upgraded employee assistance programme, wellbeing toolkits, learning programmes on mental health and resilience as well as an expanded network of trained Mental Health First Aiders.

In parallel, we are seeking to mitigate the causes of work-related stress and encourage a focus on supportive behaviours within existing processes and all decision-making. These resources and actions are having a positive impact, with fewer employees reporting frequent stress in the annual My Voice survey and at least 45 per cent of employees indicating they are comfortable to share concerns about work-related stress with their people leader.

Developing skills of future strategic value

The world of work continues to change rapidly. Our employees need a combination of human and technical skills to succeed both today and in the future. We're building a culture of continuous learning, empowering employees to grow, follow their aspirations and embrace the skills needed for the future. Since the launch of our digital learning platform, diSCover, in 2020 over 95% of learning has been digitally based with at least 35% of the learning being geared towards self-development. Over 90% of our employees are actively using the platform which is now accessible via a mobile app as well. Design and deployment of pilot programmes targeted at upskilling and re-skilling directed towards critical 'future' roles where our strategic workforce planning analysis has predicted the increasing need for talent in wealth management and universal banker roles were completed. All universal bankers will be trained in the coming year and more participation in the wealth management programmes is anticipated.

Creating a culture of inclusion and innovation

We believe that inclusion is how we will enable our diverse talent to truly deliver impact. As the pandemic extended into 2021, the need to lead inclusively in a hybrid working set-up continued to be a key expectation of our people leaders. With the focus on building a culture of inclusion, over 80% of people leaders participated in the 'Respect at Work' programme which centred on increasing awareness around diversity and inclusion principles, tackling issues such as unconscious bias and micro behaviours as well as emphasising the importance of creating an inclusive environment. As we listened to employee feedback and responded to the need to better develop psychological safety, communication regarding red line behaviours was shared with employees accompanied by sessions on Acceptable Conduct.

Diversity and inclusion (D&I) remain a key part of our strategy. The agenda is driven through focus on gender, ethnicity and nationality, generations, sexual orientation, disability and well-being. Our gender diversity continues to grow with more women leaders moving up to senior roles. By the numbers, women currently represent 25% per cent of the Board, 66% of the Management team while representation of women in senior leadership (Band 4 and Managing Director level) roles in the country remained at 16% against a target of 35%. We are committed to continuous improvement in this area and are on course to achieve to 42% representation of women at the senior level by end of 2022 ahead of the timeline of 2025.

Chief Financial Officer's Review

Business Performance

Statement of Profit or Loss

	31 Dec 21 P'000	31 Dec 20 P'000
Net Interest Income	444,811	464,263
Other Income	294,340	289,004
Operating Income	**739,151**	**753,267**
Operating Expenses	(659,462)	(657,891)
Profit before Impairment and Taxation	**79,689**	**95,376**
Credit loss expense on financial assets	(2,722)	(41,305)
Liability written off	-	48,049
Profit before Taxation	**76,967**	**102,120**
Taxation	(16,656)	(52,397)
Profit for the year	**60,311**	**49,723**

The Bank's results reflect a slight improvement in business momentum, responding positively to the gradual economic recovery following the peak of COVID-19 pandemic in 2020 and mid 2021.

The ongoing COVID-19 pandemic remains a significant threat with a direct impact on productivity and business momentum. Despite this, the Bank remained buoyant, posting a profit before tax which is up by 42% (excluding P48m once off transaction reported in prior year).

Income was marginally down by 2%, weighed down by a drop in interest income. The low interest rate environment coupled with market liquidity constraints contributed significantly to low margins with a resultant 4% drop in interest income. However, the Bank returned to top line growth in the second half of the year.

Business strategies to grow sustainable non-funded income are beginning to show results, with non funded income registering a 2% growth surpassing pre-COVID-19 performance.

The growth was broad-based, delivered through diversified products from both segments.

As part of increasing our value proposition, our Consumer, Private and Business Banking (CPBB) segment introduced additional wealth management products during the year to help our clients to invest and protect their wealth.

Operating expenses were held flat year on year as result of consistent cost discipline. Credit impairments remained low, reflective of improving macro-economic variables and asset quality.

Overall profit after tax increased by 21% resulting in improved shareholder returns; Return on equity increased by 110bps to 5.8%. Tax charge for the year declined substantially due to a once off deferred tax charge of P37m reported in 2020.

Net Interest Income and Margins

	31 Dec 21 P'000	31 Dec 20 P'000
Net Interest Income	444,811	464,263
Average Interest Earning Assets	14,245,035	13,624,225
Average Interest bearing Liabilities	10,963,378	10,472,800
Gross Yield (%)	5.2%	5.5%
Rate paid (%)	2.7%	2.7%
Net Yield	**2.5%**	**2.8%**
Net margin	**3.1%**	**3.4%**

Net Interest Income ('NII') decreased by 4% as a result of margin compression which was partly offset by growth in average asset volumes. Interest expense was elevated by market liquidity constraints resulting in 5bps increase in rate paid and 29bps reduction in net margins.

Progress made on optimal funding mix strategies, complemented by a strong asset growth momentum expected to gradually offset the impact of high cost of funds going into next year.

Credit Quality

	31 Dec 21 P'000	31 Dec 20 P'000
Gross loans and Advances to customers	**7,950,369**	**8,324,388**
Of which Stage 1 and 2	7,736,039	8,109,709
Of which Stage 3	214,330	214,679
Expected Credit loss provisions	**234,402**	**208,708**
Of which Stage 1 and 2	88,409	86,073
Of which Stage 3	145,993	122,635
Net loans and Advances to customers	**7,715,967**	**8,115,680**
Of which Stage 1 and 2	7,647,630	8,023,636
Of which Stage 3	68,337	92,044
Collateral	**4,159,089**	**3,901,826**
Stage 1 and stage 2 exposures	3,956,960	3,656,509
Stage 3 exposures	202,129	245,317

Stage 1 and 2 gross loans were down 5% driven by a decline in short term and transactional corporate assets. Stage 3 impaired exposures remained relatively flat at P214m.

Stage 3 comprises mainly of small to medium entities and individual loan impairments are held against exposures at risk. ECL on good book was marginally up by 3%, despite the persistent challenging operating environment. This demonstrates the resilience of the loan book.

Balance Sheet and Liquidity

	2021 P'000	2020 P'000
Assets		
Loans and advances to banks	4,057,690	2,501,471
Loans and advances to customers	7,715,967	8,115,680
Other Assets	3,763,312	3,447,553
Total assets	**15,536,969**	**14,064,704**
Liabilities		
Deposits from other banks	653,341	436,471
Deposits from customers	12,618,006	11,849,610
Other Liabilities	1,217,141	718,636
Total liabilities	**14,488,488**	**13,004,717**
Equity	**1,048,481**	**1,059,987**
Advances-to-deposits Ratio (%)	61	68

"The bank's results reflect a slight improvement in business momentum, responding positively to the gradual economic recovery following the peak of COVID-19 pandemic in 2020 and early 2021..."

Key Financial highlights

21% ↑
Profit after tax up 21% to P60 million

42% ↑
Underlying profit before tax P77 million; up 42% (excluding P48m once off transaction reported in prior year)

2% ↑
Non funded income up 2% driven by improved business volumes

5.8% ↑
Return on equity improved by 110bps to 5.8%

16.5%
Capital Adequacy Ratio (CAR) at 16.5% against the regulatory requirement of 12.5%

6% ↑
Customer deposits up 6% year on year, amidst the challenging operating environment.

2% ↓
Operating income down 2% to P739 million

STRATEGIC REPORT

Chief Financial Officer's Review cont.

Total Balance sheet grew by 10% predominantly driven by loans and advances to banks and Investment securities.

Loans and advances to customers have been on a growth trajectory during the year, despite a drop of 5% at year-end driven by pay offs on corporate loan facilities. CPBB client assets up 4% in conditions that remained challenging.

Advances to deposit ratio reduced to 61% driven by a 6% increase on Customer deposits. The increase in other liabilities reflects one of the actions taken during the year to manage the volatility in liquidity.

The bank issued liquidity bonds amounting to P323m in June 2021. The balance sheet remains stable, with statutory liquidity ratio at 16.5% well above the minimum regulatory requirement of 10%.

Risk Weighted Assets (RWA)

	2021 P'000	2020 P'000
By Risk Type		
Credit	7,263,789	6,921,071
Market	26,057	33,959
Operational	724,479	722,185
Total RWAs	**8,014,325**	**7,677,215**

Total Risk Weighted Assets (RWAs) grew by 4% in line with credit growth during the year. RWA optimisation actions are in place, supported by robust credit risk procedures and origination discipline to grow a quality loan book that leads to improved future returns.

Capital Base and Ratios

	2021 P'000	2020 P'000
CET1 Capital	596,858	522,708
Additional Tier 1 Capital (AT1)	400,000	400,000
Tier 1 Capital	**996,858**	**922,708**
Tier 2 Capital	321,809	321,809
Total Capital	**1,318,667**	**1,244,517**
Capital adequacy ratio (%)	16.5	15.5
Regulatory Threshold (%)	12.5	12.5

The bank's Capital adequacy ratio decreased by 100bps to 15.5% and remains above the current regulatory minimum requirement of 12.5%.

The decline in CAR ratio is attributed to a drop in Tier 2 capital on Senior debt amortisation in line with regulatory requirement and increase in risk weighted asset which more than offset the impact of improved profitability.

Chief Risk Officer's Review

Risk Management

Effective Risk Management is essential to grow a sustainable business and our Risk Management Principles are designed to be consistent with the bank's 'Here for good' brand promise. They reflect stakeholder priorities and directly inform our approach to the management of risk and our risk culture.

Enterprise Risk Management Framework

The Enterprise Risk Management Framework (ERMF) which outlines how we manage risk across the bank, was approved by the Board in August 2018. It gives us the structure to manage existing risks effectively in line with our Risk Appetite, as well as allowing for holistic risk identification.

We apply 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.

As part of the annual review of the ERMF, we have repositioned our Cross-Cutting Risks to Integrated Risk Types (IRT), which are defined as "risks that are significant in nature and materialize primarily through the relevant Principal Risk Types". The ERMF sets out the roles and responsibilities and minimum governance requirements for the management of IRTs. Additionally, the Capital and Liquidity Principal Risk Type has been renamed to Treasury Risk and the scope of the risk type has been expanded to cover Interest Rate Risk in the Banking Book (IRRBB). Given their integrated nature, Digital Asset and Third-Party Risks, have been newly identified as IRTs in the ERMF, in addition to Climate Risk.

Strengthening our Risk Culture

Our risk culture provides guiding principles for the behaviours expected from our people when managing risk. The Board has approved a risk culture statement that encourages an enterprise-level ability to identify and assess current and future risks, openly discussing these and taking prompt actions. Our ERMF sets out the guiding principles for our colleagues, enabling us to have integrated and holistic risk conversations across the bank and the three lines of defence We expect all employees to demonstrate the highest level of integrity by being transparent and proactive in disclosing and managing all types of risks.

We remain committed to promoting a healthy risk culture, while driving the highest standards in people conduct. We strive to uphold the highest standards of conduct through delivery of conduct outcomes, acknowledging that while incidents cannot be entirely avoided, the bank has no appetite for wilful or negligent misconduct.

Strategic Risk Management

Our approach to strategic risk management is by validating the Corporate Plan against the approved or proposed Risk Appetite Statement to the Board. The Board approves the strategy review and the five-year Corporate Plan with a confirmation from the Group Chief Risk Officer that it is aligned to the ERMF and the Risk Appetite Statement where projections allow.

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.

Risk Appetite Principles

Risk Appetite is defined in accordance with risk management principles that inform our overall approach to risk management and our risk culture. We follow the highest ethical standards required by our stakeholders and ensure a fair outcome for our clients, as well as facilitating the effective operation of financial markets, while at the same time meeting expectations of regulators and law enforcement agencies. We set our Risk Appetite to enable us to grow sustainably and to avoid shocks to earnings or our general financial health, as well as manage our Reputational Risk in a way that does not materially undermine the confidence of our investors and all internal and external stakeholders.

Stress testing

Enterprise stress tests include Capital and Liquidity Adequacy Stress Tests, including in the context of recovery and resolution, and stress tests that assess scenarios where our business model becomes unviable, such as reverse stress tests.

Based on the Enterprise Stress Test results, the Chief Financial Officer and Chief Risk Officer, together with Senior management can recommend strategic actions to the Board to ensure that the Group Strategy remains within the Board-approved Risk Appetite.

“Given their integrated nature, Digital Asset and Third-Party Risks, have been newly identified as IRTs in the ERMF, in addition to Climate Risk...”

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 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 are approved by the Board.

In addition to principal risks, the Group has defined a Risk Appetite Statement for Climate Risk and will consider standalone Risk Appetite Statements for additional integrated risks in 2022.

The table below shows the current Principal Risk Types (PRTS) and IRTs, and how these are managed:

Credit risk	The bank manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors.
Traded risk	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.
Treasury Risk	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.
Operational risk and Technology Risk	The bank aims to control Operational and Technology Risks 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.
Information and cyber security (ICS)	The bank seeks to minimize ICS Risk from threats to the bank's most critical information assets and systems, and has a low appetite for material incidents affecting these or the wider operations and reputation of the bank.
Compliance	The bank has no appetite for breaches in laws and regulations related to regulatory non-compliance; recognizing that whilst incidents are unwanted, they cannot be entirely avoided.
Financial crime	The bank has no appetite for breaches in laws and regulations related to financial crime, recognizing that while incidents are unwanted, they cannot be entirely avoided
Reputational and Sustainability Risk	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. This includes a potential failure to uphold responsible business conduct or lapses in our commitment to do no significant environmental and social harm
Strategic	A possible source of loss (or lost opportunity) that might arise from the pursuit of an unsuccessful business plan.
Integrated Risk Types	
Climate Risk	The bank aims to measure and manage financial and non-financial risks from climate change, and reduce emissions related to our own activities and those related to the financing of clients, in alignment with the Paris Agreement
Digital Asset Risk	This IRT is currently supported by Risk Appetite metrics embedded within relevant Principal Risk Types
Third Party Risk	This IRT is currently supported by Risk Appetite metrics embedded within relevant Principal Risk Types

Principal Risk Types

Our risk profile was rated amber as of December 2021. Non-financial risks, specifically Financial Crime Risk, Information and Cyber Security, Reputational and Sustainability Risk, Operational Risk remain elevated mainly on account of existing risks that management continues to monitor.

However, the bank remains in a safe and sound financial condition.

We remain fully committed to robust risk management, embracing innovation while ensuring that we achieve the right risk outcomes when adopting new technologies and digital capabilities.

The COVID-19 pandemic dominated the economic climate throughout 2021. Continued focus on enhancing risk management capabilities and leveraging our technology will help us to emerge stronger from the pandemic, as a more sustainable, innovative, resilient and client centered bank.

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 consulate 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

J. Kweku Bedu-Addo has been Standard Chartered's CEO for Southern Africa, comprising South Africa, Angola, Botswana, Mauritius, Zambia and Zimbabwe since 2017.

Kweku's career has spanned Public Policy, International Development, and Banking & Finance. He worked in the Ministry of Finance in the 1990s during Ghana's Structural Adjustment reforms.

