Absa Bank Botswana Limited

Integrated Report 2021

Our 2021 Integrated Report.

Absa Bank Botswana Limited has incorporated the principle of integrated thinking and reporting into our business, sharing this with stakeholders through this report.

Our purpose

We believe in bringing possibilities to life.

Our values

We drive high performance to achieve sustainable results

Our employees are our strength

We are obsessed with the customer

We have an African heartbeat

Six capitals

Financial capital | Human capital | Intellectual capital | Manufactured capital | Social and Relationship capital | Natural capital

Advancing our digitally-led business strategy.

Successfully concluded the separation from Barclays within time and budget.

Awards and notable achievements

top EMPLOYER BOTSWANA 2022
CERTIFIED EXCELLENCE IN EMPLOYEE CONDITIONS

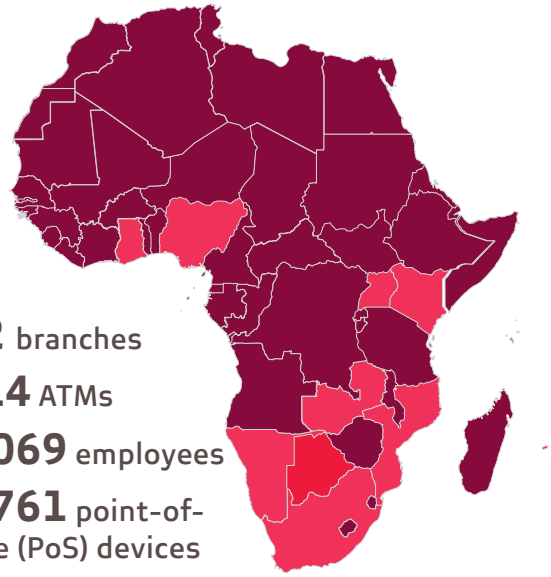
Absa at a glance

Absa Bank Botswana Limited is listed on the Botswana Stock Exchange and is one of Botswana's leading financial institutions.

P21.5 billion
balance sheet size
(2020: P20.6 billion)

P16.4 billion
deposits due to customers
(2020: P15.9 billion)

17.7%
Capital Adequacy Ratio
(2020: 18.2%)



32 branches
114 ATMs
1 069 employees
4 761 point-of-sale (PoS) devices

Abbreviations

ABB Absa Bank Botswana Limited
AFS Annual Financial Statements
AGL Absa Group Limited
AIS Absa Insurance Services (Pty) Ltd
ASB Absa Securities Botswana (Pty) Ltd
AGM Annual General Meeting
AI artificial intelligence
ARO Absa Regional Operations
ATM Automatic Teller Machine

BOB Bank of Botswana
BWP Botswana Pula

CAR Capital Adequacy Ratio
CET1 Common Equity Tier 1 Ratio
CASA Current Accounts Savings Accounts
CIB Corporate and Investment Banking
CSI Corporate Social Investment
CMC Country Management Committee
CAF Commercial Assets finance

DR – Discount Rate
(DVaR) Daily value at risk

EFTs Electronic Fund Transfers
ESG Environmental, social and governance
ECL Expected credit losses
EDs Executive Directors
ERMF Enterprise Risk Management Framework
ERTP Economic Recovery and Transformation Plan

FATF Financial Action Task Force
FX Financial Exchange
FIA Financial Intelligence Agency

GACC Group Audit and Compliance Committee
GBP Great British Pound
GDP Gross Domestic Product

LAR Liquid Asset Ratio
IAS International Accounting Standards
IFC International Finance Corporation
IR Integrated Reporting
ICT Information Communications Technology
IESBA International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants
IFRS International Financial Reporting Standards
IMF International Monetary Fund
KYC Know Your Customer
KPIs Key Performance Indicators

PoS Point of Sale
PPE Personal Protective Equipment
PPPs Public-Private Partnerships

NBFIRA Non-Bank Financial Institutions Regulatory Authority
NFI Non funded Income
NII Net Interest Income
NPS Net Promoter Score
NED Non-Executive Director
NBFI Non-bank financial institutions

RBB Retail and Business Banking
RWA Risk Weighted Assets

SPPI Solely payments of principal and interest
SACU Southern African Customs Union
SADC Southern African Development Cooperation
SME Small Medium Enterprise
SOCE Statement of Changes in Equity
SOCF Statement of Cash Flows
SOCI Statement of Comprehensive Income
SOFP Statement of Financial Position
STEM Science, Technology, Engineering and Mathematics
SDGs Sustainable Development Goals

TAG Technical Accounting Group
TCFD Task Force on Climate-related Financial Disclosures.

UK United Kingdom
UNESCO
USA United States of America
USD United States of America Dollar

VRF Value Reporting Foundation's
VAT Value-Added Tax

ZAR South African Rand

King IV™ Navigation

King IV application | Weblink

Contents

Integrated reporting purpose, scope and audience

Absa Bank Botswana Limited ("the Bank") is a public company listed on the Botswana Stock Exchange ("BSE") and domiciled in Botswana. This Integrated Report aims to provide our shareholders and key stakeholders with a concise and informed view of the Bank's strategy, corporate governance, performance and prospects in the context of our operating environment, reporting on how we create value throughout our business over the short, medium and long term.

The financial information reporting boundary is defined by control and significant influence in the operating environment. All other reporting boundaries, including risks, strategy, governance, social and environmental are as per their ability to significantly impact value creation, as determined by the Bank's management and Board.

This report is thus designed to inform our valued stakeholders on how the Bank's business model, strategy and business performance lead to the creation and preservation of shared value.

Frameworks, assurance and reporting suite

Our report is based on the Value Reporting Foundation's ("VRF") Integrated Reporting (<IR>) Framework 2021. The contents of this report include extracts of financial information based on International Financial Reporting Standards ("IFRS") and non-financial information reviewed by management. The Annual Financial Statements ("AFS") published in the report are prepared in accordance with the recognition and measurement requirements of IFRS interpretations issued by the IFRS Interpretations Committee ("IFRS-IC"), Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. The AFS are also in compliance with the Botswana Stock Exchange Listings Requirements, the Botswana Companies Act of 2007 as amended (Cap 42:02), the Non-Banking Financial Institutions Regulatory Authority Act (Cap 46:08), and the Banking Act (Cap 46:04).

Reporting period and forward-looking statements

This report covers the period from 1 January 2021 to 31 December 2021. Notable or material events after this date and until the approval of this report on 2 June 2022 are included. Statements relating to future operations and the performance of the Bank are not guarantees of future operating, financial or other results and involve uncertainty as they are based on assumptions of future developments, some of which are beyond our control. Therefore, the results and outcomes may differ. The ongoing impact of COVID-19 has had a significant influence on our business, operational, and financial performance. Given continued levels of uncertainty, our approaches, planning, and stress testing exhibit a higher than usual level of uncertainty as to selected outlook and forward-looking statements.

Process disclosure, materiality and assurance approach

Our Integrated Report process commenced with the review of the material matters for reporting. The materiality determination process for the purpose of preparing and presenting an integrated report involves:

- Identifying relevant matters based on their ability to affect value creation
- Evaluating the importance of relevant matters based on either the magnitude of their effect on value creation or the likelihood of occurrence
- Prioritising the matters based on magnitude
- Determining the information to disclose about material matters.

Material matters reported on in this report thus cover those matters deemed to have a material impact on the business in the short, medium and long term. This was primarily determined via a joint in-depth strategy review, in which the Bank's Board of Directors ("the Board") was actively engaged, after which the Board approved the 2021 strategy on 16 November 2020. Thereafter, content gathering for these disclosures included engagements with and submissions from business units, including governance and enabling functions. In accordance with this materiality principle, each submission in this report was signed off by the accountable function executive, after which the holistic report was signed off by the Country Management Committee. The Bank applies a risk-based, combined assurance approach over operations. Therefore, internal controls, management assurance, compliance, internal audit reviews, and the services of independent external assurance providers support the accuracy of the disclosures within this report. In line with their respective mandates, specific reports are reviewed and recommended to the Board for approval by various committees of the Board, such as the Board Human Resources Remunerations and Nominations Committee ("HR Committee"), as well as the Board Audit Committee. The Board takes final accountability for the approval of the Bank's external disclosures, as approved by Ernst & Young Botswana in our annual financial statements.

Approval of the Integrated Report

Supported by management and all the Board Committees, the Board acknowledges its responsibility for the integrity of the Bank's external reporting. This report provides material and relevant information to providers of financial capital to enable informed capital allocation decisions while also supplying information relevant to broader stakeholders.

This report is presented in accordance with the International Integrated Reporting <IR> Framework (2021). The Board believes it addresses all material matters influencing the Bank's ability to create, preserve, or erode value, in the short, medium, and long term. It is the Board's opinion that this Integrated Report presents a fair and balanced view of the Bank's performance and outlook.

The Board approved this report on 2 June 2022.

Daniel Neo Moroka
(Board Chairman)

Cosmas Moapare
(Lead Independent Non-Executive Director)

Kgotlayarona Ramaphane
(Independent Non-Executive Director)

Sari Helena Nikka
(Independent Non-Executive Director)

Benjamin Monaheng Kodisang
(Independent Non-Executive Director)

Sethunya Dorothy Makepe-Garebatho
(Independent Non-Executive Director)

Thabo Kagiso Matthews
(Independent Non-Executive Director)

Saviour Mwepu Chibiya
(Non-Executive Director)

Keabetswe Agatha Pheko-Moshagane
(Managing Director)

Cynthia Morapedi
(Finance Director)

Share your views

We remain committed to bringing your possibilities to life. The Bank has adopted an integrated approach to reporting, in accordance with various corporate governance rules and standards, and this is our first integrated report. Please share your feedback on our report by emailing *Botswana.CustomerService@absa.africa.*

Absa – brave, passionate and ready

Our structure, products and services

We deliver a wide range of financial products and services through two customer-facing segments to meet the needs of our customers.