He joined Standard Chartered Bank Ghana in 2000 and rose to become the first Ghanaian Chief Executive in the Bank's 125-year history in Ghana in 2010. Prior to this, he held several senior Corporate & Institutional Banking roles in Ghana, West Africa, Zambia, and Singapore.

He is currently the Chairman of the International Banks Association in South Africa and a Board Member of Bankers Association, South Africa.

Kweku is the Publisher and Host of "It's Morning in Africa" Podcast series. He is an enthusiast of Astronomy and Creative Arts.

He has an undergraduate degree in Agricultural Economics, from the University of Ghana, Legon (1990) and a Masters in International Affairs (Economic Policy Management) from Columbia University, New York (1997).

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

Mr Stevens retired from Deloitte & Touche in 2007 and took up the challenge of private consultancy.

He holds a BCom Degree from Rhodes University and is a fellow member of the Botswana Institute of Chartered Accountants. He serves as a member of the Board for Cresta Marakanelo.

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 in Management Information Systems, a bachelor's degree in Business Finance and Economics from the University of East Anglia, Norwich, United Kingdom. He did Part One Bachelor's Degree of Arts from the University of Botswana and Swaziland majoring in Accounting and Public Administration.

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 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).

Corporate Governance Statement - 2021 AGM

Standard Chartered Bank Botswana Limited ("the Company") is committed to conducting its business in an ethical manner and in accordance with the highest standards of corporate governance. The company has an integrated approach to governance which ensures prudent management of the company in line with an approved strategy and with regard to key stakeholder requirements.

To ensure adherence to the highest standards of corporate governance, the company has adopted several policies and standards. The Company has an approved a code of conduct setting out key conduct principles expected of each employee when executing their day-to-day responsibilities. On an annual basis the employees of the company re-commit to adhering to the Code of conduct. The Board of Directors of the company are subject to the Code of Conduct and similarly re-commit to the Code on an annual basis.

The Board

The Board's main focus is to exercise sound leadership and independent judgment in all matters affecting the company in the best interest of stakeholders. The Board is responsible for the long-term success of the company by ensuring sustainable leadership within a framework of effective controls. The Board sets the strategic tone of the company and takes appropriate actions to ensure that the company is properly resourced to realise its strategic aspirations.

The Board has a diverse mix of skills, knowledge, and experience to perform its role effectively, as shown in the following table:

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

***Executive Director**

There exists a cordial working relationship between the non – executive directors and executive directors characterised by a healthy level of challenge and debate. The Board periodically receives comprehensive reports on the business, 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 sound internal controls and risk management, delegation and monitoring of authorities for expenditure, lending, people management and compensation and material outsourcing. The Board continued in 2021, to provide oversight to help the company navigate the challenges presented by COVID-19 placing emphasis on the safety of staff and its customers.

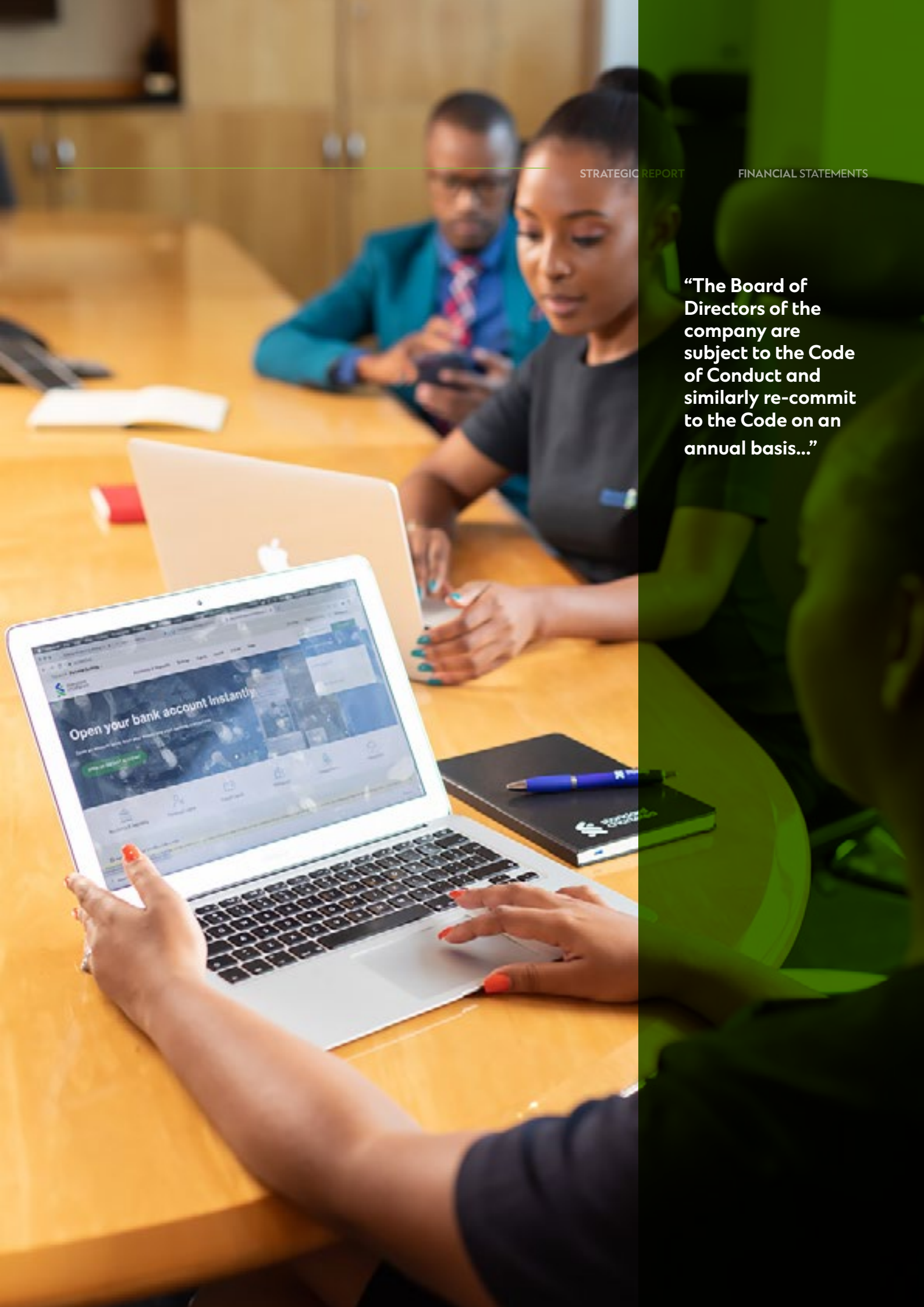
Diversity and mix of skills

The Board has a good mix of skills and experience to drive the business strategy whilst maintaining control on risk management and good corporate governance. The Board is committed to ensuring the overall effectiveness of the Board and that it achieves the appropriate composition and balance of skills. The Board Charter sets out an approach to be adopted to ensure that diversity remains a key feature of the Board. The company has a long history of diverse board membership.

Board selection and appointment principles

The company has adopted a formal and transparent procedure for the appointment of board members based on a set of broad principles;

- The Board should have an appropriate balance of skill, knowledge, diversity, and experience relevant to the company. The Board should further exercise an independence mindset to challenge the executives where relevant.
- At least one third of the board members must be independent non-executive directors.
- Prospective independent non - executive directors are interviewed by the Board Chairperson, the African regional chairperson, and the Southern Africa chairperson with a view to assess their suitability for the roles and whether their values are aligned to those of the company.
- In line with international accepted best practise, independent directors do not serve longer than 9 years. Where, in the Board view, the value and experience of the director outweighs the nine years term requirement, reasons for extension are clearly documented.



"The Board of Directors of the company are subject to the Code of Conduct and similarly re-commit to the Code on an annual basis..."

Corporate Governance Statement - 2021 AGM cont.

- Due diligence and screening checks are conducted prior to the appointment of any independent director to ensure to ensure the company is not exposed to risks associated with integrity, financial soundness, conflict of interest and related party relationships.
- All directors should have capacity to devote sufficient time and commitment to attend all board and committee meetings including engaging in relevant company events.
- The Board maintains a robust succession plan to ensure sound planning, a balance of knowledge, skill, and appropriate continuity. The succession plan is reviewed annually by the Board Chairperson with the assistance of the Company Secretary.

In 2021, the Board of Directors consisted of

- Five Independent Non-Executive Directors namely, Doreen Khama, John Stevens, Rodgers Thusi, Thari Pheko and Rapelang Rabana
- One Non-Executive Director namely Kweku Bedu-Addo
- One Executive Director being 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	Date of appointment
Doreen Khama	16/09/2018
John Stevens*	01/08/2013
Rodgers 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**

Director Induction

The company has a comprehensive and tailored induction training for new directors focused on business operations with specific interest on risks, compliance, legal and regulatory functions. Upon joining, a director receives training on business aspects from various senior management personnel. The training is aimed at ensuring that the directors have an understanding of the governance environment, statutory duties, obligations, and responsibilities of a director. The company secretary plays a key role throughout the training.

Directors ongoing development

The company has a development programme which is needs based and designed to up-skill the directors. The directors are expected to secure at least twelve (12) hours annually for development on areas of governance from credible sources. From the annual board evaluation exercise, the individual directors also identify areas that require further training in terms of knowledge, and these are addressed annually through training and presentations.

During the year 2021, the directors received mandatory training and learning on various aspects including:

- Enterprise Risk Management Framework
- Cloud strategy
- Crypto currency
- Transfer pricing
- Anti- Bribery & Corruption
- Country Board Training on Conduct
- ESG/Climate Risk - Sustainable Finance
- Emerging Technologies:
- Digital Currencies and Tokenised Assets
- New Ways of Working/Future-ready Workforce and Culture

Board Effectiveness

A board evaluation process is conducted annually through a process led by the Board Chairperson and supported by the company secretary. The evaluation entails a peer evaluation of each director and of the overall board interactions, conduct of business meetings and scope of control exercised by the directors. Following the evaluation, the directors identify areas that require further consideration in terms of training, and they are addressed effectively.

Role of the Board Chairperson and the

Chief Executive Officer

The Board Chairperson and the Chief Executive Office are clearly defined in the board charter which has been approved by Board, the roles are held by two separate individuals. Except for direction and guidance on policy, the board has delegated the conduct of the day- to – day business to the Chief Executive Officer and the Executive team.

Succession Planning

As already highlighted above, the company has a succession plan for the directors which is reviewed regularly with a view to maintain a balance of critical skills within the Board.

Access to information

Directors have unrestricted access to information and management. The board is 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 directors have access to advice of the company secretary, who provides advisory support to the Board on governance matters. Directors further have access, where necessary, to independent professional advice at the company's expense.

Board Activities

To enable the Board to use its time efficiently, the Board with the support of the company secretary, maintains a scheduled programme of meetings and a rolling agenda. Despite the scheduled programme, the Board is at liberty to exert sufficient flexibility in the programme to ensure that there is focus on key matters at appropriate times.

The Board also schedules informal sessions and interactions which allow members to discuss areas of business, strategy and external environment with the management team and external advisers.

Board meetings and Attendance

The Board convenes at least four formal meetings a year and a strategy session. As already stated above, a formal scheduled programme of the meetings is maintained. The directors receive comprehensive timely reports to enable them to exercise full and effective oversight over strategic, financial, operational, risk, compliance, and governance among other things.

Due to the COVID-19 pandemic, all meetings in 2021 were held virtually. The below table shows the number of meetings held in 2021 and attendance by each director:

Director	Attendance
D. Khama (Chairperson)	4/4
J. Stevens	4/4
R. Thusi	4/4
T. Pheko	4/4
R. Rabana	4/4
K. Bedu -Addo	3/4
M. Masupe	4/4

Board Committees

The Board has two primary Committees with identified delegated authorities namely the Board Risk Committee and the Board Audit Committee. The two committees are chaired by an independent non-executive director in accordance with international best practise and standards. The respective Committee chairpersons report to the Board at each scheduled meeting.

Details on the Committees' mandates and membership are as set out below: -

Board Audit Committee

Committee Composition

Members	
J. Stevens	Chairperson
R. Thusi	Member
R. Rabana	Member
***By Invitation**	
*Acting Chief Financial Officer	
* Head Internal Audit	
* Head Conduct, Financial Crime and Compliance	
* Company Secretary	
Ernst & Young	Statutory Auditors

The Board is satisfied that the Committee chairperson has the requisite skills and experience to lead the Committee and that all the other members are adequately experienced and knowledgeable with regards to financial reporting.

Role and functions

The Committee is governed by Terms of Reference that set out the responsibilities, procedures including conduct of special investigations. The Terms of Reference are reviewed and approved by the Board annually. The Committee reviews the company's internal financial controls and advises the Board on matters relating to financial reporting. The Committee is further responsible for exercising oversight over work undertaken by the Conduct Financial Crime Compliance and Internal Audit functions as well as the statutory auditors.

Key responsibilities of the Committee include:

Financial reporting

The Committee reviews the integrity of financial statements of the company and recommends the financial statements for approval to the Board. The Committee further considers Management's recommendations with respect to impairments on loans and advances including other regulatory disclosure requirements.

Oversight over Internal Controls

The Committee regularly reviews and reports to the Board on the effectiveness of the Company's internal controls. The Committee discusses issues of concern raised by Head of Internal Audit and reviews Management's responses and remedial actions until they are resolved to its satisfaction.

The Committee further receives regular reports from Head of Internal Audit on internal audits, compliance, and legal risks and on the assurance framework.

Corporate Governance Statement - 2021 AGM cont.

The Head of Conduct, Financial Crime Compliance submits reports on regulatory compliance and conduct issues.

Internal and External audit reports

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

Highlights for 2021

In 2021, the Board Audit Committee discharged its mandate in accordance with the law and as set out in its Terms of Reference, the committee:

- Closely monitored audit findings and the actions arising from internal and external auditors
- Continued to monitor the controls in place for management of capital and liquidity positions in line with regulatory requirements
- Reviewed and approved the financial statements of the company each quarter
- Satisfied itself on the appropriateness of the company's accounting policies and practises
- Reviewed laws enacted during the year
- Followed up on all compliance monitoring reports
- Provided oversight over work undertaken by external auditors

Appropriateness of the expertise and experience of the Chief Financial Officer

The committee on an annual basis, considers the appropriateness of the expertise and experience of the Chief Financial Officer. As mandated by the Botswana Stock Exchange listing Rules, the committee has considered and it is satisfied that the Acting Chief Financial Officer has the requisite expertise and experience.

The Committee is satisfied that it has discharged its mandate in accordance with approved Terms of Reference and local regulation.

Committee Meeting attendance in 2021

Member	Scheduled
J. Stevens	4/4
R. Thusi	4/4
R. Rabana	4/4

Board Risk Committee

Committee Composition

Members	
T. Pheko	Chairperson
K. Bedu-Addo	Member
M. Masupe	Member

***By invitation**

* Chief Risk Officer
* Company Secretary

Role and functions

The Committees is responsible for exercising oversight of and reviewing prudential risk. It periodically reviews the company's overall risk Appetite Statement and makes recommendations to the Board. Its responsibilities include reviewing the appropriateness and effectiveness of the company's risk management systems, reviewing reports on principal risks to the business and ensuring effective due diligence on material acquisitions and disposals.