	Retail and Business Banking	Corporate and Investment Banking
Key metrics	**P11.1 billion** Gross loans and advances (2020:P10.1 billion) **P10.1 billion** Deposits due (2020:P 9.1 billion)	**P3.9 billion** Gross loans and advances (2020:P3.8 billion) **P6.3 billion** Deposits due (2020:P6.8 billion)
	P415.1 million Profit before tax (2020: P218.6 million)	**P244.2 million** Profit before tax (2020: 229.3 million)
Serving	Individuals: youth, self-employed, consumers, prestige and premier customers. Micro, small and medium enterprises; non-governmental organisations.	Global, regional, and mid- to large corporates; financial institutions; and public sector institutions.
Presence in Botswana	Gaborone, Lobatse, Moshupa, Jwaneng, Tsabong, Ghanzi, Mochudi, Palapye, Serowe, Francistown, Masunga, Nata, Maun, Kasane, Gumare, Shakawe, Orapa, Kanye, Mahalapye,Selebi Phikwe, Tutume, Bobonong, Molepolole, Moshupa and Letlhakane.	
Products and services	Comprehensive suite of banking and insurance offerings, including transactional banking, card solutions, lending solutions, deposit-taking, risk management, investment products, and card-acquiring services.	Specialist solutions across corporate and transactional banking, investment banking, financing, risk management, advisory products and services.

Our structure, products and services continued

	Retail and Business Banking	Corporate and Investment Banking
Areas of differentiation	• An engaged and energised workforce • The largest branch network in the country • Full bank offering with integrated insurance products and a clear focus on customer value management • Enhanced digital capabilities • A stable customer base with improving retention and cross-selling opportunities • Robust credit and collections capability • Strong, secure lending capabilities • Strong brand recognition.	• Over 100 years of experience on the African continent with global connectivity and local differentiation • Consistently recognised as an industry leader in the areas of investment banking, research and cash management • The Bank was named "Best Investment Bank" for the third consecutive year by the Europe, Middle East and Africa (EMEA) Banking African Finance Award. This award recognizes the demonstrable success of our efforts to consistently find new ways to help our clients access debt and equity capital they need to grow against the highly challenging backdrop of COVID-19. The award also recognises the success of our long-standing client relationships, and efforts to contribute to the development of Botswana's market • Strong stakeholder relationships • Sector expertise and thought leadership across several key sectors driving the economy.

Ways to do banking

Banking App

is the safest way to bank. All customers need is a smartphone to bank wherever and whenever.

Agency Banking

provides services to our customers through third parties or an agent. Absa agents are commercial entities that have been contracted to provide specific services on the bank's behalf. Agency banking, therefore, allows customers to access financial products and services at a location nearest to them, thus breaking down specific barriers to financial inclusion such as cost and accessibility.

Abby ChatBanking

is a world-first secure banking service that allows customers to bank using WhatsApp. Customers can engage on the platform on +267 76 644 404.

Absa Online Banking

keeps improving. The online banking platform makes banking accessible, quicker and better. We offer a superior banking experience so customers can spend less time navigating and more time banking.

NovoFX mobile app

is an intuitive interface that allows users to remit funds internationally. NovoFX facilitates outward international payments with real-time exchange rates to anyone with a bank account. It enables individuals to send money anywhere in the world quickly, easily and safely, provided they have met the regulatory obligations.

Spark by Absa

is a game changing digital wallet that is available on the phone. With Spark by Absa, customers can make contactless QR payments, fund wallet using any bank card, pay at PoS machines and transfer money from Spark by Absa to one's account. Customers can also pay bills and deposit or withdraw from partner agents providing great convenience.

Cell phone Banking

can be done using any phone and requires no downloads, no data or airtime. Customers can transfer money to anyone - even if the receiving party does not have an account, buy airtime and electricity, and so much more by dialling *161*234#.

Branches, ATMs and PoS devices

An extensive physical footprint across Botswana, comprising 32 branches, 114 ATMs and 4 761 PoS devices.

Call centres

Services offered include sales, service, and general enquiries. Customers can obtain settlement letters, account balances, tax certificates, Absa rewards redemptions, and more with a single phone call. The calls are secure, which provides the peace of mind to bank with ease.

How we create value

Inputs as at 1 January 2021

Financial capital

Financial capital refers to the pool of funds available to the bank to enable our business activities. This capital can be obtained through various means, including financing (such as debt), equity, or generated through operations or investments. We seek to use our financial stocks of value to enhance the outcomes on all our capitals to support our ability to create value over the short, medium and long term while preventing value erosion.

Key indicators:

- Equity of P2.3 billion
- Common equity tier 1 ratio of 13.8%
- Capital adequacy ratio of 18.2%
- P14.6 billion gross loans and advances
- P15.9 billion deposits.

Human capital

Human capital refers to the competencies and capabilities of our people and the contribution they make in aligning with our purpose and strategic direction. Our ambition is to create a thriving, future-fit organisation that attracts, develops, and retains the best people through a differentiated workplace experience that brings their possibilities to life and offers competitive compensation. Our culture journey is one of becoming customer-obsessed, acknowledging the strength of our people, and delivering results sustainably – with an African heartbeat. Under the banner #iamAbsa, our culture transformation initiatives enable organisation-wide shifts toward the desired mindsets and behaviours that bring our purpose to life and nurture a culture of ownership, belonging, participation and inclusion.

Key Indicators:

- 1 101 employees with an 8.6% turnover rate
- 70% women
- Fair and responsible reward structure
- Diverse Country Management Committee
- Introduction of employee bursaries.

Intellectual and manufactured capital

Intellectual and manufactured capital refers to our intellectual property and organisational capital, including tacit knowledge, systems, procedures, and protocols. While our buildings and other manufactured capital provide necessary inputs, the detail of these aspects is not captured here as it is an immaterial portion of our total manufactured capital investment. We take into consideration our ability as an organisation to innovate in order to meet pressing future needs. Our Group IT infrastructure is the most material part of our manufactured capital, taking our strategic direction and evolving business model into consideration.

Key indicators:

- Strong internal control systems, and risk and compliance frameworks
- Effective information and technology infrastructure
- P252 million in property and equipment
- 31 branches, 113 ATMs, 4,147 PoS devices
- Strong brand and presence across the country
- Financial, commercial, technical, risk and management skills and expertise at Board, management and employee level.
- Innovative digital portfolio and customer value propositions

Social and relationship capital

Social and relationship capital refers to the relationships we have with our stakeholders. These connections link the institutions and relationships within and between our communities, stakeholder Groups and other networks.

These relationships form the lifeblood of our business, supporting sustainable value creation and preservation. This section outlines our relationships with the investor community, our customers, and society.

Key Indicators:

- Strategic channel partnerships, service providers.
- A broad range of stakeholders.

Natural capital

Natural capital refers to all renewable and non-renewable environmental resources and processes that enable our business activities, thereby supporting our ability to create value in the short, medium, and long term. Included in our assessment of our natural capital is our aim to improve the manner in which we consume natural capital over time.

Key Indicators:

- Introduction of water and power saving mechanisms
- Planted over 700 fruit trees in the communities we operate in for environmental and social impact
- P2.2 billion housing loan book .

Potential for cost differentiation

- Ability to deliver cost reduction through digitisation
- Enhanced operational efficiencies using automation that further contributes to enhanced service levels.

Potential for revenue differentiation

- Diverse revenue streams across our portfolio
- Large customer base in retail, business and corporate banking
- Increasing market share and cross-sell ratio, all within an appropriate risk appetite
- Scope to grow product lines where we are underweight in terms of market share
- Shifting from debt-led customer relationships to transactional, winning customer primacy
- Strengthening services to multinational corporations, global development and non-governmental organisations
- Leveraging strategic partnerships.

Our outputs

We provide a range of banking and insurance offerings for individuals, small- and medium-sized businesses, corporates, financial institutions, banks, governments and development finance institutions. We generate revenue through fees, insurance commission and interest from lending.

- Interest
- Net fee and commission income
- Gains and losses from banking and trading activities.

Our core business activities

Absa provides a fully integrated business offering delivered through our customers-first digital solutions, ecosystems of financial services, lifestyle and value chain offerings.

1. Providing payment services and a safe place to save and invest
Accepting customers' deposits, issuing debt, facilitating payments and cash management, providing transactional banking, saving and investment management products and international trade services.

2. Providing funds for purchases and growth
Extending secured and unsecured credit based on customers' credit standing, affordability and risk appetite. Trade and supplier finance, working capital solutions, access to international capital markets and inter-bank lending.

3. Managing business and financial risks
Providing solutions, including fixed-rate loans, pricing, and research, and hedging, which includes interest rate and foreign exchange.

4. Providing financial and business support
Providing individual and business advice, advisory on large corporate deals and investment research.

5. Protecting against risks
Representing insurance companies in selling and servicing various policies for a specified loss in return for commission.

Outcomes as at 31 December 2021

Total economic value distributed
P1.4 billion (2020: P1.2 billion)

= Total income +income from subsidiaries – impairments – non-controlling interest.

Financial capital

- Revenue growth 5%
- Return on equity 20%
- Cost-to-income ratio 55%
- Non-interest income as a percentage of total income 36.4%
- Declared ordinary dividend of P319 million
- Common equity tier 1 ratio of 13.7%
- P340.9 million headline earnings
- Share price 464 thebe

As a financial services provider, we play a vital role in the economic activity of individuals, businesses and our nation, helping to create, grow and protect wealth through partnerships in economic development.

Value for Absa

Reinvested P313 million
2020: P184 million

Retained to support future business growth

- **32** branches, **114** ATMs. **4 761** PoS devices
- Digital service availability at **99.8%**
- Digitally active customers increased to **253 994.**

Value for others

Community

P1.3 million (2020: P477 thousand)

Invested in education and skills development.

Government

P108.6 million (2020: P95.8 million)

Contribution to the fiscus through indirect taxes, dividend withholding taxes and value-added tax.

Employees

P446 million (2020: P480 million)

Paid to our employees in salaries, benefits and incentives.

Shareholders

P259 million (2020: P213 million)

Paid in ordinary dividends to our shareholders.

Outcomes continued

The direct and indirect economic, social, and environmental impacts we bring to life through our role in playing a shaping role in society

We have a vested interest in creating inclusive growth and delivering financial products and services in a socially responsible manner. Opportunity and success can only be enabled through all people being treated equitably, having good health, and having access to education and income opportunities. This is where we see our most significant impacts and noteworthy contribution to the Sustainable Development Goals.

Advance inclusive finance

Value for others

- P406 million SME entities loan book
- P2.3 billion housing loan book

Creating sustainability – impact on people and planet

Value for Absa

- Introduction of water and power saving mechanisms

Value for others

- Planted over 700 fruit trees in the community for environmental and social impact

Shaping society – education and skills development

Value for others

- 18 youths supported through technical, digital and academic support
- 10 610 consumers participating in financial education
- P5.2 million invested in employee training

Promote fairness, equality and transparency

Value for Absa

- 95.2% high-performance employee retention rate
- 1.0% absenteeism rate
- Top Employer award
- P147 thousand regulatory penalties (eroded value)

Value for others

- Treating Customer Fairly outcome score of 90% for CIB, 76% Business Banking and 82% Retail Banking
- 58.7% achieved in employee experience index

Bringing possibilities to life – our strategic intent

Daniel Neo Moroka
Board Chairman

"As the Board, we believe that the Bank is well-positioned to deliver on our chosen strategic priorities and sectors."

Board Chairman's report

I am honoured to present my inaugural Absa Bank Botswana Limited report as Board Chairman, for the year-ended 31 December 2021. This is the first ever integrated report for the Bank.

Context

The Bank voluntarily commits to requisite corporate governance disclosures in order to promote sustainable investment through improved financial, environmental and social performance. We aim, through this report to present our stakeholders, among them investors, regulators, customers and employees, with a holistic and transparent depiction of our value creation process, providing insights into our strategy, issues that materially impact us, as well as opportunities and risks in the context of our operating environment as a leading financial institution in Botswana.

The year under review continued to witness the persistence of the COVID-19 pandemic, with ever-looming threats of new variants and the potential restrictions that would accompany such outbreaks. Global economic recovery gained momentum, although the pace was uneven as developed economies recovered faster than developing ones. After contracting 3.1% in 2020, the global economy grew by 6.1% in 2021, supported by additional fiscal stimuli in developed economies along with the vaccination rollouts, allowing economies to open up further. Locally, the economy grew by 11.4% as at December 2021, compared to a contraction of 8.7% in the previous year. The higher growth rate was driven by base effects from a substantial contraction in 2020 and a recovery across most sectors of the Botswana economy, particularly diamonds. Botswana's economic growth in 2021 was more robust than expected, and this was primarily due to accommodative policies, a stronger global backdrop that supported higher commodity prices and multilateral support.

As at December 2021, the Bank had recorded 587 COVID-19 infections. Although we experienced a high recovery rate, it is however with deep sadness that we lost five of the Bank's employees. On behalf of the Board, Management and employees and indeed on my own behalf, I wish to convey my deepest sympathies to all families who have been affected by COVID-19 and lost loved ones.

Our business performance

For the year-ending 31 December 2021, the Bank demonstrated robust strategic, financial and operational performance, despite continuing challenges. We achieved a Profit Before Tax of P659million, which is an 81% year-on-year growth and a commendable Return on Equity of 20%, representing an improvement from 13% in 2020. All in all, our balance sheet position remained solid at P21.5 billion, with strong liquidity and capital adequacy levels throughout the period under review.

This strong performance was taken into consideration with the Board resolving to declare a dividend of 37 thebe per share, amounting to a total dividend of P319 million (comprising P83 million previously paid as an interim dividend and P236 million, at 27.69 thebe per share as a final dividend). This performance is a testament to our winning strategic endeavours, leadership teams' strength as well as employee resilience and commitment.

Our strategy

In 2021, the Bank slightly pivoted from the 2020 strategy, which was more of a response strategy to defend our market share given the emergence of the COVID-19 pandemic. At the end of 2020, the Board, together with the Bank's management, reviewed the Bank's strategic ambitions and priorities, cognisant of the Group strategy. The Group's strategic review process had made it clear that a fundamentally new strategy was not appropriate, but rather a re-anchoring and stimulation of the existing strategy that was launched in 2018. Considering the Bank's operating environment, our 2021 strategy primarily focused on targeted growth and gaining momentum within a context of available resources and other relevant factors. This strategy was based on the need for business recovery post COVID-19, exceptional customer experience and building lasting legacies, underpinned by the following pillars:

- Pursuing growth selectively and defending market share
- Accelerating a digital-first business
- Leading with purpose, focusing on customers, clients, and communities
- Building our entrepreneurial culture and creating a workforce for the future
- Protecting returns, focusing on capital usage and costs.

Our strategy aims to generate sustainable growth within the Bank's risk appetite, elevating sustainability as a priority. As the Board, we believe that the Bank is well-positioned to deliver on our chosen strategic priorities and sectors. Please refer to the Managing Director's report on page 44 for more information on our strategic themes.

Chairman's report continued

Leading with purpose

The Bank continues to be a leader in terms of contribution to the communities in which we operate across Botswana. We are confident in the measures that we developed and implemented to address the social and economic development of our communities. Despite the challenges created by the COVID-19 pandemic in the delivery of some of our desired interventions, the Bank managed to quickly embrace technology to ensure continuation of relevant assistance to Botswana. To this end, we have made significant progress in the areas of thought leadership, education and skills development and environmental sustainability, which were the key pillars of our strategy.

The F.G. Mogae Scholarship Fund is one of our crucial education programmes, where the Bank provides scholarships to deserving young Batswana who require financial assistance to pursue their masters degrees. We have supported over 75 Batswana to date, with the 2021 intake focusing on science, technology, engineering and mathematics – often referred to as STEM.

Our socio-political environment points to the challenges faced by the youth of this country and at the beginning of 2021, we launched our innovative Hackathon and Incubation programme. The programme seeks to mobilize youth innovators and connect them with existing clients from our Business Banking portfolio. This is in order to enable them to appreciate challenges faced and provide them with the platform to invent pioneering solutions. We also launched the Absa Youth Hub, which is an online platform dedicated to building capacity as well as upskilling the vulnerable youth group aged between 18 and 25. Since the programme's inception in June 2021, 1500 youth have been trained and 19 placed in employment and internships.

I must mention our digital learning platform ReadytoWork, which continues to make an important contribution to the education of young people, where they are taught critical life skills that will enable them to become economically active. In this regard, in 2021, ReadytoWork was utilised to train 10,610 young people.

We remain proud of our employees who continue to offer their time, volunteering for various activities in organisations throughout the nation. Please refer to page 68 for more details on our various initiatives.

Board matters

The Board has remained committed to business integrity and the principles of good corporate governance in executing its mandate at the helm of the Bank. In the previous report, my predecessor updated stakeholders on the recruitment drive undertaken by the Board to ensure that the composition and size of the Board was adequate in line with the Bank's profile. I am pleased to note that I joined the Board as Board Chairperson and independent non-executive director ("NED") on 1 July 2021. The Board further welcomed Ms Sethunya Dorothy Makepe-Garebatho as an independent NED ("INED") on 15 September 2021. Ms Makepe-Garebatho has more than 26 years of management and board experience in various organisations and brings a wealth of skills and experience, with a forte in labour law and employee relations. The Board continued to assess its composition and committee structure throughout the year, and in November 2021, appointed the current Board Audit Committee Chairman, Mr Cosmas Moapare as the Lead INED.

At the beginning of 2022, the Board further welcomed Mr Thabo Matthews and Mr Saviour Chibiya. Mr Matthews is an INED with extensive management consulting skills, having worked for various organisations in the public and private sector, and served on the boards of many institutions in Botswana and South Africa. Mr Chibiya is a NED and Group nominee, and is currently the Group Executive for Absa Regional Operations ("ARO"), as well as a member of the Group Executive Committee, providing input in terms of the overall Group's strategy, particularly with regards to the strategic choices for the Group's growth in the ARO banks. Please refer to page 72 for detailed profiles of our Board members.

I wish to acknowledge the good work done by the previous Interim Board Chairman, Mr Alfred Dube who retired from the Board on 28 June 2021. He contributed tremendously to the Board over the last eleven years as a member of the Board, the Board Risk Committee, Board Human Resources Remuneration and Nominations Committee and the Board Credit Committee. We wish him all the best in his future endeavours and thank him for successfully leading the Board during the height of the COVID-19 pandemic.