The Chief Risk Officer presents a report to the Committee at every scheduled meeting and the Committee discusses major risks faced by the Company.

The Committee is responsible for ensuring that there are written policies, procedures, and processes for identifying and managing risks within the company.

Highlights for 2021

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

- Enhanced focus on emerging risks including capital, liquidity and market risks
- Continued focus on heightened risks arising from COVID-19
- Comprehensive review of the Company's risk appetite
- Reviewed its membership and revised it Terms of Reference to ensure all risks were reviewed and monitored by the Committee

Committee Meeting Attendance

Member	Attendance
T. Pheko	4/4
K. Bedu - Addo	3/4
M. Masupe	4/4

Corporate Governance Policies

Board Charter

The Board charter outlines specific roles and responsibilities of the Board which are separate from those of management. The charter also provides for the composition of the Board and its Committees together with their respective terms of reference. It further sets out provisions on areas such as board structure, effectiveness, diversity and internal control. The charter is accessible to the public in the company's website.

Internal Controls

The Board is committed to managing the company's business and financial activities in a manner that enables it to maximise profitable business opportunities, ensures compliance with relevant laws and regulations and enhance resilience to external events.

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 company has adopted processes to ensure that changes in legislation are captured and effectively monitored. All new laws impacting on the business of the company are reviewed by the legal department with a view to determine impact of the changes on the company. The compliance department ensures that the various business units have implemented controls to ensure compliance with the various laws and regulations.

Internal Audit function monitors compliance with policies and standards and the effectiveness of the internal control structures. The function is focused on areas of greatest risk as determined by a risk-based assessment methodology. The Internal Audit function reports to the Board Audit Committee.

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

Conflict of Interest

Directors are under a duty to avoid conflicts of interest. This entails not engaging directly or indirectly in any business that is in competition or conflicts with the company's business.

The company has adopted a robust process requiring directors to disclose their outside business interests before they are initiated. Potential or actual conflicts are reported to the Company Secretary and a register of directors' interests is maintained.

The employees of the company are also required to comply with the company policy on Conflict of interest.

Code of Conduct

The Board has 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 the high standards of integrity and fair dealing in their relations to customers, staff and regulators. As already stated, all employees and directors re-commit to the Code of Conduct annually.

Whistle Blowing Policy

Speaking Up is a confidential and anonymous whistle blowing programme adopted by the Company. It provides an independent and secure channel for employees, contractors, suppliers and members of the public to raise concerns. All Speaking Up cases are investigated and the required appropriate actions are taken to address any irregularities reported.

Anti-Bribery and Corruption

Anti – bribery and Corruption (ABC) policies aim to prevent employees, directors and or third parties working on behalf of the company from participating in active or passive bribery or corruption or from making facilitation payments. To emphasise on the policy provisions, the company regularly carries out training to all staff and the Board.

Related Party Transactions Standard

The Company has established a Related Party Transactions Standard which aims to set out requirements for the creation of any Related Party Transactions and maintains controls to prevent and or identify Non-Exempt Transactions with existing Related Parties.

Insider Trading

The Company has a policy on insider trading implemented through the Group Transactional Conflicts and Information Walls Standards and the Group Personal Account Dealing Standards. In terms of the policy, directors and employees of the company are not permitted to trade in the Company's shares while in possession of any insider information not privy to the public and or during the closed period. The Group Personal Account Dealing Standards mandates all employees to declare any dealings with securities or company shares all year round.

Going Concern

The Board has assessed the Company's ability to continue as a going concern. The assessment considered among other things the impact of COVID-19 and micro economic headwinds. Based on the assessment, the Board confirms that it is satisfied that the company has adequate resources to continue in business for a period of 12 months from the date of approval of the financial statements.

Relations with Shareholders

The Board recognises the importance of maintaining good communications with shareholders. The Annual General Meeting and the Annual Report are tools used as an opportunity to maintain interactions with shareholders. In upholding and protecting shareholders' rights, the Board recognises that every shareholder has a right to participate and vote at shareholders meeting. The Board further, at general meetings, grants shareholders the opportunity to seek clarity on the Group and company's performance.

Corporate Governance Statement - 2021 AGM cont.

The Company in line with the provisions of the Companies Act gives shareholders 21 days' notice of the Annual General Meeting, on the notice shareholders are encouraged to submit questions and appoint proxies, where for whatever reason, they are unable to attend the meeting.

Over and above the Annual General Meeting, ad hoc shareholder requests are handled on an ongoing basis. To achieve quick and smooth resolution of shareholder queries, the Board has engaged the services of a professional registrar.

Competence, Qualifications 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 the 30th of June 2021. The Group remuneration Committee monitors the competitiveness of directors' remuneration to ensure that Group is able to motivate and retain individuals of the appropriate calibre as directors.

All 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 with a broad range of skills and experience to determine the Group's strategy and oversee its implementation.

Independent Non- Executive Directors are paid an annual fee and are re-imbursed for expenses incurred in the performance of their duties such as travel and subsistence. In 2021, the directors were paid as follows:

- Board Chairperson - **BWP 140,000.00**
- Other Board Members - **BWP 100,000.00**

Remuneration of executive directors is as per their respective negotiated employment contracts.

Service Contracts for Independent Non- Executive Directors

Independent Non- Executive Directors are appointed on a fixed term basis not exceeding a period of three years, which may be renewed subject to re-election by shareholders at Annual General Meetings. The 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 letters of appointment which could give rise to payment for loss of office.

Executive Directors' remuneration policy

Executive directors receive salary, pension and other benefits. They are also eligible to be considered for variable remuneration which is 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's strategy centered on the below principles:

- A competitive remuneration opportunity that enables the company to attract, motivate and retain 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 on the interest of stakeholders
- 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 reflect the company's commitment to employee well-being.

There were no changes to the remuneration policy for the year under review.

Service contracts for executive directors

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

King Code Report

The company has over the years always committed to aligning and adopting the recommendations of the King Code on governance. Having adopted the Code, the Board developed a programme for implementation of its principles in the company's business environment. As at 31st December 2021, most of the principles were being applied as set out below;

King IV Principle	Status	Explanation
Principle 1: The governing body should lead ethically and effectively	**Complied**	The Bank has adopted a code of conduct. The Board and all employees are subject to the Code of Conduct and re-commit to the Code on an annual basis.
Principle 2: The governing body should govern the ethics of the organization in a way that supports the establishment of an ethical culture	**Complied**	The Code of conduct sets out minimum standards in terms of what is expected from employees including Board on a day-to-day basis. The Board and employees are governed by the Code of Conduct
Principle 3: The governing body should ensure that the organization is and is seen to be a responsible corporate citizen	**Complied**	The Bank has established a Trust whose main purpose is to deliver the corporate social responsibility mandate. Futuremakers by Standard Chartered is a global initiative which supports disadvantaged young people, especially girls and people with visual impairments, to learn new skills and improve their chances of getting a job or starting their own business. Further, The Bank's Employee Volunteering programme encourages staff to seek opportunities to impact their communities in various ways.
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**	The Board receives updates on a regular basis on the Bank's strategy, risks, opportunities and performance. There is oversight exercised by the Board to ensure delivery of the strategy.
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**	The Bank's External Auditors review management reports for accuracy and completeness. The External Auditors report to the Board Audit Committee and ultimately Board. Further, the Board approves the bank's strategy and management stakeholder engagements plans.
Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.	**Complied**	The Board has approved King Code on corporate governance and exercises oversight to ensure alignment with provisions of the Code. The Board is further governed by the company's constitution which echoes principles of good corporate governance.
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**	The Board is made up of diverse and appropriate skills and experience as set out in the report. The Company has in place a policy on board appointments which emphasises on diverse mix of appropriate skills within the Board.
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**	The Company has adopted a delegation of authority policy. The Board delegates responsibilities to various structures and exercises oversight to ensure proper execution of the responsibilities.
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**	The bank has a board evaluation process which assesses the effectiveness of the Board. Proposed areas of improvement identified from the evaluation process are tracked until they are satisfactorily closed.

Corporate Governance Statement - 2021 AGM cont.

King IV Principle	Status	Explanation
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**	The Board has adopted a delegations of authority policy, there is oversight by Board to ensure effective exercise of the responsibilities.
Principle 11: The governing body should govern risk in a way that supports the organization in setting and achieving its strategic objectives.	**Complied**	All material risk issues are reported to the Board. Further, the Board approves all risk policies and risk appetite.
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**	The Board exercises oversight over technology and Information, the board receives regular updates on ICS issues and approves ICS policies.
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.	**Complied**	Compliance with applicable laws is a key area of focus for the bank. The Board receives regular reports on regulatory changes, any misalignment with law is addressed appropriately to close gaps.
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**	The Board has adopted a fair pay charter and benefits standards aimed at ensuring fair and transparent reward to employees.
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**	The Bank has internal processes that monitor the control environment. The first line of defence identifies, assesses, controls and monitors risks. The second line of defence reviews, challenges the controls and guides where necessary to ensure effective control environment. The third line of defence being internal audit provides independent assurance, it is an independent function and reports to the Board Audit Committee and ultimately the Board.
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**	The Board has adopted a shareholder inclusive approach in terms of engagements through regular meetings
Principle 17: The governing body of an institutional investor should ensure responsible investment.	**Not Applicable**	Not Applicable

Shareholder Information

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

76%
(226231571 shares)

24%
(72119040 shares)

The company's majority shareholders are Standard Chartered Holdings (Africa) B.V and Botswana Public Officers Pension Fund(Active members and Deferred Pensioners) each with 221 246 286 and 15 093 778 shares respectively.

Save for the above, no other shareholder holds 5% or more of any class of the listed company's capital either directly or indirectly.

4 non public shareholders

1169 public shareholders

FINANCIAL STATEMENTS

Standard Chartered Bank Botswana Limited

Consolidated and Separate Annual Financial Statements
for the year ended 31 December 2021

Company Registration No: BW00000404816

Directors' Report
For the year ended 31 December 2021

The Directors have pleasure in submitting to the members their report and the consolidated and separate annual financial statements for the year ended 31 December 2021.

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 50 and reflect the following:

P77 million	**P60.3 million**
Profit before taxation	**Profit after taxation**
(2020 : P102 million)	**(2020: P49.7 million)**

Dividends
During the year, dividends of P48 million were declared and paid (2020: P55 million) gross of withholding tax.

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 (2020: 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 36 for dividend declared.

Going Concern
The financial statements were approved by the Board of Directors on the 14th of March 2022. 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 2026 (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.
- The liability and asset maturity profile, the liquid assets profile, outstanding debts and the bank's overall solvency and leverage.
- 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	
Rapelang Rabana	**(Appointed 12 January 2021)**

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
Secretary

Directors' Responsibility Statement
For the year ended 31 December 2021

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 as at 31 December 2021, 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 31 December 2021, 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 Financial statements..

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 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 14th of March 2022 and are signed by:

Doreen Khama
Chairperson

Mpho Masupe
Managing Director

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 50 to 131, which comprise the consolidated and separate statements of financial position as at 31 December 2021, 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 2021, 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 and separate financial statements in Botswana, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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.

The Key Audit Matter applies to both the audit of the 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 (Consolidated and separate financial statements)	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:
At 31 December 2021 the Group and Company reported total credit impairment statement of financial position provision of P234 million (2020: P209 million) on loans and advances to customers of P8.0 billion (2020: P8.3 billion), as per note 18 to the financial statements.	• controls over the allocation of assets into stages such as management's monitoring of stage effectiveness;
Management's judgements and estimates are especially subjective due to significant uncertainty associated with the assumptions used. Assumptions with increased complexity in respect of the timing and measurement of expected credit losses (ECL) include:	• review and approval of multiple economic scenarios;
• Staging – Allocation of assets to stage 1, 2, or 3 on a timely basis using criteria in accordance with IFRS 9 - Financial Instruments;	• model governance, including model monitoring, model validation and review and approval of post model adjustments;
• Model output and adjustments – Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL, including the appropriateness, completeness and valuation of post-model adjustments applied to model output to address risks not fully captured by the models;	• review and approval of management overlays; and
• Economic scenarios – Significant judgements involved with the determination of parameters used in the ECL models and the evaluation of the appropriateness of using the models with regards to whether the simulation can sufficiently capture the non-linearity of ECL and appropriately generate a wide enough range of possible outcomes;	• review and approval of the individually assessed ECL.
• Management overlays – Appropriateness, completeness and valuation of risk event overlays to capture risks not identified by the credit impairment models, including the consideration of the risk of management override; and	In evaluating the controls, we inspected minutes of the management executive forums for evidence of executive review and challenge of credit models and ECL provisions.

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
• Individually assessed ECL allowances – Measurement of individual provisions including the assessment of probability weighted recovery scenarios, exit strategies, collateral valuations and time to collect. The disclosure associated with credit impairment of loans and advances is set out in the financial statements in the following notes: • Note 3 - Expected credit losses • Note 4.2 - Credit risk • Note 9 - Expected credit loss on financial assets • Note 18 - Loans and advances to customers	We performed an overall stand-back assessment of the ECL allowance 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 including vulnerable sectors. To test credit monitoring which largely drives the probability of default estimates used in the staging calculation, we challenged the risk ratings for a sample of performing accounts and other accounts exhibiting risk characteristics such as financial difficulties, deferment of payment, late payment and watchlist. We also considered the vulnerable sectors impacted by COVID-19. Modelled output and adjustments – We performed a risk assessment on models involved in the ECL calculation to select a sample of models to test. We engaged our modelling specialists to evaluate 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, formulae and algorithms, alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default parameters. Together with our modelling specialists, we also assessed material post-model adjustments which were applied as a response to risks not fully captured by the models, including the completeness and appropriateness of these adjustments, for which we considered the applied judgments and methodology, and governance thereon.
	To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including, among other data points, 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. Economic scenarios – 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.

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
	Additionally, we involved economic specialists to assist us in evaluating the reasonableness of the base forecast for sample of macroeconomic variables most relevant for the Group and Company's ECL calculation influenced by the above assessment. Procedures performed included benchmarking the forecast for a sample of macroeconomic variables to a variety of external sources. Furthermore, we assessed the reasonableness of the non-linearity impact on ECL allowances. By engaging our economists and modelling specialists, we assessed the Group and Company's choice of scenarios and chosen weights used, and the underlying mechanics and formulae to determine the uplift in ECL. Management overlays – We challenged the completeness and appropriateness of overlays used for risks not captured by the models, particularly the uncertainties as a result of the COVID-19 pandemic. Our procedures included evaluating the underpinning assumptions and judgments as to whether they are appropriate in prevailing market conditions. Individually assessed ECL allowances – Our procedures included challenging management's forward-looking economic assumptions of the recovery outcomes identified and assigned individual probability weightings, and recalculating a sample of individually assessed provisions. Where exposures are collateralised, we tested the Group and Company's legal right to the collateral by inspecting legal agreements and bond registration information, as well as the reasonability of the valuation of the collateral by evaluating key assumptions against available market and internal information. Where management has utilised specialists, we have assessed controls related to their competence and objectivity. We assessed the appropriateness of the accounting policies, loan impairment methodologies applied and the adequacy of the disclosures by comparing these to the requirements of IFRS 9- Financial Instruments.

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.**

Other Information

Other information comprises the information included on page 42 to 43 of the document titled "Standard Chartered Bank Botswana Limited Consolidated and Separate Annual Financial Statements for the year ended 31 December 2021", 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.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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.

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.**

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.

- 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

29 March 2022

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2021

		GROUP		COMPANY	
	Note	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Interest revenue calculated using the effective interest method	5	743,824	745,154	743,824	745,154
Interest expense calculated using the effective interest method	6	(299,013)	(280,891)	(299,013)	(279,321)
Net interest income		**444,811**	**464,263**	**444,811**	**465,833**
Fee and commission income	7	249,380	229,779	220,522	204,378
Fee and commission expense	7	(27,123)	(29,151)	(27,123)	(29,151)
Net fee and commission income		**222,257**	**200,628**	**193,399**	**175,227**
Net trading income	8	72,083	88,376	72,083	88,376
Credit loss expense on financial assets	9	(2,722)	(41,305)	(2,722)	(41,305)
Liability written off	9.1	-	48,049	-	-
Net operating income		**736,429**	**760,011**	**707,571**	**688,131**
Operating expenses					
Employee benefits	10	(259,329)	(252,344)	(259,329)	(252,344)
Rental expenses		(2,356)	(1,079)	(2,356)	(1,079)
Depreciation and amortisation	19 & 20	(41,428)	(45,484)	(41,428)	(45,484)
Administration expenses	11	(356,349)	(358,984)	(343,475)	(346,710)
Total operating expenses		**(659,462)**	**(657,891)**	**(646,588)**	**(645,617)**
Profit before taxation		**76,967**	**102,120**	**60,983**	**42,514**
Income tax expense	12	(16,656)	(52,397)	(13,426)	(51,375)
Profit/ (loss) for the year attributable to parent		**60,311**	**49,723**	**47,557**	**(8,861)**
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	2,147	(12,886)	2,147	(12,886)
Other comprehensive income that will not be reclassified to the income statement					
Revaluation of property, net of tax	19	3,701	-	3,701	-
Other comprehensive income for the year, net of tax		5,848	(12,886)	5,848	(12,886)
Total comprehensive income/(loss) for the year, net of tax attributable to parent		66,159	36,837	53,405	(21,747)
Basic and diluted earnings (Thebe per share)	14	20.39	16.81		

The notes on pages 55 to 131 form an integral part of the consolidated and separate annual financial statements for the year ended 31 December 2021.

Statement of financial position
as at 31 December 2021

		GROUP		COMPANY	
	Note	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Assets					
Cash and balances with the Central Bank	15	738,290	975,991	735,412	973,484
Loans and advances to banks	16	4,057,690	2,501,471	4,057,690	2,501,471
Investment securities	17	2,623,673	2,113,719	2,623,673	2,113,719
Loans and advances to customers	18	7,715,967	8,115,680	7,715,967	8,115,680
Other assets	21	216,852	168,809	218,212	168,779
Taxation refundable	25	69	-	69	-
Property and equipment and right-of-use assets	19	96,488	112,720	96,488	112,720
Intangible assets and goodwill	20	49,005	38,781	49,005	38,781
Investment in subsidiaries	30	-	-	30	30
Deferred taxation	26	38,935	37,534	35,870	37,534
Total assets		**15,536,969**	**14,064,704**	**15,532,416**	**14,062,198**
Liabilities					
Deposits from other banks	22	653,341	436,471	653,341	436,471
Deposits from customers	23	12,618,006	11,849,610	12,618,006	11,849,610
Unsettled Treasury bills	27.1	199,246	29,878	199,246	29,878
Other liabilities	27.2	304,542	268,503	343,360	296,113
Provisions	27.3	-	23,158	-	23,158
Taxation payable	25	787	8,097	-	7,440
Senior & subordinated loans	24	712,566	389,000	712,566	389,000
Total liabilities		**14,488,488**	**13,004,717**	**14,526,519**	**13,031,670**
Equity					
Stated capital		179,273	179,273	179,273	179,273
Capital contribution		428,213	428,213	428,213	428,213
Retained earnings		440,995	452,501	398,411	423,042
Total equity attributable to parent		**1,048,481**	**1,059,987**	**1,005,897**	**1,030,528**
Total equity and liabilities		**15,536,969**	**14,064,704**	**15,532,416**	**14,062,198**

The notes on pages 55 to 131 form an integral part of the consolidated and separate annual financial statements for the year ended 31 December 2021.

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2021

		GROUP		COMPANY	
	Note	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Cash flow from operating activities					
Profit/(loss) for the year		60,311	49,723	47,557	(8,861)
Adjustments for:					
Interest income	5	(743,824)	(745,154)	(743,824)	(745,154)
Interest expense	6	299,013	280,891	299,013	279,321
Taxation	12	16,656	52,397	13,426	51,375
Depreciation	19	30,575	30,243	30,575	30,243
Amortisation on intangibles	20	10,852	14,403	10,852	14,403
Net impairment loss on loans and advances		25,694	25,058	25,694	25,058
Movement in operating lease accrual	31	-	-	-	-
Unrealised foreign exchange (gains)/losses		1,469	(1,614)	1,469	(1,614)
Liability written off	9	-	(48,049)	-	-
Movement in provisions	27.3	(23,158)	23,158	(23,158)	23,158
Movements before changes in working capital		**(322,412)**	**(318,944)**	**(338,397)**	**(332,071)**
Change in investment securities	17	(308,561)	978,246	(308,561)	978,246
Change in loans and advances to customers	18	374,019	(221,511)	374,019	(221,511)
Change in other assets	21	(42,200)	12,319	(42,200)	(27,995)
Change in deposits from other banks	25	216,870	(584,457)	216,870	(537,275)
Change in amounts due to non bank customers	23	768,396	(1,026,195)	768,396	(1,026,195)
Payment of unsettled Treasury bills	27.1	(29,878)	-	(29,878)	-
Change in other liabilities	27.2	40,169	47,206	54,067	48,961
		696,403	(1,113,336)	694,316	(1,117,840)
Taxation paid	25	(24,475)	(17,081)	(20,922)	(13,609)
Interest received		736,591	742,975	736,591	742,975
Interest paid		(276,092)	(255,886)	(276,092)	(254,316)
Net cash generated/(used) in operating activities		**1,132,427**	**(643,328)**	**1,133,893**	**(642,790)**
Cash flow from investing activities					
Acquisition of property and equipment	19	(11,549)	(11,308)	(11,549)	(11,308)
Acquisition of intangibles	20	(21,076)	(21,857)	(21,076)	(21,857)
Net cash used in investing activities		**(32,625)**	**(33,165)**	**(32,625)**	**(33,165)**
Cash flow from financing activities					
Issue of senior unsecured bond notes	24	323,566	-	323,566	-
Redemption of senior debt	24	-	(50,000)	-	(50,000)
Interest paid on senior and subordinated debt	6	(21,189)	(25,005)	(21,189)	(25,005)
Lease liability interest payments	31	(1,819)	(2,184)	(1,819)	(2,184)
Lease liability capital payments	31	(18,491)	(13,210)	(18,491)	(13,210)
Dividends paid	13	(47,365)	(54,419)	(47,736)	(54,845)
Distribution payment to holders of subordinated capital securities		(30,300)	(30,035)	(30,300)	(30,035)
Net cash from financing activities		204,402	(174,853)	204,031	(175,279)
Increase/(Decrease) in cash and cash equivalents		1,304,204	(851,346)	1,305,299	(851,234)
Cash and cash equivalents at 1 January		3,477,462	4,264,337	3,474,956	4,261,718
Net foreign exchange differences		14,316	64,472	14,316	64,472
Cash and cash equivalents as 31 December	28	4,795,980	3,477,462	4,794,571	3,474,956

The notes on pages 55 to 131 form an integral part of the consolidated and separate annual financial statements for the year ended 31 December 2021.

Statement of changes in equity
for the year ended 31 December 2021

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
Balance at 01 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**
Balance at 01 January 2021	**179,273**	**25,696**	**19,152**	**447,197**	**428,213**	**(31,566)**	**(7,978)**	**1,059,987**
Total comprehensive income								
Profit for the year	-	-	-	60,311	-	-	-	60,311
Other movements	-	-	-	-	-	-		
Other comprehensive income								
Fair value adjustment items measured at fair value through other comprehensive income	-	3,701	-	-	-	-	2,147	5,848
Transactions with owners of the bank								
Dividends to equity holders - paid	-	-	-	(47,365)	-	-	-	(47,365)
Distributions to holders of subordinated capital securities	-	-		(30,300)	-	-	-	(30,300)
Balance at 31 December 2021	**179,273**	**29,397**	**19,152**	**429,843**	**428,213**	**(31,566)**	**(5,831)**	**1,048,481**
Company								
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**
As 1 January 2021	**179,273**	**25,696**	**19,152**	**386,172**	**428,213**	**-**	**(7,978)**	**1,030,528**
Total comprehensive income								
Other movements	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	47,557	-	-	-	47,557
Other comprehensive income								
Fair value adjustment items measured at fair value through other comprehensive income	-	3,701	-	-	-	-	2,147	5,848
Transactions with owners of the bank								
Dividends to equity holders - paid	-	-	-	(47,736)	-	-	-	(47,736)
Distributions to holders of subordinated capital securities	-	-	-	(30,300)	-	-	-	(30,300)
Balance at 31 December 2021	**179,273**	**29,397**	**19,152**	**355,693**	**428,213**	**-**	**(5,831)**	**1,005,897**

The notes on pages 55 to 131 form an integral part of the consolidated and separate annual financial statements for the year ended 31 December 2021.

Statement of changes in equity
for the year ended 31 December 2021 **cont.**

Stated capital

Authorised ordinary shares
The Company's stated capital consists of 400 000 000 ordinary shares of no par value (2020: 400 000 000).

Issued ordinary shares
298 350 611 ordinary shares of no par value (2020: 298 350 611). All issued shares are fully paid.

Unissued ordinary shares
As at 31 December 2021, unissued shares totalled 101 619 389 (2020: 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 (2020: 0.84%) as treasury shares.

Notes to the financial statements
for the year ended 31 December 2021

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 2021 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 14 March 2022.

(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 2021 **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 and separate annual financial statements, management has made judgements, estimate sand 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.

(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 2021: The accounting standards had no significant impact on the financials statements of the Group.

Interest Rate Benchmark Reform - Phase 2 Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16 and IFRIC 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 2021 **cont.**

3 Significant accounting policies (continued)

(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.

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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(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).

(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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(i) 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.

(a) 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.

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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(i) Financial instruments (continued)

Financial assets held at amortised cost and fair value through other comprehensive income (FVOCI) (continued)
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 2021 **cont.**

3 Significant accounting policies (continued)

(i) 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 2021 **cont.**

3 Significant accounting policies (continued)

(i) 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.

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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(i) Financial instruments (continued)

Provisions for liabilities and charges

The Group recognises a provision for a present legal or constructive obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably.

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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(i) Financial instruments (continued)

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

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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(i) Financial instruments (continued)

Expected credit losses (continued)

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

To account for the potential non-linearity in credit losses, multiple forward-looking 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:

	2021 Base forecast	2022 Base forecast	2023 Base forecast
GDP growth (real % Year on Year)	9.7	4.3	5.0
CPI (% annual average)	6.7	7.0	2.6
Policy rate (%)	3.75	4.25	3.75
USD –BWP	11.7	11.7	11.4

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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(i) Financial instruments (continued)

Expected credit losses (continued)

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.

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 2021 **cont.**

3 Significant accounting policies (continued)

(i) 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 2021 **cont.**

3 Significant accounting policies (continued)

(i) 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 risk mapping to determine the credit quality for loans:

	Corporate, Commercial and Institutional 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 Grades 9 -11	BB+ to BB-/B+ B+/B to B-/CCC	0.426 – 2.350 2.351 – 15.570	Past due 30 - 89	2
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 2021 **cont.**

3 Significant accounting policies (continued)

(i) 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 2021 **cont.**

3 Significant accounting policies (continued)

(i) 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 2021 **cont.**

3 Significant accounting policies (continued)

(i) 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 2021 **cont.**

3 Significant accounting policies (continued)

(i) Financial instruments (continued)

IFRS 9 methodology

Approach for determining expected credit losses

Credit loss terminology

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 this 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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(i) Financial instruments (continued)

IFRS 9 methodology (continued)

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

Post model adjustments

As at 31 December 2021, 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 variables 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 may have reviews that on 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
Despite the pandemic being with us for 2 years now, in the Base Forecast managements view is that the economy is on a sustained recovery path with economic activity expected to normalise as vaccination levels improve, severity of disease due to COVID-19 infections ease and there is less business disruption . Economic recovery is expected to sustain into 2022 with GDP growth for Botswana projected at 9.2% for 2021, and 5.6% in 2022 supported by firm diamond prices and recovery in other sectors that were recording. The Government of Botswana is expected to progress implementation of the Economic Recovery and Transformation Plan and diversify of sources of funding in addition to domestic money market borrowings through its bond programmes.

It was our view that the rising inflation trend in 2021 was transitory, however the rate of inflation remained elevated towards Q4 signalling sustained impact of supply chain disruptions and cost push effect of rising oil prices. This is likely to continue in the first half of 2022 with little disruption however to recovery in Botswana's economy. The inflation scourge, adding possible impact of increases in the policy rate, could hurt households already feeling under erosion in disposable incomes. Supported by monetary policy interventions, global economic activity should normalise by the later half of 2022 as supply chains improve leading to lower rates of inflation.

While the less virulent Omicron variant has gripped global markets and renewed uncertainties, improved vaccine access in the country narrows risk of gaps in growth projections going forward.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(i) Financial instruments (continued)

IFRS 9 methodology (continued)

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
The global economy entered year 2022 weaker than earlier anticipated due to a combination of the COVID-19 Omicron variant resulting in further mobility restrictions late Q4'21 and into Q1'22, energy price volatility and rising prices and supply disruptions resulting in higher and more broad-based inflation. Central Banks are under pressure to tighten monetary policy and review policy rates up to tame inflation. As such, global economic growth is projected to moderate when compared to earlier forecasts, from 5.9% in 2021 to 4.4% in 2022, largely reflecting mark-downs in major economies, and slow to 3.8% in 2023. SADC is projected to grow by 4.2% in 2021 and 3.2% in 2022. These projections were ahead of Russia's invasion of Ukraine which has elevated the significance of geopolitical risks as the global economy emerges from the COVID-19 pandemic and this will affect Botswana.

Botswana's economy ended 2021 resilient posting strong recovery with GDP growth forecast to close at 9.7% in 2021 and 4.3% in 2022. Vaccination rollout has gained momentum 50% of the population fully vaccinated recording one of the highest vaccination rates in Sub-Saharan Africa targeting 80% vaccination rates by March 2022. In the advent of the Omicron variant, while some countries have been reimposing tighter travel restrictions, Botswana's approach has been more pragmatic to avert further downside risks to mobility, or people, reopening and businesses such as tourism. The implementation of infrastructure projects under the government's Economic Recovery and Transformation Plan (ERTP) should buoy growth while mining should remain the key growth driver in 2022 and beyond.