Outlook

The global outlook for 2022 is still uncertain and economists expect Botswana's real GDP growth to soften to 4.9% in 2022 as activity levels out following an initial rebound. This will be underpinned by recovery in key sectors such as mining, as the effects of the pandemic recede, and commodity prices rebound. However, the Bank still faces potential challenges ahead, such as the possibility of new COVID-19 variants, which could lead to the reinstatement of related restrictions as well as elevated inflation and the spillover from the Russia-Ukraine conflict. The latter is likely to have widespread repercussions across global markets and industries as it threatens global food security and energy supplies, and has already intensified inflation pressure. Despite these looming challenges, I am confident that although it may be a long road to full recovery, the Bank will continue to deliver on its strategic ambition, bringing possibilities to life.

Appreciation

I would like to thank our regulators, shareholders, fellow board members and other stakeholders for welcoming me to the Bank's Board this past year. My heartfelt gratitude to the Bank's management team and all employees for the support received as I joined the Board. In particular, I would like to extend my gratitude to the Managing Director, Ms Keabetswe Pheko-Moshagane, and the Bank's management team for their outstanding efforts in the execution of the Bank's strategy during these turbulent times. Further appreciation is conveyed to the Bank's employees, especially the frontline employees, across all our service points for the manner in which they kept customer service at the forefront of all we do. It would be remiss of myself were I not to make particular mention of our loyal customers, who have made the Bank what it is today. For this I thank them sincerely.

Our external environment and opportunities

Responding to trends is essential to remaining relevant and necessary to winning in the medium term

Economic momentum

Unpacking the context

The global economy plummeted into a deep recession in 2020 as the COVID-19 pandemic swept the globe, forcing economies into strict nationwide lockdowns. The pace of reform implementation across many countries slackened as policymakers focused on introducing measures to avoid severe economic deterioration. In 2021 most countries avoided strict lockdowns as many governments had exhausted fiscal space to provide further support and faced growing debt burdens. According to the International Monetary Fund ("IMF"), world output contracted by 3.1% in 2020 before recovering to an estimated 6.1% in 2021, albeit driven by base effects. 2021 saw several growth-supporting factors, including the development and rollout of several COVID-19 vaccines, improving economic activity due to relaxing social mobility restrictions, a rebound in commodity prices and a general pick up in exports following the release of pent-up demand in major economies. Global inflation is estimated to have increased from 3.2% in 2020 to 4.3% in 2021 on the back of improving global economic demand, rising commodity prices and base effects of 2020 lower inflation levels.

Sustaining sub-Saharan Africa's economic growth amid the need for fiscal consolidation to reduce debt vulnerabilities required a delicate balancing act in 2021. There were signs of recovery across the region despite countries continuing to grapple with the adverse effects of the COVID-19 pandemic and its containment measures. Several African countries focused on containing spending and increasing revenues to reduce vulnerabilities due to bloated fiscal deficits and growing debt burdens. Rising commodity prices, favourable weather conditions, multilateral and bilateral assistance, ample monetary and fiscal support, and a buoyant appetite for emerging markets debt bode well for the medium- to the longer-term growth outlook. Risks to sub-Saharan Africa's outlook included uncertainty regarding further waves of the virus, delays in vaccine rollout, difficulty in obtaining timely financial support, the commodity rally running out of steam, and substantial fiscal constraints. The The International Monetary Fund ("IMF") estimates that sub-Saharan Africa recovered from a 1.7% contraction in 2020 with a 4.5% growth in 2021.

Local economic review

The Government of Botswana rebased its national accounts data in 2021, resulting in 2020 real GDP growth revised to -8.7%. The Government also added new sectors to the national accounts, such as information and communication technology and diamond traders. The economy recovered by 11.4% in 2021 compared to a severe contraction of 8.7% in 2020. The higher growth rate was driven by base effects from a substantial contraction in 2020 and recovery across most sectors of the economy. The easing of COVID-19 containment measures allowed economic activity to resume boosting business sentiment and improving economic activity, including the resumption of global trade in diamonds. The mining and quarrying sector was one of the critical drivers of growth in 2021, recording an impressive growth of 29.9% following a contraction of 26.5% in 2020. Diamond Traders recorded a significant increase of 78% in 2021 as opposed to a decline of 36.7% recorded in the previous year. The construction sector expanded by 6.5% in 2021, rebounding from a contraction of 11.4% the previous year. This recovery was driven by the implementation of major infrastructural projects that had been delayed because of COVID-19 related containment measures.

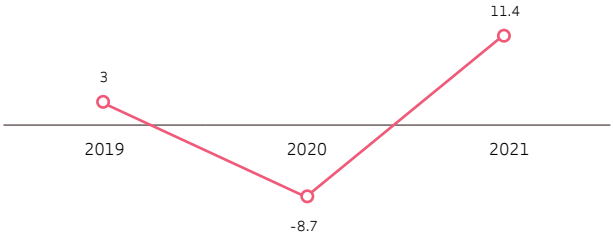
Inflation and monetary policy

Inflation increased significantly from an average of 1.9% in 2020 to 6.7% in 2021. Headline inflation breached the upper bound of the Central Bank's 3 to 6% target range from May 2021, reaching a 10-year high of 8.9% year-on-year in July 2021 and remaining above 8% for the rest of the year. The rise in inflation was underpinned by a modest recovery in domestic demand resulting from the easing of COVID-19 containment measures and upward changes in administered prices and levies/taxes. Despite inflation being above the target range since May 2021, the Monetary Policy Committee ("MPC") maintained the bank rate level at 3.75% due to the need to support economic recovery and its belief that the upward pressures were cost-push transitory factors that did not require policy tightening.

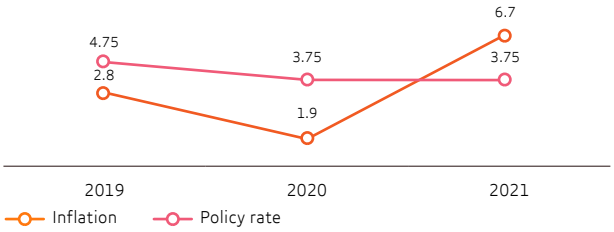
"The Government of Botswana rebased its national accounts data in 2021, resulting in 2020 real GDP growth revised to -8.7%. The Government also added new sectors to the national accounts, such as information and communication technology and diamond traders. The economy recovered by 11.4% in 2021 compared to a severe contraction of 8.7% in 2020."

Our external environment and opportunities continued

GDP (%)



Inflation and policy rate (%)



Source: Statistics Botswana, Bank of Botswana

Fiscal policy

Botswana's fiscal balance has deteriorated over time and remains under pressure. According to the 2022/23 Budget Speech, the fiscal deficit widened to 9.4% of GDP in 2020/2021. This deficit was driven by COVID-19-related spending on health care, social protection, and economic support, which rose against falling revenues from reduced external trade and economic activity. In 2021/2022, the deficit is projected to narrow to 5.1% on the expected increase in domestic revenues from higher economic activity. The Government continues to explore different financing options to fund the deficit, including domestic and external borrowing, foreign reserve drawdown, sale of assets (state-owned enterprises and Government's shareholdings), and Public-Private Partnerships (PPPs).

Impact on our business model

The strength and performance of the national, regional and global economies directly impact the Bank's medium- and short–term strategy and business performance, presenting opportunities and threats. We continue to ensure that our strategy is responsive to changes in the economic environment, enabling the Bank to ascend to new heights. Botswana has one of the highest COVID-19 vaccination rates in Sub Saharan Africa, with over 50% of the eligible population now fully vaccinated. We expect that the relatively high vaccination rate should further allow the Government to ease COVID-19 related restrictions over the remainder of 2022 and limit the pressure on the country's healthcare system. However, the slow implementation of reforms, rising inflation and unemployment, particularly youth unemployment, threaten our business model. Much remains to be done to limit the damage from the severe contraction and ensure a sustained recovery moving forward.

We expect Botswana's mining industry to rebound strongly from the pandemic driven by the rising commodity prices, improving macroeconomic outlook and Government efforts to encourage foreign investment, particularly in coal and copper projects. Diamonds will still dominate the mining industry over the medium term because of continued investment in the country 's flagship mines. The sector provides sizeable opportunities to Small and Medium Enterprises (SME) as some mining companies are now implementing the Citizen Economic Empowerment Programme with a view of giving locals opportunities in the mining value chain.

Botswana's construction sector rebounded significantly in 2021 and we expect this trend to continue in the outer years, underpinned by a normalization of activity in the market on the back of reduced COVID-19 restrictions. Infrastructure developments to support mining as well as improvements to the water and power supply will be the main drivers of the uptick in construction growth. Government's planning documents also reveal plans for several transport projects aimed at improving rail and road connections in the Southern Africa region. This is in line with the Government's development strategy for to focus on infrastructure expansion as a key way to boost social and economic development in the country.

Socio-political environment

Unpacking the context

Most politically stable in Africa

Botswana was ranked as the 45th least corrupt nation out of 180 countries by Transparency International in the 2021 Corruption Perceptions Index. With political stability and a welcoming attitude toward foreign investors, the country presents a favourable operating environment. Botswana's growth prospects continue to be clouded by the relatively high poverty and unemployment, particularly among the youth. We also continue to observe an increasing prevalence of drought in Southern Africa, which could result in an extended contraction in the country's Agricultural sector, negatively impacting jobs. We recognise that an inclusive financial sector has both an indirect and a direct impact on poverty alleviation, with links between financial sector development and more equitable growth, and the impact of broadening access to finance - especially to the poor, those in rural communities and women. In recognition of this, the Bank is the only bank with a physical presence in some of the remote areas in Botswana, such as Shakawe.

Our external environment and opportunities continued

Impact on our business model

We recognise that a socio-economic context charaterised by high levels of unemployment and other socio-economic challenges, is not conducive for sustainable business. We have therefore, aligned our strategy to support Government 's diversification agenda by continuing to support SMEs, which are crucial for Botswana's transformation and sustainable growth. The development and empowerment of youth is also a priority for Government, and this is evidenced by the allocation of 20% of all Government contracts for youth and women led businesses. This, combined with the financial and development support that youth owned businesses receive, provides a valuable opportunity for private sector to develop innovative products for the private sector that will enable these entities to become mature, employment creating businesses.

The country's rule of law, mature democracy and low levels of corruption by regional standards, provides investors with an assurance on the security of their investment. This environment presents a window of opportunity for the Bank as investors who come into the country seeking investment opportunities will require an array of financial services. Whilst there are challenges in the socio political enviroment that require a collective effort to adress, there equally are opportunites for participation of the banking sector. The Bank is revamping its youth value proposition to afford the youth tailor-made solutions. In addition, we have made a deliberate effort to assist the youth through our citizenship programme by introduction of our annual hackathon and incubation programme and availing our ReadytoWork platform, which offers youth entrepreneurial skills and finance education.

Environmental

Unpacking the context

Over recent years, the world, including Botswana, has witnessed the deterioration of the natural environment and shifts in climate, evidenced by increasing variability and intensity of rainfall leading to destructive flooding, soaring temperatures, wildfires, and biodiversity destruction. These drastically deteriorating circumstances compel the global community, inclusive of the private sector, civil society, and governments, to work together to develop innovative and impactful solutions that will ensure the sustainable development of our communities.

Agriculture plays a significant role in the livelihood of many Batswana. The need to improve agricultural production has heightened the supply chains by the COVID-19 pandemic and the current geopolitical situation. Furthermore, Botswana is home to the Okavango Delta, which the United Nations Educational, Scientific and Cultural Organisation ("UNESCO") included as a World Heritage Site in 2014. Botswana has significant and diverse wildlife populations, including the largest population of elephants, making it an attractive tourist destination. The tourism sector therefore,offers substantial growth potential and opportunities for the Bank.

Business expected to lead

The private sector's contribution to addressing the challenges of climate change is increasing in importance as holistic societal change is needed to slow climate change and reduce environmental degradation. The United Nations Environment Programme (UNEP) has clearly articulated the private sector's role in effectively controlling and managing the human impact on the natural environment. The "Strategy for Private Sector Engagement," states that whilst some progress has been made, land degradation, climate change, excessive production and use of plastic and loss of biodiversity continue to negatively impact communities across the world, increasing social inequality and poverty. The UNEP Private Sector Engagement Strategy (2019) highlights where the private sector can make meaningful contributions in this regard.

Impact on our business model

The Bank has actively embraced its responsibility toward the social and economic development of the communities where it operates, having put in place a robust and impactful strategy. We remain committed to being a force for good and are focused on developing innovative banking solutions that contribute to sustainable development and making positive contributions through our citizenship strategy. Our innovative products and services address financial inclusion and social inequalities. Combined with the work we are doing under our citizenship programme; this agenda will contribute in a measurable way to Botswana achieving the United Nations Sustainable Development Goals (SDGs).

Environmental conservation is also an essential pillar within our strategy, and over the years, the Bank has taken measured and deliberate steps to manage our impact on our physical environment. These interventions have ranged from incorporating energy and water-saving measures and recycling bins in our head office and corporate services building to encouraging our employees to participate in environmental conservation activities.

Furthermore, the Bank recognises the need to make a deliberate effort to support, both financially and technically, industries involved in renewable energy and waste management. The opportunities in both sectors are vast as the need to transition to a green economy becomes increasingly important for sustaining our planet.

Our external environment and opportunities continued

Competition and technological change

Unpacking the context

Changing business models and increased competition

COVID-19 has catalysed the evolution of banking, accelerated leading-edge technology and transformed how we interact with our customers and conduct business daily. Likewise, the increased availability of data, analytics and artificial intelligence ("AI"), the continued adoption of cloud computing, and new technologies are rapidly transforming banking operations.

Technology is a primary enabler in building a digitally powered business. It plays an essential role in driving our priorities to establish a winning, talented, and diverse team and becoming an active force for good in everything we do. Our competitive landscape is rapidly expanding, with many digital-only providers and other non-banking competitors.

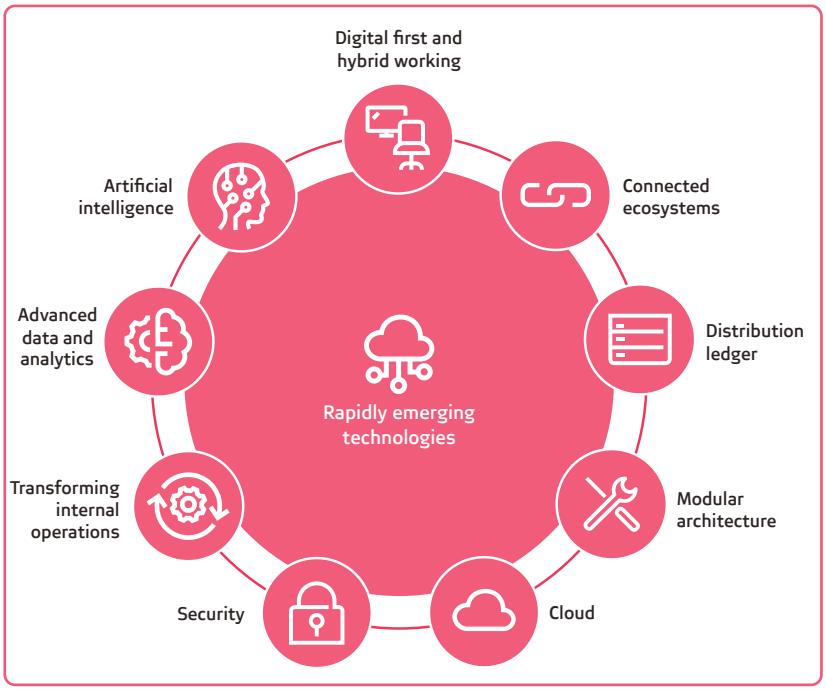
Our 2021 digital book of work comprised various projects, with 80% of the initiatives geared towards accelerating investment in digital transformation and partnerships and meeting regulatory and mandatory obligations.

Heightened risk

Although progress in digitisation is essential to remaining competitive, this evolution increases the risk of cyberattacks. This increased risk is due to sensitive data processed and stored by financial institutions and the crucial role banks play in payment and settlement systems.

The rise in financial technologies (Fintech), represents an opportunity to develop partnerships that grant access to capabilities to meet our customer needs while simultaneously bringing increased competition to the industry.

Of the many emerging technologies, the Bank is paying particular attention to those illustrated below:



"COVID-19 has catalysed the evolution of banking, accelerating the need to embrace leading-edge technology to transform how we interact with our customers and conduct business daily."

Our external environment and opportunities continued

Impact on our business model

A rapidly evolving competitive landscape, changing consumer demand, financial disintermediation and disruptive technologies have expedited the evolution of our business model to one that genuinely embraces digital technology. As a digitally powered bank, we choose to engage with/on platforms and ecosystems our customers prefer, continuously diversifying and strengthening our modes of service delivery. This approach enables us to deliver better products to customers, improve risk management and optimise profitability.

Protection against data leakage and other security breaches is essential due to the vital role banks play in payment and settlement systems, thus demanding additional resources be funnelled to this priority area. Moreover, globally, banks have noted the risk of insider threats as employees are targeted to access valuable information. Therefore, we continually work with our people to enhance their understanding of the risks involved and strengthen the systems that enable the Group to track anomalies and proactively investigate potential threats.

COVID-19 has accelerated the uptake of technology in both the private and public sectors. The Government has announced its objective to put several of their services online by the end of June 2022 and all services online by 2023/24. This will present opportunities for the bank to participate. Further, in line with the National Payment System (NPS) Vision and Strategy 2020 – 2024 and the shift towards the use of Electronic Fund Transfers (EFTs) and Point of Sale (PoS) transactions. The Government has announced that the use of cheques in Botswana will be discontinued, effective 1st January 2024 which is a welcome development for the banks. Digital transformation has become essential as a means to future-proofing the business and improving the customer experience, employee capabilities, operational efficiency, and ability to scale.

Changing world of work

Unpacking the context

Agility and adaptability required to meet needs

The COVID-19 pandemic has impacted how business is conducted across the globe. With the business landscape still in flux, business operations have had to remain fluid and adaptable to meet customer expectations while supporting employee wellbeing and productivity. The emerging norms of hybrid and remote-only working models evidence the dynamic nature of the pandemic-impacted workplace.

Battleground for talent

Within this already challenging context, the competition for talent has intensified, including in the banking sector. In view of this, we focused on further developing our leadership and succession pipeline. We have also amplified our efforts to build an enterprise-wide young talent proposition that identifies and accelerates the development of next-generation leaders.