The Worst Case
With Botswana's strong linkages to global economic dynamics, the country is affected by the escalation in trade tensions and inflationary impact of spikes in global oil prices, as well as prices of other essential commodities for which it is a net importer. The trade disruptions are hard hitting and characterised by:

High and rising inflation, well above the official forecasts averaging 8.7%. Inflations rises well above the central banks objective range leading to aggressive monetary policy interventions

Increases in interest rates as the policy rate is reviewed by monetary authorities to tame the inflation scourge while attempting to restore positive real rates to promote savings and investment as money market liquidity conditions tighten.

The tightening in liquidity is driven by increases in proportion of the domestic debt that is financed by the domestic financial sector with more frequent bond auctions. This is contrary to earlier expectations under base case that debt would be contained within current budgeted levels. However, Government is forced to step in with additional support to parastatals and the economy at large to avoid another recession.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(i) Financial instruments (continued)

Widening twin deficits, the current account and fiscal deficit.

Shortages of essential commodities, particularly oil – petrol and diesel – affect productivity across industry sectors.

GDP growth falls to -0.36% in 2022, while above pandemic levels of -8.7%.

The intensity and resultant economic scaring from the disruption to global trade leads to a general fall in economic activity. The spike in inflation is the more worrisome risk due to its impact on households, who were already distressed from eroded disposable incomes due to the steady rise in inflation during FY2021. Credit distress increases in the CPBB portfolio with ECL and IIP impact. As social unrest builds up, the authorities are led to step-up broad-based interventions in the economy increasing fiscal and financial sector risks. Prices of diamonds fall marginally but are steady while demand returns as buyers are still able to participate in the sight holding calendar, COVID -19 travel restrictions having been relaxed which is a source of relief avoiding economic stagnation during the most severe year, FY2022.

Macro-Economic Variables	Actual	Actual	Base Case [projected]					Stress Scenario [projected]				
	2020 est	2021	2022	2023	2024	2025	2026	2022	2023	2024	2025	2026
GDP real growth %	-8.7	9.7	4.3	5.01	5.00	4.76	4.65	-0.36	4.74	4.91	4.74	4.53
CPI annual avr (%)	1.9	6.7	7	2.60	2.50	2.30	2.30	8.17	5.00	3.65	3.40	2.4
Policy rate	3.75	3.75	4.25	3.75	3.50	3.30	3.30	6.20	4.80	3.55	3.35	3.35
Budget deficit % GDP	-9.4	-5.09	-4.3	-4.00	-3.00	-3.00	-3.00	-8.00	-7.00	-6.00	-3.00	-1.00
Exports USDm	4.54	5.30	5.79	5.84	5.88	5.93	5.93	-12.04	-6.82	1.51	4.13	4.44
Imports USDm	6.86	6.80	6.90	6.72	6.78	6.82	6.82	-16.45	2.74	7.85	7.69	6.86
FX rate BWP:USD	10.80	11.7	11.7	11.4	11.1	11.00	11.90	11.9	11.46	11.55	11.65	11.76
Household Income	3.50	5.00	6.50	7.00	7.50	7.50	7.50	10.31	9.17	9.82	9.27	9.04
Stress severity			1 in 4	1 in 4	1 in 3	1 in 3	1 in 3	1 in 10	1 in 8	1 in 6	1 in 5	1 in 5
Sources: Base Case - SCB Global Research, Bank of Botswana, and Government of Botswana publications												

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(j) 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 2021 **cont.**

3 Significant accounting policies (continued)

(j) 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.

(k) 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 discounted using the incremental borrowing rate applicable in the economic environment of the lease. 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 2021 **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 cash flow 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. The key assumptions used in the estimation of the recoverable amount are set out below;

In percent	2022	2021	2020
Discount rate (weighted average cost of capital)	7.8	6.42	6.42
GDP growth rates	4.3	4.7	-1.90
Effective tax rate	22	22	22

The recoverable amount of the CGU, P1 172m as at 31 December 2021, 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 P466m. As a result of the analysis, there is headroom of P1 638m 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.

(I) 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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(l) Impairment of non-financial assets (continued)

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.

(m) 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

(n) 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.

(o) 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.

Significant accounting estimates and judgements on deferred tax

The recoverability of the Group's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax assets will be utilised. In preparing management forecasts the effect of applicable laws and regulations relevant to the utilisation of future taxable profits have been considered.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(o) Taxation (continued)

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%.

(p) 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.

(q) 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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(r) 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 2021 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.

New accounting standards adopted by the Group
Amendments to IFRS 16 Leases: COVID-19-Related Rent Concessions beyond 30 June 2021

The Group early-adopted amendments to IFRS 16 for the year ended 31 December 2020 that permit the Group not to assess whether a rent concession granted as a direct consequence of the COVID-19 pandemic is accounted for as a lease modification. This is described on page 305 of the 2020 Annual Report. In March 2021 the IASB extended the availability of the practical expedient by one year, therefore a rent concession is deemed to be a direct consequence of COVID-19 if and only if all the following criteria are met.

A change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

Any reduction in lease payments affects only payments originally due up to and including 30 June 2022 (this includes the case where the change results in reduced lease payments before this date and increased lease payments after this date); and
There is no substantive change to other terms and conditions of the lease.
The amendments have not had a material effect on the Group's interim financial statements.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(r) New standards and interpretations not yet effective

The group has only considered the below new standards and interpretations relevant to the Group. The following accounting standards not yet effective and no other standards, interpretations and/or amendments are expected to have a material impact on the Group Annual Financials statements.

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 Non-current - 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.

The Group is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(r) New standards and interpretations not yet effective

Reference to the Conceptual Framework – Amendments to IFRS 3 reference to the Conceptual Framework – Amendments to IFRS 3
The amendments add an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.The amendment is effective for annual periods beginning on or after 1 January 2022 and no impact is expected on the bank's assets.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
In May 2020, the IASB issued amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.The amendments apply a 'directly related cost approach'. The costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.The amendment is effective for annual periods beginning on or after 1 January 2022 and no impact is expected on the bank's assets.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements (the PS), in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures.The amendments aim to help entities provide accounting policy disclosures that are more useful by

Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.The amendment is effective for annual periods beginning on or after 1 January 2023 and no impact is expected on the bank's assets.

Definition of Accounting Estimates - Amendments to IAS 8
The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.The amendment is effective for annual periods beginning on or after 1 January 2023 and no impact is expected on the bank's assets.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12
The amendments clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognised in the financial statements (and interest expense) or to the related asset component (and interest expense). This judgement is important in determining whether any temporary differences exist on initial recognition of the asset and liability.The amendment is effective for annual periods beginning on or after 1 January 2023 and no impact is expected on the bank's assets.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

3 Significant accounting policies (continued)

(s) 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.

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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4 Financial risk management (continued)

4.2 Credit risk (continued)

Management of credit risk

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.

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 2021 **cont.**

4. Financial risk management (continued)

4.2 Credit risk (continued)

Exposure to credit risk – Group and Company

	Loans and advances to customers 2021				Loans and advances to banks 2021			Invest-ment securities 2021		
Assets at amortised cost	**Stage 1 P'000**	**Stage 2 P'000**	**Stage 3 P'000**	**Total P'000**	**Stage 1 P'000**	**Stage 2 P'000**	**Stage 3 P'000**	**Stage 1 P'000**	**Stage 2 P'000**	**Stage 3 P'000**
Credit impaired:										
Grade 13: Substandard	-	-	214,330	214,330	-	-	-	-	-	-
Grade 14: Loss	-	-	-	-	-	-	-	-	-	-
Gross carrying amount	**-**	**-**	**214,330**	**214,330**	**-**	**-**	**-**	**-**	**-**	**-**
Specific-Expected credit losses	-	-	(137,731)	(137,731)	-	-	-	-	-	-
Portfolio-Expected credit losses	-	-	(12,386)	(12,386)	-	-	-	-	-	-
	-	**-**	**68,337**	**68,337**	**-**	**-**	**-**	**-**	**-**	**-**
Not credit impaired comprises:										
Grade 12-past due loans up to 90 days										
01 – 30 days	15,951	201,033	-	216,984	-	-	-	-	-	-
31 – 60 days	-	30,733	-	30,733	-	-	-	-	-	-
61 – 90 days	75	21,398	-	21,473	-	-	-	-	-	-
Gross carrying amount	**16,026**	**253,164**	**-**	**269,190**	**-**	**-**	**-**	**-**	**-**	**-**
Not credit impaired:										
Grade 1-5: Strong	7,419,148	-	-	7,419,148	4,057,693	-	-	2,623,673	-	-
Grade 6-8 Satisfactory	25,000	6,466	-	31,466	-	-	-			
Grade 9-11 Satisfactory	-	16,235	-	16,235	-	-	-			
Gross carrying amount	**7,444,148**	**22,701**	**-**	**7,466,849**	**4,057,693**	**-**	**-**	**2,623,673**	**-**	**-**
ECL impairment provision										
CCIB	(194)	(4,889)	-	(5,083)	(3)	-	-	-	-	-
CPBB	(74,024)	(9,302)	-	(83,326)	-	-	-	-	-	-
Total ECL	(74,218)	(14,191)	-	(88,409)	(3)	-	-	-	-	-
Net loans and advances	**7,385,956**	**261,674**	**68,337**	**7,715,967**	**4,057,690**	**-**	**-**	**2,623,673**	**-**	**-**

Expected credit losses
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) is considered immaterial. The sustained drop in Expected Credit Loss (ECL) provisions for the good book is reflective of improved overall quality.

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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.2 Credit risk (continued)

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.

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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.2 Credit risk (continued)

Exposure to credit risk – Group and Company

	Loans and advances to customers 2020				Loans and advances to banks 2020			Invest-ment securities 2020		
Assets at amortised cost	**Stage 1 P'000**	**Stage 2 P'000**	**Stage 3 P'000**	**Total P'000**	**Stage 1 P'000**	**Stage 2 P'000**	**Stage 3 P'000**	**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)	-	-	-	-
Net loans and advances	**7,791,982**	**231,653**	**92,044**	**8,115,680**	**-**	**2,501,471**	**-**	**2,113,719**	**-**	**-**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.2 Maximum credit exposures

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

Group and Company	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 2021	**7,863,051**	**(71,068)**	**246,658**	**(15,005)**	**214,679**	**(122,635)**	**8,324,388**	**(208,708)**
Transfers to Stage 1	165,942	(43,485)	(165,942)	43,485	-	-	-	-
Transfers to Stage 2	(436,128)	78,707	436,128	(106,759)	-	28,052	-	-
Transfers to Stage 3	-	-	(104,871)	47,986	104,871	(47,986)	-	-
Net change in exposures	(132,690)	(58,156)	(136,109)	46,745	(105,220)	131,470	(374,019)	120,059
Impact on ECL of transfers	-	160	-	(357)	-	(0)	-	(197)
Changes in risk parameters	-	19,624	-	(30,287)	-	(134,894)	-	(145,556)
At 31 December 2021	**7,460,174**	**(74,218)**	**275,865**	**(14,191)**	**214,330**	**(145,993)**	**7,950,369**	**(234,402)**
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)
At 31 December 2020	**7,863,051**	**(71,068)**	**246,658**	**(15,005)**	**214,679**	**(122,635)**	**8,324,388**	**(208,708)**

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

Exchange translation differences of BWP2.4m were incorrectly included in the foreign exchange line in prior year but have been restated to be in the net change in exposures line in current year.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.2 Maximum credit exposures (continued)

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

Group and Company	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 2021	6,368,326	(450)	256,086	(660)	5,784	(483)	6,630,196	(1,593)
Transfers to Stage 1	24,091	(596)	(24,091)	596	-	-	-	-
Transfers to Stage 2	(26,616)	116	26,616	(116)	-	-	-	-
Transfers to Stage 3	-	-	-	-	-	-	-	-
Net change in exposures	2,565,905	334	(225,513)	308	(5,784)	483	2,334,608	1,124
Impact on ECL of transfers	-	538	-	(268)	-	-	-	270
Changes in risk parameters	-	(346)	-	(98)	-	-	-	(1,327)
Exchange translation differences	-	(1)	-	5	-	-	-	4
At 31 December 2021	**8,931,706**	**(405)**	**33,098**	**(1,117)**	**-**	**-**	**8,964,804**	**(1,522)**
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)**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.2 Maximum credit exposures (continued)

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

Group and Company	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 2021	2,501,551	(79)	-	-	-	-	2,501,551	(79)
Net change in exposures	1,556,143	76	-	-	-	-	1,556,143	76
At 31 December 2021	**4,057,694**	**(3)**	**-**	**-**	**-**	**-**	**4,057,694**	**(3)**
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	**2,501,551**	**(79)**	**-**	**-**	**-**	**-**	**2,501,551**	**(79)**

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

Group and Company	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 2021	2,113,719	(160)	-	-	-	-	2,113,719	(160)
Net change in exposures	509,954	(693)	-	-	-	-	509,954	(693)
Changes in risk parameters	-	414	-	-	-	-	-	414
At 31 December 2021	**2,623,673**	**(439)**	**-**	**-**	**-**	**-**	**2,623,673**	**(439)**
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)**

Notes to the financial statements
for the year ended 31 December 2021 **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 re-pledge the securities in the absence of default.

	Group					Company				
	2021 Carrying amount	Collateral	2020 Carrying amount	Collateral	Security Held	2021 Carrying amount	Collateral	2020 Carrying amount	Collateral	Principal Security Held
	P'000	P'000	P'000	P'000		P'000	P'000	P'000	P'000	
Against individually impaired:										
Stage 3	214,330	202,129	214,679	245,317	Property and guarantees	214,679	202,129	214,679	245,317	Property and guarantees
Stage 1 and 2	7,736,039	3,956,960	8,109,709	3,656,509	Property and guarantees	7,736,039	3,956,960	8,109,709	3,656,509	Property and guarantees

The bank obtained court judgement to foreclose property held as security worth P24 011 039 (2020: P22 253 682).