Impact on our business model

The demand for scarce and critical skills within our digital transformation could affect the Bank's ability to sustain our business model. The Bank has made significant investments in developing technology skills and capabilities internally in the past three years. Over the period under review, we have been deliberate in upskilling both employees and leaders with the necessary knowledge and tools to enhance productivity, engagement, and inclusiveness in a virtual world.

We have continued with the hybrid working model adopted in the previous year. The health and well-being of employees has also been prioritised through through contracting the services of an in-house doctor and counselling services for the Bank's employees. These efforts have enhanced our employee value proposition and sets the Bank in a better position to retain talent.

Legal and regulatory changes

Unpacking the context

The increasing pace and evolving complexity of regulatory change and statutory requirements play a crucial role in the financial services sector. Regulatory change and statutory requirements are critical considerations in the Bank's strategy as they are an essential enabling pillar of performance. Over and above the continuous consideration and assessment of the legislative environment vis a vis strategy, the Bank remains a key contributor in the financial services industry. This role is exemplified in terms of submissions to the relevant authorities, individually, and through the Bankers Association of Botswana. Through these channels, the Bank contributes to the legislative processes related to regulations, directives, guidance notes, and conduct standards that help promote, drive and shape the financial services sector and the broader economy. In response to the pandemic, we also saw the Central Bank introduce policy changes, such as the allowance for banks to restructure credit agreements for borrowers affected by the pandemic without holding additional capital against those loans to protect financial market stability.

Our external environment and opportunities continued

Heightened financial regulation

Botswana's financial legislation was subjected to assessment and mutual evaluation by the Eastern and Southern Africa Anti-Money Laundering Group ("ESAAMLG") and Financial Action Task Force ("FATF"). Following recommendations by these bodies, several laws were introduced and re-enacted. The Virtual Assets Act came into effect, while the Financial Intelligence and Trust Property Control Acts were re-enacted.

Development of economic empowerment laws

Increased competition, technological change and disruptive business models have resulted in supervisory bodies introducing regulations to maintain global equilibrium and promote responsible banking, thereby protecting customers and banks alike. Recently, we have seen the development of new legislation to create a uniform, coordinated and integrated approach to economic transformation and empowerment by enacting the Economic Inclusion and Movable Property ("Security Interests") Acts.

Impact on our business model

The financial regulatory landscape in Botswana is rapidly evolving with the introduction of new laws and re-enactments of existing ones. The rapid pace of change necessitates a coordinated, comprehensive, and forward-thinking strategy to ensure compliance. The Bank continues to anticipate and respond to the evolving regulatory landscape by strengthening our regulatory compliance skills while evaluating the potential impact on our business. We see technology as a pivotal opportunity to streamline and simplify regulatory compliance, accommodating rapid change while enabling the Bank to provide more effective and secure services to our customers.

The following Acts were enacted in 2021 and came into effect in 2022.

- **Financial Intelligence Act:** The Financial Intelligence Act was first enacted in 2009 and re-enacted in 2021 with amendments to the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and Financial Action Task Force (FATF) recommendations. The re-enactment will ensure that the Act's provisions fully comply with the FATF standards.
- **Trust Property Control Act:** The Act, which provides for the registration of trusts, was re-enacted in 2022 to align it with the Financial Intelligence Act by providing for the registration of trust service providers, regulation of foreign trustees and extension of the date of lodgement of trust documents for validation.
- **Virtual Assets Act:** The Virtual Assets Act is a first of its kind in Botswana, seeking to regulate new and developing virtual assets businesses. The Act makes provisions for managing, mitigating and preventing money laundering and financing terrorism and proliferation risks associated with virtual assets and new emerging business practices and technologies.
- **Companies (Amendment) Act:** Amendments were done per FATF standards. The new provisions require the submission of documents which indicate powers that regulate and bind legal persons, such as a Constitution for all registered companies.
- **Movable Property (Security Interests) Act (On Notice):** The Act provides for the creation of security interests in movable property so as to contribute to economic development, promote the financing of trade and make security interest in movable property effective against third parties.
- **The Economic Inclusion Act:** The Economic Inclusion Act aims to promote citizen participation in the development and growth of the economy and to establish an Economic Empowerment Office (led by a Coordinator).

The legislative enactments are a welcome development as they facilitate a more robust know your customer ("KYC") framework, thus strengthening risk mitigation which should result in a safer banking and investment environment for our customers. In addition, the new legislation aimed at economic inclusion should notionally translate to the Bank being able to service more customers as they will be able to provide security in the form of moveable assets, which may have been previously deemed inappropriate to lend against.

Our stakeholders' needs and expectations

We recognise that the quality of our relationships with stakeholders impacts our ability to fulfil our purpose. Therefore, we measure the quality of our relationships through a range of mechanisms to ensure informed assessment.

Investor community

Profile

- 3 011 public shareholders holding 274 197 106 total shares, representing 32.18%
- 1 non-public shareholder holding 577 964 146 total shares, representing 67.82%
- Over 3000 shareholders, including the majority shareholder, being Absa Group Limited, retail investors, asset managers, pension funds, corporate holdings, and minority shareholders
- Investment analysts
- Prospective investors.

Needs and expectations

- Strong operational performance, including efficiency, revenue growth and returns
- Maintaining a well-capitalised balance sheet (strong capital and liquidity positions)
- Adequate, sustainable shareholder returns
- Sound risk management
- Transparent reporting and disclosures and effective communication
- Sound ESG practices.

Strategic response/value proposition.

We effectively manage risk and create sustainable returns through the following actions:

- Ensuring the Bank is a well-diversified entity, both by revenue streams and reach
- Defending the Bank's market share
- Offering improving shareholder returns and a rising dividend pay-out ratio
- Delivering a solid balance sheet – strong capital and liquidity levels.

Measuring performance

- ▲ P1.6 billion revenue (2020: P1.6 billion)
- ▲ 20.5% return on equity (2020: 13.0%)
- ▼ 0.5% credit loss ratio (2020: 1.8%)
- ▼ 55% cost-to-income ratio (2020: 60%)
- ▲ Final dividend of 27.69 thebe per share declared (2020: 26.4 thebe per share)
- ▲ Total of 309 trades at a total value of P78.1million in 2021
- ▲ All shareholder resolutions passed at the Annual General Meeting.

Quality of relationship

Poor  Strong

Our stakeholders needs and expectations continued

Employees

Profile

- 1 069 employees
- 70.5% women and 29.5% men
- 49% below the age of 40
- 37% below the age of 50
- 14% above the age of 50.

Needs and expectations

- An ethical workplace with opportunities to contribute to society and one that is supportive of environmental and social sustainability
- A diverse, inclusive and supportive workplace where all employees are treated equitably without bias, job security, strong leadership and change management
- Dynamic working hours and workspaces
- Fair pay and terms of employment with market-related reward and benefits
- Training, development and career opportunities
- A safe workplace.

Strategic response/value proposition.

We create an environment where employees can fulfil their potential and deliver excellence to our customers through the following:

- Creating differentiated experiences and inspiring a diverse and inclusive workforce
- Attracting and retaining the best talent
- Encouraging self-led development and opportunities for career progression
- Delivering performance-based reward and recognition
- Providing a comprehensive wellness programme and supporting different ways of work.

Measuring performance

- ▲ 76% response rate for employee experience survey (2020: 73%)
- ▲ 71.1% engaged employees (2020: 69.6%)
- ▼ 5% permanent employee turnover rate (2020: 8.6%)
- ▼ 95.6% retention of high-performing employees (2020: 96.5%)
- ▲ 45% of women in senior management (2020:44%)
- ▲ P5.2 million invested in training and development (85% of employees participated).

Quality of relationship

Poor  Very strong

Our stakeholders needs and expectations continued

Society

Profile

- Individual citizens
- Communities
- Civil society organisations
- Non-Governmental organisations
- Media
- Suppliers.

Needs and expectations

Meaningful contribution towards scalable and innovative solutions that address societal and economic challenges. This includes supporting the post-COVID-19 pandemic recovery efforts as articulated in the following guiding frameworks:

- The national development plans, including transformation
- The UN Sustainable Development Goals
- Global Environmental Social Governance (ESG) frameworks.

Strategic response/value proposition.

We actively contribute towards helping create inclusive, sustainable economic growth aimed at positively impacting the communities we operate in, through the following actions:

- Providing products and services with a positive social impact
- Supporting inclusive growth by supporting national development objectives and policies
- Preparing young people for the future of work
- Advancing financial literacy and inclusion
- Supporting an inclusive and responsible supply chain. Generating and distributing economic value.

Measuring performance

- ▲ P2.2 million in citizenship disbursement (2020: P2.2 million)
- ▲ 10 610 financial education participants (2020: 4 000).

Quality of relationship

Poor  Strong

Our stakeholders needs and expectations continued

Customers

Profile

- Individuals: entry-level to high net-worth, across all ages
- Businesses: sole proprietors; small and medium enterprises; large corporates and multinationals
- Public sector: local authorities and state-owned enterprises
- Various other legal entities such as development finance institutions, other financial institutions, trusts, non-Governmental entities, and associations.

Needs and expectations

- Cost-effective, convenient, and innovative financial services
- Credible brand, trustworthy relationship, and safety and protection against fraud encompassing physical and data security
- Responsible banking with transparent pricing
- Excellent customer service and advice
- System reliability and ability to transact through their chosen platform
- Best practice safety measures for customer wellbeing.
- Financial system stability.

Strategic response/value proposition.

We deliver innovative technologies and propositions to help our customers bring their possibilities to life through the following actions:

- Improving access to financial services and local, regional, and global markets
- Deepening relationships with customers through a life-stage/ecosystem approach
- Providing an extensive and accessible network combining physical outlets, call centres, digital platforms, and strategic partners.
- Protecting data privacy and ensuring cybersecurity through robust technology and data management.

Measuring performance

- ▲ 83% Retail Treating Customers Fairly score (2020: 82%)
- ▲ 77% Business Banking Treating Customers Fairly score (2020: 76%)
- ▼ 88% CIB Treating Customers Fairly score (2020: 90%)
- ▲ 77% Retail customer experience index (2020: 71%)
- ▼ 63% Business Banking customer experience index (2020: 65%)
- ▲ 77% CIB customer experience (2020: 64%)
- ▲ 21% NPS Retail (2020: 17%)
- = -1% NPS Business Banking (2020: -1%)
- ▲ 15% NPS CIB (2020: -6%).

Quality of relationship

Our stakeholders needs and expectations continued

Regulators

Profile

- Bank of Botswana (Central Bank): regulatory compliance/ supervision/ approvals/ notifications and directives
- Botswana Stock Exchange (BSE): adhere to listing requirements
- Financial Intelligence Agency (FIA): reporting suspicious activities and transaction monitoring
- Non-Bank Financial Institutions Regulatory Authority ("NBFIRA"): subsidiary businesses, being Absa Insurance Services and Absa Securities Botswana
- Botswana Accountancy Oversight Authority (BAOA): Accounting and auditing services oversight. Promotes standard, quality and credibility in the provision of financial information
- Botswana Gambling Authority: Regulates all promotional and reward campaigns across products, mostly in our Retail business.

Needs and expectations

- Compliance with all relevant laws and regulations
- Financial system stability spanning financial soundness to fair treatment of customers
- A business responsive to regulatory change
- An ethical work environment.
- Contribution to governmental development plans and national priorities as well as to the fiscus through fair tax payments.

Strategic response/value proposition

We support the creation of an environment that facilitates sustainable growth for all. We do this by working with regulators and providing input into policymaking and the development of regulations.

- Comprehensive regulatory change management programme
- Facilitating responsible banking by ensuring appropriate due diligence is followed.

Measuring performance

- ▼ 13.7% common tier 1 equity ratio (2020: 13.8%) remains within the Board target range and above minimum regulatory requirements
- ▼ 207.9% liquidity coverage ratio (2020: 234.7%) remains above regulatory requirements
- ▼ 107.9% net stable funding ratio (2020: 118%) remains above regulatory requirements
- ▲ 98.2% of employees completed preventing financial crime training (2020: 92%)
- ▲ 95.8% of employees completed the Absa Way Code of Ethics training in 2021.

Quality of relationship

Poor  Strong

Our stakeholders needs and expectations continued

Planet

Profile

The natural resources upon which we, our stakeholders and future generations depend.

Needs and expectations

- Comprehensive climate change response, increased transparency in risk management and sustainability-related policies and standards
- Proactive management of the environmental and societal impacts of our business to encompass lending practices and our operational footprint
- Mobilising funds to support the just transition to a low-carbon economy and support for other environmental priorities such as a circular economy and responsible consumption.

Strategic response/value proposition

We seek to address climate change and play an active role in minimising pressure on nature's resources through the following actions:

- Supporting customers in responsible consumption and the transition to a low-carbon economy
- Advancing our environmental and social risk management practices and capabilities in climate risk management
- Minimising our direct environmental impacts.

Measuring performance

- Introduction of water and power saving mechanisms
- Planted over 700 fruit trees in the community for environmental and social impact
- P2.3 billion housing loan book.

Quality of relationship

Needs improvement  Strong

Our risk landscape and material matters

"The Bank actively identifies and assesses risks arising from internal and external environments, including emerging risks. These risks are managed as part of the business model, through alignment of the risk appetite to changes in the operating environment."

This approach embeds a risk- awareness culture at all levels in the Bank, proactively and improving our risk management capabilities. Overall, prioritisation of material and/or emerging risks is determined by using a severity and likelihood assessments matrix. Key risks identified are assessed using the set criteria of severity of impact and likelihood of occurring. Priority of each risk identified is classified based on the intersection of the severity and likelihood, and is classified accordingly based on critical, major, and limited impact. The risks under the critical assessment would be considered material to the bank.

Risk management priorities

Over the period under review, the Bank's risk priorities incorporated the following:

- Maintaining a focus on operational resilience and proactively identifying and mitigating internal and external risks arising from the COVID-19 pandemic and heightened global geopolitical risk
- Maintaining a diversified credit portfolio in key concentration dimensions
- Aligning risk objectives to support our customers efficiently, responsibly, and sustainably
- Improving control, efficiency, and operational resilience across critical processes in the Bank
- Engaging regulatory authorities and other stakeholders on upcoming regulatory changes ensures the most appropriate outcomes for the banking sector and the broader economy
- The Bank's operating environment is expected to continue to improve. However, robust liquidity management and capital efficiency remain a priority until 2022.

Risk management approach

Our risk management approach ensures consistent and effective risk management within a risk appetite approved by the Bank's Board of Directors while providing accountability and oversight. To evaluate, respond to, and monitor risks, the Bank uses a comprehensive process that includes identifying and assessing the risk, choosing an appropriate response, and tracking the success of the reaction and the resulting changes in the risk profile.

Evaluate

Identify and assess the potential risks.

Respond

The appropriate risk response ensures the risks are managed within appetite.

This includes:

- Risk mitigation;
- Risk Transfer; and
- Ceasing activities

Monitor

Ensure that risk profiles remain within agreed appetite level.

Our risk landscape and material matters continued

The Enterprise Risk Management Framework (ERMF)

The Bank's core purpose, risks and opportunities, strategy, business model, performance, and sustainable development are all inseparable elements of the value creation process and critical to long-term success.

The ERMF sets the strategic approach for risk management by defining objectives, standards and responsibilities for all areas of the Bank. It supports senior management in effective risk management and strong risk culture. The Bank's Board then approves it on the recommendation of the Chief Risk Officer.

The ERMF outlines the following:

- The need for segregation of duties by defining the three lines of defence
- Identifying the principal risks faced by the Bank
- Risk appetite requirements, which define the level of risk the Bank is willing to undertake in pursuance of its strategic objectives
- The roles and responsibilities of risk management.

The ERMF is realised through the policies and standards, which are then aligned to individual principal risks. The ERMF identifies 12 principal risks and sets out associated responsibilities and expectations around risk management standards.

Risk strategy and appetite

The strategy is set within the parameters of an agreed risk appetite. The risk strategy is developed alongside the Group's strategy. The risk appetite defines the nature and amount of the risk the Group is willing to take to achieve strategic objectives.

Risk strategy and appetite

The Bank's approach to managing risks is outlined in the Enterprise Risk Management Framework (ERMF). The following foundations underpin the ERMF.

1. A robust and consistent governance structure at Group, country and business level
2. Well defined material risk categories known as principal risks.
3. A "three lines of defence" model with clear accountability for overseeing and managing risk.
4. A comprehensive process to evaluate, respond to and monitor risks.
5. A robust risk operating model which provides clear roles and responsibilities.

12 Principal risks

Financial
Credit
Traded market
Treasury
Insurance
Business model

Non-financial
Operational
Conduct
Resilience
Financial crime
Reputational
Sustainability

Risk operating model

The Group applies a "three lines of defense" model to govern risk across all businesses and functions.

1st line: Process and control owners in customer facing segments and Group functions who are responsible for managing end to end risks and controls in their businesses.

2nd line: Independent risk, compliance, legal and control functions who formulate risk and control policies and review the 1st line adherence to these.

3rd line: Internal audit function tests and reviews controls to determine that the 1st and 2nd lines execute their responsibilities effectively and consistently.

Combined assurance

Evaluate, respond, monitor

Evaluate Individuals, teams and departments, including those responsible for delivering the objective under review, identify and assess potential risks.

Respond The appropriate risk response ensures that the risks are managed within the risk appetite. These include: risk mitigation, risk transfer and creating certain activities.

Monitor Ensure that risk profiles remain within agreed appetite levels, verify that controls are working as intended, and challenge or promote re-evaluation of the risks.

Our risk landscape and material matters continued

Principle Risks	Definition
Credit risk	The risk of suffering financial loss due to a borrower, counterparty to a derivative transaction, or an issuer of debt securities defaulting on it contractual obligations.
Market risk	The risk of Absa Bank Botswana's earnings or capital being adversely impacted due to changes in the level or volatility of prices affecting the positions in its active trading activities across the Bank.
Capital and liquidity risk	The risk and related constraints, which supports the effective management of the Bank's strategic objectives. This includes pension risk as a risk in the event that a capital injection is required with respect to defines benefit plans.
Insurance risk	The risk that future claims, expenses, policyholder behavior and investment returns will be adversely different from the allowances made in measuring policyholder liabilities and in product pricing.
Model risk	The risk of the potential adverse consequences from financial assessments or decisions based on incorrect or misused model outputs and reports.
Operational and resilience risk	The risk of loss due to failure in our processes, people and systems or from external events.
Compliance, conduct and financial crime risk	The risk of failure to comply with any legal or regulatory obligations including failure to act in accordance with customers best interest, fair market practices, and codes of conduct, and failure to mitigate financial crime.
Strategic and sustainability risk	The risk of losses arising from potential changes in the general business conditions and competitive market environment, driven by sustainability and reputational factors

Risk appetite

Risk appetite defines the level of risk we are prepared to accept across the different risk types, considering varying levels of financial and operational stress.