The quality of collateral held in 2021 broadly remains inline with the exposures held.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.2 Credit risk (continued)

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

	GROUP		COMPANY	
	2021 P'000	**2020 P'000**	**2021 P'000**	**2020 P'000**
Finance and insurance	214,429	198,328	214,429	198,328
Construction	86,707	147,091	86,707	147,091
Manufacturing	42,408	29,619	42,408	29,619
Trade, restaurant and bars	99,563	681,642	99,563	681,642
Community, social and personal services	71,629	62,230	71,629	62,230
Transport	7,267	8,773	7,267	8,773
Households	7,428,366	7,196,705	7,428,366	7,196,705
Total gross loans and advances	**7,950,369**	**8,324,388**	**7,950,369**	**8,324,388**
Contingent liabilities and commitments				
Finance and insurance	2,287,346	1,700,027	2,287,346	1,700,027
Construction	265,575	245,591	265,575	245,591
Manufacturing	42,290	542,790	42,290	542,790
Trade, restaurant and bars	5,810,437	3,582,525	5,810,437	3,582,525
Community, social and personal services	551,320	551,528	551,320	551,528
Transport	7,835	7,735	7,835	7,735
Total contingent liabilities and commitments	**8,964,804**	**6,630,196**	**8,964,804**	**6,630,196**
Loans and advances to banks	4,057,694	2,501,471	4,057,694	2,501,471
Investment securities	2,623,673	2,113,719	2,623,673	2,113,719
Other assets	206,224	163,529	206,194	163,499
Maximum credit risk exposure	**23,802,764**	**19,733,303**	**23,802,734**	**19,733,273**

Credit concentration risk in Corporate Commercial and Institutional 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 Consumer, Private and Business 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 2021 **cont.**

4. Financial risk management (continued)

4.3 Liquidity 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		COMPANY	
	2021 P'000	**2020 P'000**	**2021 P'000**	**2020 P'000**
Total liquid assets	2,087,968	2,033,117	2,087,968	2,033,117
Total Customer deposits	(12,618,006)	(11,849,610)	(12,618,006)	(11,849,610)
Ratio	**16.5%**	**17.2%**	**16.5%**	**17.2%**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity Analysis

Group - 31 December 2021

ASSETS	Carrying amount	Gross Nominal inflow	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Financial assets by type							
Non derivative assets							
Cash and balances with the Central Bank	738,290	738,290	738,290	-	-	-	-
Loans and advances to banks	4,057,690	4,057,690	4,057,690	-	-	-	-
Investment securities	2,623,673	2,623,673	356,273	860,000	1,317,400	90,000	-
Loans and advances to customers	7,715,967	8,322,173	339,483	2,830	73,418	3,504,199	4,402,243
Total financial assets due from customers and banks	**15,135,620**	**15,741,826**	**5,491,736**	**862,830**	**1,390,818**	**3,594,199**	**4,402,243**
Other financial assets*	206,224	206,224	206,224	-	-	-	-
Total financial assets	**15,341,844**	**15,948,050**	**5,697,960**	**862,830**	**1,390,818**	**3,594,199**	**4,402,243**

*Other financial assets includes prepayments and accrued interest.

Group - 31 December 2020

ASSETS							
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	8,704,490	880,564	124,698	107,391	3,864,015	3,727,821
Total financial assets due from customers and banks	**13,706,861**	**14,295,671**	**5,608,345**	**330,698**	**257,391**	**4,371,415**	**3,727,821**
Other financial assets	163,529	163,529	163,529	-	-	-	-
Total financial assets	**13,870,390**	**14,459,200**	**5,771,874**	**330,698**	**257,391**	**4,371,415**	**3,727,821**

Loans and advances gross nominal inflows have been restated for 2020 and have been reported on an undiscounted basis; previously the carrying amount and gross nominal inflow were reported as the same.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity Analysis (continued)

Company - 31 December 2021

ASSETS	Carrying amount	Gross Nominal inflow	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years
	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Financial assets by type							
Non derivative assets							
Cash and balances with the Central Bank	735,412	735,412	735,412	-	-	-	-
Loans and advances to banks	4,057,690	4,057,690	4,057,690	-	-	-	-
Investment securities	2,623,673	2,623,673	356,273	860,000	1,317,400	90,000	-
Loans and advances to customers	7,715,967	8,322,173	339,483	2,830	73,418	3,504,199	4,402,243
Total financial assets due from customers and banks	**15,132,742**	**15,738,948**	**5,488,858**	**862,830**	**1,390,818**	**3,594,199**	**4,402,243**
Other financial assets*	206,194	206,194	206,194	-	-	-	-
Total financial assets	**15,338,936**	**15,945,142**	**5,695,052**	**862,830**	**1,390,818**	**3,594,199**	**4,402,243**

*Other financial assets includes accrued interest and other receivables.

Company - 31 December 2020

ASSETS							
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	8,704,490	880,564	124,698	107,391	3,864,015	3,727,821
Total financial assets due from customers and banks	**13,704,354**	**14,293,164**	**5,605,838**	**330,698**	**257,391**	**4,371,415**	**3,727,821**
Other financial assets	163,499	163,499	163,499	-	-	-	-
Total financial assets	**13,867,853**	**14,456,663**	**5,769,337**	**330,698**	**257,391**	**4,371,415**	**3,727,821**

Loans and advances gross nominal inflows have been restated for 2020 and have been reported on an undiscounted basis; previously the carrying amount and gross nominal inflow were reported as the same.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity Analysis (continued)

Group - 31 December 2021

LIABILITIES	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 years P'000
Demand deposits	8,318,106	(8,318,106)	(8,318,106)	-	-	-	-
Term deposits	4,299,900	(4,510,287)	(638,081)	(1,298,268)	(2,196,313)	(377,624)	-
Deposits from banks	653,341	(653,341)	(653,341)	-	-	-	-
Total financial liabilities to customers and banks	**13,271,347**	**(13,481,734)**	**(9,609,528)**	**(1,298,268)**	**(2,196,313)**	**(377,624)**	**-**
Other financial liabilities**	226,439	(226,439)	(226,439)	-	-	-	-
Lease liability	35,992	(40,118)		(13,464)	(26,654)	-	
Senior and subordinated debt	712,566	(860,224)	-	(5,410)	(33,435)	(590,383)	(230,996)
Total financial liabilities	**14,246,344**	**(14,608,515)**	**(9,835,968)**	**(1,303,678)**	**(2,243,212)**	**(994,661)**	**(230,996)**

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

Group - 31 December 2020

LIABILITIES							
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**	176,362	(176,362)	(176,362)	-	-	-	-
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	**12,898,264**	**(13,129,855)**	**(8,586,179)**	**(1,225,191)**	**(2,596,329)**	**(715,237)**	**(6,919)**

Senior and subordinated debt gross nominal outflows have been restated for 2020 and reported on an undiscounted basis; previously the carrying amount and gross nominal outflows were reported as the same.

Other financial liabilities gross outflows were restated to correct for an understatement on the disclosed amount.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.3 Liquidity risk (continued)

Maturity Analysis (continued)

Company - 31 December 2021

LIABILITIES	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 years P'000
Demand deposits	8,318,106	(8,318,106)	(8,318,106)	-	-	-	-
Term deposits	4,299,900	(4,510,287)	(638,081)	(1,298,268)	(2,196,313)	(377,624)	-
Deposits from banks	653,341	(653,341)	(653,341)	-	-	-	-
Total financial liabilities to customers and banks	**13,271,347**	**(13,481,734)**	**(9,609,528)**	**(1,298,268)**	**(2,196,313)**	**(377,624)**	**-**
Other financial liabilities**	265,499	(265,499)	(265,499)	-	-	-	-
Lease liability	35,992	(40,118)		(13,464)	(26,654)		
Senior and subordinated debt	712,566	(860,224)	-	(5,410)	(33,435)	(590,383)	(230,996)
Total financial liabilities	**14,285,404**	**(14,647,575)**	**(9,875,027)**	**(1,303,678)**	**(2,243,212)**	**(994,661)**	**(230,996)**

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

Company - 31 December 2020

LIABILITIES							
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**	217,659	(217,659)	(217,659)	-	-	-	-
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	**12,939,561**	**(13,171,151)**	**(8,627,475)**	**(1,225,191)**	**(2,596,329)**	**(715,237)**	**(6,919)**

Senior and subordinated debt gross nominal outflows have been restated for 2020 and reported on an undiscounted basis; previously the carrying amount and gross nominal outflows were reported as the same.

Other financial liabilities gross outflows were restated to correct for an understatement on the disclosed amount.

Notes to the financial statements
for the year ended 31 December 2021 **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:

	GROUP		COMPANY	
	2021 P'000	**2020 P'000**	**2021 P'000**	**2020 P'000**
Capital adequacy				
Core capital				
Stated capital	179,273	179,273	179,273	179,273
Other revenue reserves	429,843	447,197	355,693	386,172
Capital contribution	28,213	28,213	28,213	28,213
Statutory credit risk reserve	19,152	19,152	19,152	19,152
Less regulatory adjustments	(59,623)	(60,199)	(59,623)	(60,199)
	596,858	**613,636**	**522,708**	**552,611**
Additional Tier 1 Capital (AT1)	400,000	400,000	400,000	400,000
Total Tier 1 Capital	**996,858**	**1,013,636**	**922,708**	**952,611**
Supplementary capital				
Non-specific impairment	88,409	86,073	88,409	86,073
*Subordinated debt	233,400	311,200	233,400	311,200
	321,809	**397,273**	**321,809**	**397,273**
Risk weighted assets				
Credit	7,263,789	6,921,071	7,263,789	6,921,071
Market	26,057	33,959	26,057	33,959
Operational	724,479	722,185	714,811	722,185
	8,014,325	**7,677,215**	**8,004,657**	**7,677,215**
Capital adequacy ratio	**16.5%**	**18.4%**	**15.5%**	**17.6%**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.4 Capital Management (continued)

During the year, dividends amounting to P48 million were declared and paid (2020: P55m).

A distribution of P30.3m was paid to holders of subordinated undated AT1 capital securities during the year (2020: P30.0m).

*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.

The note was revised to include both Company and Group capital analysis in line with the Bank of Botswana clarification that the reported numbers should be based on Group numbers effective from 2021. Previously, only Company capital numbers were reported.

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.

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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.5 Market risk (continued)

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

	At 31 Dec P'000	Average P'000	Maximum P'000	Minimum P'000
2021				
Foreign currency risk	50	91	172	9
Interest rate risk	1,561	993	2,474	275
Overall	**1,611**	**1,084**	**2,645**	**284**
2020				
Foreign currency risk	147	30	147	4
Interest rate risk	1,215	566	1,559	169
Overall	**1,362**	**597**	**1,706**	**173**

The limitations of the VaR methodology are recognised by supplementing VaR limits with other metrics and sensitivity limit structures, including limits to address potential concentration risks within each trading 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. ERC is the monitoring body for compliance with these limits and is assisted by Market Risk department in its day-to-day monitoring activities.

Notes to the financial statements
for the year ended 31 December 2021 **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 2021

	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	1,376,580	7,728,389	3,857,000	1,609,000	206,000	760,000	-	15,536,969
Total equity and liabilities	(598,969)	(9,542,000)	(1,020,000)	(2,757,000)	(1,232,000)	(337,000)	(50,000)	(15,536,969)
Net Mismatch	**777,611**	**(1,813,611)**	**2,837,000**	**(1,148,000)**	**(1,026,000)**	**423,000**	**(50,000)**	**-**
Interest sensitivity gap- Floating rate bucket								
Impact of decrease in interest rates								
50 basis points		9,068						
100 basis points		18,136						

Group - 31 December 2020

Total Assets	1,522,763	8,040,941	2,718,000	1,194,000	6,000	583,000	-	14,064,704
Total equity and liabilities	(329,704)	(8,457,000)	(1,028,000)	(2,717,000)	(1,266,000)	(267,000)	-	(14,064,704)
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						

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 2021 **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.

Fair Value PV01 Sensitivity analysis (BWP "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
2021					
Marketable Securities	356,000	1,310,000	200,000	668,000	90,000
Sensitivity (PV01_1bps change in interest rate)	(4)	(32)	(48)	(125)	(11)
2020					
Marketable Securities	1,249,719	356,000	-	508,000	-
Sensitivity (PV01_1bps change in interest rate)	(2)	(7)	-	(164)	-

Notes to the financial statements
for the year ended 31 December 2021 **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:

Company - 31 December 2021

	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 Assets	1,372,027	7,728,389	3,857,000	1,609,000	206,000	760,000	-	15,532,416
Total equity and liabilities	(594,416)	(9,542,000)	(1,020,000)	(2,757,000)	(1,232,000)	(337,000)	(50,000.00)	(15,532,416)
Net Mismatch	**777,611**	**(1,813,611)**	**2,837,000**	**(1,148,000)**	**(1,026,000)**	**423,000**	**(50,000.00)**	**-**
Interest sensitivity gap- Floating rate bucket								
Impact of decrease in interest rates								
50 basis points		9,068						
100 basis points		18,136						

Company - 31 December 2020

Total Assets	1,520,257	8,040,941	2,718,000	1,194,000	6,000	583,000	-	14,062,198
Total equity and liabilities	(327,198)	(8,457,000)	(1,028,000)	(2,717,000)	(1,266,000)	(267,000)	-	(14,062,198)
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						

Fair Value PV01 Sensitivity analysis (BWP "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
2021					
Marketable Securities	356,000	1,310,000	200,000	668,000	90,000
Sensitivity (PV01_1bps change in interest rate)	(4)	(32)	(48)	(125)	(11)
2020					
Marketable Securities	1,249,719	356,000	-	508,000	-
Sensitivity (PV01_1bps change in interest rate)	(2)	(7)	-	(164)	-

Notes to the financial statements
for the year ended 31 December 2021 **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, forward and option 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 ERC 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 2021 and 2020.

Group and Company

	2021			2020		
	Assets / (liabilities)	Sensitivity*		Assets /(liabilities)	Sensitivity*	
	P'000	1%	5%	P'000	1%	5%
American Dollar	711	(7.11)	(35.56)	40	(0.40)	(2.00)
British Pound	326	(3.26)	(16.28)	42	(0.42)	(2.10)
Euro	282	(2.82)	(14.08)	115	(1.15)	(5.73)
South African Rand	3	(0.02)	(0.09)	181	(1.81)	(9.05)

* 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 2021 **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 2021	**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	-	738,290	738,290
Loans and advances to other banks	16	-	4,057,690	4,057,690
Investment securities	17	2,623,673	-	2,623,673
Loans and advances to customers	18	-	7,715,967	7,715,967
Other financial assets*	21	7,677	198,547	206,224
		2,631,350	**12,710,494**	**15,341,844**

*Other financial assets includes accrued interest income.

Liabilities				
Deposits from other banks	22	-	653,341	653,341 1
Deposits from customers	23	-	12,618,006	12,618,006
Senior and subordinated debt	24	-	712,566	712,566
Other financial liabilities**	27	-	262,431	262,431
		-	**14,246,344**	**14,246,344**

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

Group – 31 December 2020				
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**
Liabilities				
Deposits from other banks	22	-	436,471	436,471
Deposits from customers	23	-	11,849,610	11,849,610
Senior and subordinated liabilities	24	-	389,000	389,000
Other financial liabilities	27	-	223,183	223,183
		-	**12,898,264**	**12,898,264**

Notes to the financial statements
for the year ended 31 December 2021 **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):

Company – 31 December 2021	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	-	735,412	735,412
Loans and advances to other banks	16	-	4,057,690	4,057,690
Investment securities	17	2,623,673	-	2,623,673
Loans and advances to customers	18	-	7,715,967	7,715,967
Other financial assets*	21	7,677	198,517	206,194
		2,631,350	**12,707,586**	**15,338,936**

*Other financial assets includes accrued interest income.

Liabilities				
Deposits from other banks	22	-	653,341	653,341
Deposits from customers	23	-	12,618,006	12,618,006
Senior and subordinated debt	24	-	712,566	712,566
Other financial liabilities**	27	-	301,491	301,491
		-	**14,285,404**	**14,285,404**

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

Company – 31 December 2020				
Assets				
Cash and balances with central bank	15	-	973,484	973,484
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	158,606	163,499
		2,118,612	**11,749,241**	**13,867,853**
Liabilities				
Deposits from other banks	22	-	436,471	436,471
Deposits from customers	23	-	11,849,610	11,849,610
Senior and subordinated liabilities	24	-	389,000	389,000
Other financial liabilities	27	-	264,480	264,480
		-	**12,939,561**	**12,939,561**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.7 Financial assets and liabilities (continued)

Fair value measurement (continued)
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.

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.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

4. Financial risk management (continued)

4.7 Financial assets and liabilities (continued)

Fair value measurement (continued)
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-21					
Land and buildings***		-	-	32,880	32,880
Investment securities	17	-	2,623,673	-	2,623,673
31-Dec-20					
Land and buildings **		-	-	-	-
Investment securities	17	-	2,113,719	-	2,113,719

** The fair value for 2020 was based on a revaluation done in 2019 and was a level 3 measurement.

*** A revaluation was carried out in 2021. The carrying amount of the respective assets based on the cost model would have been P7 714 (2020; P7 944) as at 31 December 2021.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

			GROUP		COMPANY
	Note	2021 P'000	2020 P'000	2021 P'000	2020 P'000
5	**Interest income**				
	Loans and advances to customers	673,193	674,808	673,193	674,808
	Investment securities	60,390	49,438	60,390	49,438
	Balances with banks and investments	10,241	20,908	10,241	20,908
		743,824	**745,154**	**743,824**	**745,154**
6	**Interest expense**				
	Amounts due to banks	164,152	141,091	164,152	139,522
	Subordinated loan capital	21,189	25,005	21,189	25,005
	Amounts due to customers	111,853	112,611	111,853	112,611
	Interest expense on lease liabilities	1,819	2,184	1,819	2,183
		299,013	**280,891**	**299,013**	**279,321**
7	**Fees and commission**				
	Transaction Banking	19,042	11,036	19,042	10,886
	Fiduciary Activities	11,854	12,025	11,854	12,025
	Financial Markets	7,232	15,793	7,232	15,793
	Corporate Finance	742	10,716	742	10,716
	Lending and Portfolio Management	83	2,381	83	2,381
	Retail Products	181,567	152,578	181,567	152,578
	Insurance brokerage	28,858	25,251	-	-
	Fees and commission	**249,380**	**229,779**	**220,522**	**204,378**
	Commission expenses				
	Transaction banking	(76)	(168)	(76)	(168)
	Card expenses	(20,921)	(22,616)	(20,921)	(22,616)
	Sales commission	(6,126)	(6,367)	(6,126)	(6,367)
	Total	(27,123)	(29,151)	(27,123)	(29,151)
	Net fees and commission	**222,257**	**200,628**	**193,399**	**175,227**

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 2021 **cont.**

			GROUP		COMPANY
	Note	2021 P'000	2020 P'000	2021 P'000	2020 P'000
8	**Trading income**				
	Foreign currency	72,083	88,376	72,083	88,376
		72,083	**88,376**	**72,083**	**88,376**
9	**Expected credit loss on financial assets**				
	Expected credit losses	50,900	69,776	50,900	69,776
	Recoveries	(48,178)	(28,471)	(48,178)	(28,471)
		2,722	**41,305**	**2,722**	**41,305**

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	-	48,049	-	-
		-	**48,049**	**-**	**-**

Liability written off relates to a loan owed by the Standard Chartered Botswana Education Trust which was written off by Standard Chartered UK in 2020.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

	Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000
10 Employee benefits					
Salaries and wages		210,443	204,098	210,443	204,098
Contributions to defined contribution pension plan		18,497	15,711	18,497	15,711
Other staff costs		7,372	9,377	7,372	9,377
Restructuring		23,017	23,158	23,017	23,158
		259,329	**252,344**	**259,329**	**252,344**

**Other staff costs include P6.6m (2020; P7.7m) staff loan subsidy.

11 Administration expenses					
Audit fees		2,077	2,432	2,077	2,432
Consultancy costs		5,889	5,226	5,889	5,226
Directors Fees		300	479	300	440
Repairs and maintenance		13,843	15,810	13,843	15,810
Communication costs		20,381	19,619	20,381	19,619
Group recharges		210,890	209,847	210,890	209,847
Advertising and sponsorship		7,866	8,629	7,866	8,629
Technical support		8,137	8,052	8,137	8,052
Printing and stationery		2,579	2,367	2,579	2,367
Security		22,153	19,881	22,153	19,881
Irrecoverable VAT and WHT on group recharges		39,001	39,448	39,001	39,448
Other expenses**		23,233	27,194	10,359	14,959
		356,349	**358,984**	**343,475**	**346,710**

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

12 Income tax expense					
Taxation charge for the year					
Corporate tax current year at 22%		18,330	25,687	14,358	22,714
Deferred tax		(441)	26,051	14	28,661
Under/Over provision corporate tax prior year		(1,233)	659	(945)	-
		16,656	**52,397**	**13,427**	**51,375**
Profit before tax		**76,967**	**102,120**	**60,983**	**42,514**
Taxation reconciliation:					
Taxation at statutory rate: 22%		16,933	22,466	13,416	9,353
Non-deductible expenses		994	2,325	994	2,325
Non taxable income		-	(10,140)	-	-
Prior year deferred tax adjustments		(38)	37,087	(38)	39,697
Prior year current tax adjustments		(1,233)	659	(945)	-
		16,656	**52,397**	**13,427**	**51,375**
Non-deductible expenses					
Depreciation - leasehold premises		586	573	586	573
Expatriates pensions		183	154	183	154
Donations and gifts		6	231	6	231
Other expenses capital in nature		219	1,367	219	1,367
		994	**2,325**	**994**	**2,325**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

			GROUP		COMPANY
	Note	2021 P'000	2020 P'000	2021 P'000	2020 P'000
12	**Income tax expense**				
	Non taxable income				
	Loan impairment reversed	-	(10,140)	-	-
	Tax rate reconciliation				
	Tax rate	22.0%	22.0%	22.0%	22.0%
	Non-deductible expenses	1.3%	2.3%	1.6%	5.5%
	Non taxable income	0.0%-	9.9%	0.0%	0.0%
	Prior year deferred tax adjustments	0.0%	36.3%	-0.1%	93.4%
	Prior year current tax adjustments	-1.6%	0.6%	-1.6%	0.0%
		21.6%	**51.3%**	**22.0%**	**120.8%**
	Effective Tax Rate	**21.6%**	**51.3%**	**22.0%**	**120.8%**
13	**Dividends**				
	Dividend declared and paid (Gross of withholding tax)	47,365	54,419	47,736	54,845
		47,365	**54,419**	**47,736**	**54,845**
	Calculated dividend per share (Thebe)	**16.01**	**18.39**		
14	**Earnings per share**				
	Profit attributable to ordinary shareholders	60,311	49,723		
	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)	**20.39**	**16.81**		

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

		Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000
15	**Cash and balances with the Central Bank**		738,290	975,991	735,412	973,484
16	**Loans and advances to banks**					
	Bank balances		35,103	590	35,103	590
	Placements and other investments		4,022,587	2,500,881	4,022,587	2,500,881
			4,057,690	**2,501,471**	**4,057,690**	**2,501,471**
17	**Investment securities**					
	Bank of Botswana Certificates		1,851,756	1,474,932	1,851,756	1,474,932
	Government bonds		771,917	638,787	771,917	638,787
			2,623,673	**2,113,719**	**2,623,673**	**2,113,719**
	Change in fair value of financial instruments (FVOCI)		2,753	(16,520)	2,753	(16,520)
	Tax		(606)	3,634	(606)	3,634
	Net of tax		**2,147**	**(12,886)**	**2,147**	**(12,886)**
18	**Loans and advances to customers**					
	Loans and advances - originated		7,950,369	8,324,388	7,950,369	8,324,388
	Less: allowance for impairment (note 4.2)		(234,402)	(208,708)	(234,402)	(208,708)
			7,715,967	**8,115,680**	**7,715,967**	**8,115,680**

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

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

	Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000

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

	Land and buildings P'000	*Lease-hold improve-ments P'000	Equip-ment P'000	Furniture, fixtures and fittings P'000	Capital WIP P'000	Right-of-use assets Buildings P'000	Right-of-use assets ATMs P'000	Total P'000
2020								
Cost or valuation								
Balances at 1 January 2020	44,311	16,503	88,380	22,543	9,861	69,649	7,689	258,936
Additions	-	-	8,949	717	1,325	-	754	11,744
Disposals	-	-	-	-	(228)	(436)	-	(664)
At 31 December 2020	44,311	16,503	97,328	23,260	10,958	69,213	8,443	270,016
Additions	-	-	7,272	4,277	-	-	-	11,549
Revaluation of property	4,745	-	-	-	-	-	-	4,745
Disposals	(4,091)	-	-	-	-	-	-	(4,091)
Transfers	-	-	2,954	-	(5,970)	3,017	-	-
At 31 December 2021	**44,965**	**16,503**	**107,554**	**27,537**	**4,988**	**72,230**	**8,443**	**282,219**
Accumulated Depreciation								
At 1 January 2020	(11,987)	(7,814)	(75,223)	(15,731)	-	(13,768)	(2,530)	(127,053)
Depreciation charge for the year	(1,068)	(1,493)	(8,455)	(2,594)	-	(13,766)	(2,867)	(30,243)
Disposals	-	-	-	-	-	-	-	-
At 31 December 2020	**(13,055)**	**(9,307)**	**(83,678)**	**(18,325)**	**-**	**(27,534)**	**(5,397)**	**(157,296)**
Depreciation charge for the year	(1,170)	(1,493)	(8,884)	(3,362)	-	(12,799)	(2,867)	(30,575)
Disposals	2,140 -	-		-	-	2,140		
At 31 December 2021	**(12,085)**	**(10,800)**	**(92,562)**	**(21,687)**	**-**	**(40,333)**	**(8,264)**	**(185,732)**
Net book value								
At 31 December 2021	**32,880**	**5,702**	**14,992**	**5,850**	**4,988**	**31,897**	**179**	**96,488**
At 31 December 2020	**31,256**	**7,196**	**13,650**	**4,935**	**10,958**	**41,679**	**3,046**	**112,720**

Revaluation of property	4,745	-	4,745	-
Tax	(1,044)	-	(1,044)	-
Net of tax	**3,701**	**-**	**3,701**	**-**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

		GROUP		COMPANY	
	Note	2021 P'000	2020 P'000	2021 P'000	2020 P'000

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

Land and buildings comprises of commercial and residential properties. Buildings are disclosed at revalued amount less accumulated depreciation and impairment. Right of use assets comprising of buildings and ATMs are disclosed at costs less accumulated depreciation.

Leasehold improvements have been reclassified from Land and buildings and reported separately for 2021 and 2020.

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 BWP 93million (2020 : BWP 127million) which are fully depreciated and still in use.

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

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 01 December 2021 using discounted cash flow valuation model. The model considers the present value of property rentals taking into account rental growth rates. The net cash-flows 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	• Market yield of between 10 - 14% • Prime rentals of office space between P80 - 130/sq.m	The estimated fair value would increase/ (decrease) if: • Higher/lower market yields • Increase/decrease in rental per sq.m

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

		GROUP		COMPANY	
	Note	2021 P'000	2020 P'000	2021 P'000	2020 P'000

20. Intangibles assets and goodwill - Group and Company

	Customer relationship P'000	Capitalised Software P'000	Goodwill P'000	Total P'000
2021				
Cost				
At beginning of year	94,684	94,020	29,880	218,584
Additions (Developed)	-	21,076	-	21,076
Total at the end of the year	**94,684**	**115,095**	**29,880**	**239,659**
Amortisation and impairment losses				
At beginning of year	(94,684)	(66,498)	(18,621)	(179,803)
Amortisation for the period	-	(10,852)	-	(10,852)
At 31 December 2021	(94,684)	(77,350)	(18,621)	(190,655)
Net book value	**-**	**37,745**	**11,259**	**49,004**
2020				
Cost				
At beginning of year	94,684	72,163	29,880	196,727
Additions	-	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**

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 2021 **cont.**

			GROUP		COMPANY
	Note	2021 P'000	2020 P'000	2021 P'000	2020 P'000
21	**Other assets**				
	Financial				
	Accrued income	137,695	130,462	137,695	130,462
	Other receivables	67,139	33,067	68,499	33,037
	Non financial				
	Prepayments	7,326	1,024	7,326	1,024
	Value added tax recoverable	4,692	4,256	4,692	4,256
		216,852	**168,809**	**218,212**	**168,779**

Accrued income relates to accrued interest receivable on loans and investment securities reported on note 18 and 17. Other receivables include sundry fee income receivable.

22	**Deposits from other banks**				
	Bank Balances	645,298	431,061	645,298	431,061
	Placements	8,043	5,410	8,043	5,410
		653,341	**436,471**	**653,341**	**436,471**
23	**Deposits from customers**				
	Demand deposits	8,318,106	7,236,729	8,318,106	7,236,729
	Time deposits	4,299,900	4,612,881	4,299,900	4,612,881
		12,618,006	**11,849,610**	**12,618,006**	**11,849,610**

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

24	**Senior and subordinated loans**				
	Senior Unsecured debt(SCBB 009)	93,603	-	93,603	-
	Senior Unsecured debt(SCBB 010)	229,963	-	229,963	-
	Sub debt	389,000	389,000	389,000	389,000
		712,566	**389,000**	**712,566**	**389,000**

The group issued new subordinated loan instruments (SCBB009 and SCBB010) amounting to P323,566 million during the year.

Changes in liabilities arising from financing activities

Senior & subordinated debt				
Opening balance	389,000	439,000	389,000	439,000
Cash flow items				
Issue during the year	323,566	-	323,566	-
Redemption during the year	-	(50,000)	-	(50,000)
Interest paid	(21,189)	(25,005)	(21,189)	(25,005)
Non-Cash flow items				
Interest accrued	21,189	25,005	21,189	25,005
Balance at the end of the year	**712,566**	**389,000**	**712,566**	**389,000**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

	Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000

24 Senior and subordinated loans (continued)

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

Note information	Interest rate	Maturity	2021 P'000	2020 P'000
Senior Unsecured debt was issued on 28 June 2021. 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 6.50% per annum	28-Dec-25	93,603	-
Senior Unsecured debt was issued on 28 June 2021. 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 & floating interest rate of 3.15% per annum	28-Dec-28	229,963	-
Subordinated debt issued for capital injection	4% above the 91 day BOBC rate	29-Jul-25	389,000	389,000

The group has not had any default of principal or interest or breaches in respect to its senior subordinated liability during the current or previous reporting date. The senior debt instrument SCBB003 matured on the 20th December 2020 and was redeemed. Subordinated debt is payable more than 12 months after the reporting period.

25 Current taxation payable/refundable

Opening balance (payable)/refundable	8,096	(1,169)	7,440	(1,665)
Charge for the year	18,330	25,687	14,358	22,714
Prior year under provision	(1,233)	659	(945)	-
Income tax paid	(24,475)	(17,081)	(20,922)	(13,609)
Balance at the end of the year	**718**	**8,096**	**(69)**	**7,440**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

	Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000

26 Deferred taxation

Group- 31 December 2021	Net balance as at 01 Jan 2021 P'000	Recognised in profit or loss P'000	Recognised in equity P'000	Closing balance as at 31 Dec 2021 P'000
Property and equipment	1,796	2,056	-	3,852
Available for sale securities	(2,250)	-	606	(1,644)
Revaluation of Property and equipment	5,455	-	1,044	6,499
Redundancies	(5,095)	2,976	-	(2,119)
Provision for bonus	(4,297)	(1,043)	-	(5,340)
Provision for deferred cash awards	(33)	(7)	-	(40)
ROU - Leased assets	(33)	483	-	450
ECL T Bills/Debt Securities	(7)	(90)	-	(97)
ECL provisions	(16,801)	-	-	(16,801)
ECL Other	(1,377)	-	-	(1,377)
Unclaimed balances	(46)	-	-	(46)
Income in Advance	(4,934)	1,203	-	(3,731)
Prepayments	225	1,386	-	1,611
Provision for leave pay	(2,312)	(77)	-	(2,389)
Unrealised gains	355	(678)	-	(323)
Cross border recharges accruals	(8,180)	(6,195)	-	(14,375)
Clawback provisions	(2,610)	(455)	-	(3,065)
Balance at the end of the year	**(40,144)**	**(441)**	**1,650**	**(38,935)**

Company- 31 December 2021				
Property and equipment	1,796	2,056	-	3,852
Available for sale securities	(2,250)	-	606	(1,644)
Revaluation of Property and equipment	5,455	-	1,044	6,499
Redundancies	(5,095)	2,976	-	(2,119)
Provision for bonus	(4,297)	(1,043)	-	(5,340)
Provision for deferred cash awards	(33)	(7)	-	(40)
ROU - Leased assets	(33)	483	-	450
ECL T Bills/Debt Securities	(7)	(90)	-	(97)
ECL provisions	(16,801)	-	-	(16,801)
ECL Other	(1,377)	-	-	(1,377)
Unclaimed balances	(46)	-	-	(46)
Income in Advance	(4,934)	1,203	-	(3,731)
Prepayments	225	1,386	-	1,611
Provision for leave pay	(2,312)	(77)	-	(2,389)
Unrealised gains	355	(678)	-	(323)
Assessed loss	-	-	-	-
Cross border recharges accruals	(8,180)	(6,195)	-	(14,375)
Expected loss provision	-	-	-	-
Lease liability	-	-	-	-
Balance at the end of the year	**(37,534)**	**14**	**1,650**	**(35,870)**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

	Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000

26 Deferred taxation (continued)

Group - 31 December 2020	Net balance as at 01 Jan 2021 P'000	Recognised in profit or loss P'000	Recognised in equity P'000	Closing balance as at 31 Dec 2021 P'000
Property and equipment	2,500	351	-	2,851
Available for sale securities	2,640	-	(4,890)	(2,250)
Revaluation of PPE	5,455	-	-	5,455
Redundancies	-	(5,095)	-	(5,095)
Provision for bonus	(4,976)	679	-	(4,297)
Provision for deferred cash awards	(16)	(17)	-	(33)
ROU - Leased assets	(159)	(928)	-	(1,087)
ECL T Bills/Debt Securities	-	(7)	-	(7)
ECL provisions	(50,828)	34,027	-	(16,801)
ECL Other	(726)	(651)	-	(1,377)
Unclaimed balances	(46)	-	-	(46)
Income in Advance	(351)	(4,583)	-	(4,934)
Prepayments	1,009	(784)	-	225
Provision for leave pay	(1,906)	(406)	-	(2,312)
Unrealised gains	-	355	-	355
Assessed loss	(13,901)	13,901	-	-
Cross border recharges accruals	-	(8,180)	-	(8,180)
Clawback provisions	-	(2,610)	-	(2,610)
Balance at the end of the year	**(61,305)**	**26,051**	**(4,890)**	**(40,144)**

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

Company - 31 December 2020				
Property and equipment	2,500	351	-	2,851
Available for sale securities	2,640	-	(4,890)	(2,250)
Revaluation of PPE	5,455	-	-	5,455
Redundancies	-	(5,095)	-	(5,095)
Provision for bonus	(4,976)	679	-	(4,297)
Provision for deferred cash awards	(16)	(17)	-	(33)
ROU - Leased assets	(159)	(928)	-	(1,087)
ECL T Bills/Debt Securities	-	(7)	-	(7)
ECL provisions	(50,828)	34,027	-	(16,801)
ECL Other	(726)	(651)	-	(1,377)
Unclaimed balances	(46)	-	-	(46)
Income in Advance	(351)	(4,583)	-	(4,934)
Prepayments	1,009	(784)	-	225
Provision for leave pay	(1,906)	(406)	-	(2,312)
Unrealised gains	-	355	-	355
Assessed loss	(13,901)	13,901	-	-
Cross border recharges accruals	-	(8,180)	-	(8,180)
Balance at the end of the year	**(61,305)**	**28,661**	**(4,890)**	**(37,534)**

It is anticipated that there will be enough taxable profits for the Group and Company in the near future against which deferred tax asset can be utilised

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

		Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000
27.1	**Unsettled treasury bills**		**199,246**	**29,878**	**199,246**	**29,878**
27.2	**Other liabilities**					
	Financial					
	Accruals		44,942	569	44,942	569
	Accounts payable**		181,497	175,793	220,557	217,090
	Lease liability		35,992	46,821	35,992	46,821
	Non financial					
	Other payables		42,111	45,320	41,870	31,633
			304,542	**268,503**	**343,361**	**296,113**

** Accounts payable includes accrued interest payable and other suspense accounts. Other payables comprises of bonus and leave pay provisions.

27.3 (a) Provisions

Restructuring provision				
Balance at the beginning of year	23,158	-	23,158	-
Provision made during the year	-	23,158	-	23,158
Payments / reversals during the year	(23,158)	-	(23,158)	-
	-	**23,158**	**-**	**23,158**

The provision relates principally to outcomes of our strategic re-think around digital and delivery channels. The restructuring provision was utilised in 2021.

27.3 (b) Clawback provisions**

Balance at the beginning of year	13,932	11,862	-	-
Provision made during the year	7,772	10,734	-	-
Payments during the year	(7,722)	(8,665)	-	-
	13,982	**13,932**	**-**	**-**

**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)	738,290	975,991	735,412	973,484
Loans and advances to banks (note 16)	4,057,690	2,501,471	4,057,690	2,501,471
	4,795,980	**3,477,462**	**4,793,102**	**3,474,955**

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 P4 796 million at 31 December 2021 (2020: P3 477 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 P245m (2020; P251m.)

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

		GROUP		COMPANY	
	Note	2021 P'000	2020 P'000	2021 P'000	2020 P'000

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:

	P'000	P'000
Directors' fees - short term employee benefits	300	479
Directors and key management personnel compensation - short term employee benefits	23,391	24,171
Directors and key management personnel compensation - long term employment benefits	808	1,243
Directors' holding in Company shares	483	483

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	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Auto, mortgages and personal	12,461	14,843	-	-
Deposits	-	-	2,164	5,635

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 2021 **cont.**

	Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000

29 Related Parties (continued)

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.

Details of related party at year end are as follows:

Balances due from:				
Standard Chartered Bank PLC	110,663	2,062,325	110,663	2,062,325
Standard Chartered Bank New York	3,415,756	29,442	3,415,756	29,442
Standard Chartered Bank Johannesburg	140,470	239,804	140,470	239,804
Standard Chartered Bank Mauritius	235,797	54,302	235,797	54,302
Other group companies	92,160	128,864	92,160	128,864
Standard Chartered Insurance Agency	-	-	153,619	105,846
	3,994,846	**2,514,738**	**4,148,465**	**2,620,584**
Balances due to:				
Standard Chartered Bank PLC	589,385	460,712	589,385	460,712
Standard Chartered Bank New York	2,258	256	2,258	256
Standard Chartered Bank Johannesburg	6,795	6,885	6,795	6,885
Other group companies	29,226	38,721	29,226	38,721
Standard Chartered Insurance Agency	-	-	230,767	163,617
	627,665	**506,575**	**858,432**	**670,192**

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 2021 **cont.**

	Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000

29 Related Parties

	Interest income P'000	Interest expense P'000	Group recharges P'000	Group scheme expense P'000
Group and Company - 2021				
SCB UK Treasury	3,042	21,243	144,236	82
SCB Singapore DBU	-	6	21,646	-
SCB Zimbabwe	-	-	-	-
SCB Japan	-	3	-	-
SCB Kenya	-	4	8,523	-
SCB New York	-	1,155	-	-
SCB Johannesburg	5,642	228	259	-
SCB Poland	-	-	320	-
SCB Hong Kong	-	5	5	-
MESA Regional Office	-	-	5,445	-
SCB India	-	1	27,699	-
SCB Malaysia	-	-	2,323	-
SCB Germany	-	774	-	-
SCB China	-	-	434	-
SCB others	-		-	
	8,684	**23,419**	**210,890**	**82**
Group and Company - 2020				
SCB UK Treasury	6,642	20,231	139,214	439
CB 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 India	-	1	26,936	-
SCB Malaysia	-	-	2,332	-
Standard Chartered Bank AG	-	3,585	-	-
SCB China	-	-	928	-
SCB others	-	800	-	-
	20,502	**26,300**	**209,847**	**439**

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 2021 **cont.**

	Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000

30 Subsidiaries and other structured entities

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

	Stated capital	Ownership interest 2021	Ownership interest 2020
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.

Investment in subsidiaries	2021 P'000	2020 P'000
As at 1 January	30	30
Additions	-	-
As at 31 December	30	30

31 Lease liabilities

	2021 P'000	2020 P'000
Interest on lease payments (Note 6)	1,819	2,184
Expenses relating to property leases	2,356	1,079
Amounts recognised in statement of cashflows		
Lease liability payments	20,310	15,394
Interest	1,819	2,184
Principal	18,491	13,210
The Group's commitments under non-cancellable short term leases expiring:		
Within 1 year	13,464	13,098
After 1 year but less than 5 years	26,654	32,174
After 5 years	-	6,919
Total undiscounted lease liabilities	**40,118**	**52,191**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

	Note	GROUP 2021 P'000	GROUP 2020 P'000	COMPANY 2021 P'000	COMPANY 2020 P'000

31 Contingent liabilities and commitments

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

	2021 Stage 1 P'000	2021 Stage 2 P'000	2021 Stage 3 P'000	2021 Total P'000	2020 Total P'000
Grade 1-11: Low - fair risk					
Un-drawn commitments	8,545,021	17,973	-	8,562,995	6,066,729
Guarantees and Letters of credit	386,685	15,124	-	401,809	557,683
	-	-	-	-	-
Grade 13/14: Substandard/loss					
Guarantees and Letters of credit	-	-	-	-	5,784
Contingent liabilities and commitments	8,931,706	33,098	-	8,964,804	6,630,196
Expected credit losses	(405)	(1,117)	-	(1,522)	(1,593)
Contingent liabilities and commitments	**8,931,301**	**31,981**	**-**	**8,963,282**	**6,628,602**

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 (2020;P1.6m) 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.

Assets held in custody	**26,252,920**	**15,627,103**	**26,252,920**	**15,627,103**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

33 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 ZAR622 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 inter-segment revenue and all financial income for these segments is earned in Botswana.

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.

Consumer, Private & Business Banking (CPBB) 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 2021 **cont.**

34 Segmental reporting (continued)

	Consumer, Private & Business Banking P'000	Corporate, Commercial Institutional Banking P'000	Total P'000
2021			
Profit or Loss			
Net interest revenue calculated using the effective interest method	352,188	92,623	444,811
Net fee and commission income	182,955	39,302	222,257
Net trading income	31,486	40,597	72,083
Credit loss expense on financial	(32,491)	29,769	(2,722)
Net operating income	**534,138**	**202,291**	**736,429**
Operating expenses	(470,845)	(188,617)	(659,462)
Segment profit/(loss) before taxation	**63,293**	**13,674**	**76,967**
Income tax expense			**(16,656)**
Profit for the year			**60,311**
Statement of financial Position			
Investment Securities	-	2,623,673	2,623,673
Loans and advances to customers	7,384,532	331,435	7,715,967
Other assets for reportable segments	165,090	5,032,239	5,197,329
Total assets for reportable segments	**7,549,622**	**7,987,347**	**15,536,969**
Deposits from non bank customers	4,244,967	8,373,039	12,618,006
Other liabilities for reportable segments	(91,065)	1,961,547	1,870,482
Total liabilities for reportable segments	**4,153,902**	**10,334,586**	**14,488,488**

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

34 Segmental reporting (continued)

	Consumer, Private & Business Banking P'000	Corporate, Commercial 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**	**102,120**
Income tax expense			**(52,397)**
Profit for the year			**49,723**
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**

Segment balances exclude total equity which cannot be allocated to the segments.

Notes to the financial statements
for the year ended 31 December 2021 **cont.**

			GROUP		COMPANY
	Note	2021 P'000	2020 P'000	2021 P'000	2020 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 2021 (excluding treasury shares for Group)	295,844	295,844	298,351	298,351
	At 31 December 2021	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 P60m (2020; P48m) gross of withholding tax.

standard chartered

Annual General Meeting Notice

For the year ended at 31st December 2021

Notice is hereby given that the **47th Annual General Meeting** of the members of **Standard Chartered Bank Botswana Limited** will be held on **Tuesday 28th June 2022** at **1500 hours** at **Hilton Hotel**, Gaborone for the following purposes:

1. To consider and adopt minutes of the meeting held on the 30th June 2021
2. To receive, consider and adopt the Chairperson's report
3. To receive, consider and adopt the Chief Executive Officer's report
4. To receive, consider and approve the Annual Financial Statements for the year ended 31st December 2021, together with the Auditor's reports therein.
5. To ratify the declaration of a final dividend of 20.21 thebe per ordinary share paid to the shareholders around the 23 May 2022.
6. To re- elect as a Director Thari Gilbert Pheko who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers himself for re-election. Director Pheko has vast experience in corporate management having held high level managerial positions for various organisations, he served as a Chief Executive Officer for Botswana Telecommunications Authority and Botswana Communications Regulatory Authority. He holds a Master's in Management Information Systems, a bachelor's degree in business finance and Economics from the University of East Anglia, Norwich, United Kingdom. He attained Part one Bachelor's Degree of Arts from the University of Botswana majoring in Accounting and Public Administration.
7. To re- elect as a Director Rapelang Rabana who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers herself for re-election. 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 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 2022.
9. To approve the remuneration of the auditors, Ernst & Young Botswana for the year ended 31st December 2021.
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 should be forwarded to reach the Secretary, at Standard Chartered Bank Botswana Limited, Head Office, 5th Floor, Standard House, The Mall, P O Box 496, Gaborone, alternatively via e-mail at Luzibo.Benza@sc.com not less than 48 hours before the meeting.

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 via e-mail at Luzibo.Benza@sc.com

By order of the Board

Chazha Kgalemang
Company Secretary

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 28th June 2022 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 2021, together with the Auditor's reports therein.			
4.	To ratify the declaration of a final dividend of 20.21 thebe per ordinary share paid to the shareholders around the 23 May 2022.			
5.	To re- elect as a Director Thari Gilbert Pheko who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers himself for re-election			
6.	To re- elect as a Director Rapelang Rabana who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers herself for re-election.			
7.	To approve the remuneration for directors for the year ending 31st December 2022.			
8.	To approve the remuneration of the auditors, Ernst & Young Botswana for the year ended 31st December 2021.			
9.	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 _____2022

Notes

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1. Any alteration of this form must be initialled by the signatory
2. A copy of the Proxy Form is available for download at www.sc.com/bw alternatively, please request for a copy from the Company Secretary via e-mail at Luzibo.Benza@sc.com
3. 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 via e-mail at Luzibo.Benza@sc.com no later than Thursday 23rd June 2022.

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