Risk appetite is key to our decision-making processes, including ongoing business planning and strategy setting, new product approvals and business change initiatives.

The Bank sets its risk appetite in terms of performance metrics and a set of mandate and scale limits to monitor risks. In 2021, the Bank's performance remained within its risk appetite limits.

A risk appetite framework is a crucial tool linking the Bank's strategy, capital allocation, and risk management. The risk appetite is translated into targets and limits for the business lines. It establishes the roles and responsibilities of the Board and senior management in formulating the risk-appetite statement.

Three lines of defence

The first line of defence comprises the revenue-generating and client-facing areas and all associated support functions, including Finance, Treasury, Human Resources, Operations, and Technology. The first line identifies the risks, sets the controls, and escalates risk events to the second line of defence.

The second line of defence is Risk and Compliance and oversees the first line by setting limits, rules, and constraints on their operations, consistent with the risk appetite.

The third line of defence is Internal Audit, providing independent assurance to the Board and Executive Management Committee on the effectiveness of governance, risk management and control over current, systemic, and evolving risks.

Our risk landscape and material matters continued

Although the Legal function does not sit in any of the three lines, it works to support all functions and plays a key role in overseeing legal risk in the Bank. The Legal function is also subject to oversight from the Risk and Compliance functions (second line) with respect to the management of operational and conduct risks.

1st line:
Process and control owners responsible for managing end-to-end risks and controls in their businesses.

2nd line:
Risk and compliance and overseas the first line by setting limits, rules and constraints on their operations.

3rd line:
Internal audit function test, adequacy and sufficiency of controls.

Risk management overview

The current risks noted below are considered material and are those to which the Bank pays particular attention and which could cause the delivery of the Bank's strategy, operating results, financial condition and/or prospects to differ materially from expectations.

Emerging risks are those which have largely unknown components, the impact of which could crystallise over a longer time horizon. These could currently be considered immaterial but over time may individually or cumulatively affect the Bank's strategy and cause the same outcomes as material risks.

Current and emerging risks	Management's response
COVID-19: **Resilience and operational risk**	
• Risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. ● **Critical**	Approved response plan, including the following interventions: • Established a COVID-19 task team to monitor escalation of the virus and continue to review our plans daily to assess organisational preparedness and implement the various response tactics • Implemented a communication plan targeting different stakeholder Groups to create awareness of the pandemic, apprise stakeholders of our interventions and encourage customers to use alternative digital service platforms • Through the response plan, allocated teams to the Bank's main sites and the disaster recovery sites, while some teams work remotely. To enhance hygiene protocols, the Bank: • Provided hand sanitisers at all branches, offices, and all ATMs • Implemented a safe distancing rule for ATMs and branch queues • Increased the frequency and intensity of cleaning the Bank's premises • Procured protective wear for all employees, particularly frontline teams to enhance protection. During the phased relaxation of the COVID-19 lockdown, the Bank: • Maintained and increased hygiene, protective equipment, and social distancing protocols at all its premises, including ATMs • Introduced temperature screening for employees and customers and registration of visitor data • Implemented a staggered return-to-work process, with a view to maintain flexible work from home policy for employees.

Our risk landscape and material matters continued

Current and emerging risks	Management's response
Global recovery with economic uncertainty: **Business, credit, model and market risk**	
• Recovery of economic activity remains under pressure from further variants and waves of infections and is impacted by the disparate sovereign responses and COVID-19 vaccine rollouts and uptake • Increasing global inflation will affect growth and economic recovery • Global and domestic fiscal policy tightening resulting in increased global economic pressure and risk aversion to emerging markets and Botswana in particular. **Critical**	• Maintain a dynamic approach to risk appetite setting in response to the outlook for 2022 and beyond • Use stress scenarios to evaluate the potential outcomes of a variety of internal and external factors. On an ongoing basis, management develops mitigating actions and assesses their effectiveness to guide decision making • Monitor and manage risk reduction strategies and downside risk presented by the uncertainty in the outlook where the economic recovery is likely to be unstable.
Heightened resilience, fraud, people and cyber risks are expected for the foreseeable future: **Cyber and fraud risk**	
• Heightened fraud and security risks arising from economic pressure • Increasing opportunistic financial crime and cybercrime, combined with rising sophistication of criminal activity, impacting customers and the bank • Increasing exposure to potential data leaks arising from third- and fourth-party suppliers • Heightened risk to employee wellness from the pandemic and a prolonged work from home situation. **Critical**	• Maintain focus on operational resilience and proactively identify and mitigate risks • Maintain high stability of the technology estate to minimise incidents impacting customers and operational effectiveness • Continue to invest in security platforms and further strengthen controls to secure customer information including investments in technology, data capability (including external intelligence), customer awareness campaigns and industry collaboration • Enhance due diligence performed on third party suppliers through ongoing review and monitoring of controls • Monitor and manage the impact on employees through an expanded bank's wellness programme and supporting employees in the evolution of working environments.
Increased compliance risk due to new and emerging regulations and oversight: **Conduct and compliance risk**	
• Increasing pace and evolving complexity of regulatory and statutory requirements across the bank's market on the current business model. • Potential long-term impact on business strategy and bank performance from regulatory change. **Major**	• Maintain a forward-looking approach to evaluate, respond to and monitor regulatory and statutory change • Engage with regulatory authorities and other stakeholders on upcoming regulatory changes, to ensure the most appropriate outcomes for the banking sector and broader economy • Instil a culture of sound regulatory compliance across the bank • Develop systems with the agility to accommodate rapid change • Understand the impact of future requirements on our current business model and practices, and proactively make necessary changes.

Our risk landscape and material matters continued

Current and emerging risks	Management's response
Strategic, execution and business risks arising from internal and external drivers: **Business and conduct risk**	
• Global uncertainty arising from international relations and other market drivers result in increased pressure on emerging markets • Adverse changes in the economic and social environment impact the execution of the business strategy and increased business risk • Disruption through changing customer preferences and competitor offerings. **Major**	• Monitor and manage risk strategy and risk appetite based on the ongoing evaluation of the global and regional developments to identify and mitigate risks as they arise, including re-evaluating credit policies and operational and resilience processes while enabling the business to pursue selective strategic opportunities • Ongoing alignment of risk objectives with the strategy to support our customers and communities efficiently, responsibly and sustainably • Actively engage government, communities and customers to support initiatives to address economic hardship • Ensure sufficient investment to continue delivering scalable digital solutions that focus on current and evolving customer needs.
Environmental and social risks impact the Bank, our customers and the operating environment: **Sustainability and conduct risk**	
• Adverse impact of ongoing and rapid climate and social change on communities and customers will sharply heighten the Bank's credit and insurance risks • Evolving complexities in managing social trends and the societies and political environments in which the Bank operates. **Limited**	• Implement the United Nations Environmental Programme Finance Initiative Principles for Responsible Banking (UNEP FI PRB) and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) • Embed processes to encourage customers to adopt business strategies and practices aligned with the bank's sustainability policy • Enhance credit and insurance risk models to assess the impact of climate change risk • Regularly assess the suitability and strategic alignment of products and customer value propositions with changing environmental and social factors and the impact on the bank's risk profile • Maintain focus on the financial inclusivity of customers, including the ongoing support of small to -medium enterprises.

Outlook

In 2022,the risk landscape is charecterised by strong headwinds following an increasingly inflationary environment and lower GDP growth both globally and locally due to the continued supply chain challenges and the geopolitical crisis in Russia and Ukraine. However, we will continue to adopt a proactive approach to risk and capital management that has served the Bank well over the last two years. Within the risk management context, we will also examine the opportunities presented to the Bank amidst the challenges faced. With this mindset, we will continue to view our critical processes through a risk lens to ensure it fully supports the delivery of the Bank's strategy. Secondly, automation of manual processes will be paramount to improve the overall risk profile to enhance the customer experience downstream.

Strategic overview

Our parent company, Absa Group Limited, sets the strategic direction of its subsidiaries, including Absa Bank Botswana to enable the Group to fulfill its purpose of bringing possibilities to life. At the Group level a deep-dive strategy review process is undertaken annually. Absa Bank Botswana uses the strategic framework provided by our parent company to form a relevant and appropriate country specific strategic response.

Our agile and responsive strategic journey:

1. 2018 Group guidance

Strong growth focus with sustained high returns

African organisation with globally scalable platforms

Client-focused operating model

Culture of entrepreneurship, autonomy and ownership

Digital bank

Active force for good in society

Growth via acquisitions, and disposal of non-core assets

2. 2018 – Separation from Barclays PLC

We embarked on a journey to define a new strategy, a new identity and a new direction and purpose.

3. 2020 – Onset of COVID-19 pandemic

A strategy deep dive was carried out in 2020 to direct how the Bank responded to the various impact of the COVID-19 pandemic, resulting in sustaining the business in the past two years.

4. 2021 – Recovery

The Bank refreshed its strategy in 2021, which focused on the business recovery post COVID-19. Our strategy is anchored on exceptional customer experience and building lasting legacies and underpinned by the following pillars:

- Pursue growth selectively and defending market share
- Accelerating a digital first business
- Lead with purpose, focusing on customer, client and community
- Build our entrepreneurial culture and create a workforce for the future
- Protect returns, focusing on capital usage and costs.

Refer to pages 37-38

Accelerating momentum into 2022

October 2021 Group guidance, re-anchored:

A diversified franchise with deliberate market-leading growth

A leading African bank bringing possibilities to life

The primary partner for our clients

A winning, talented and diverse team

A digitally powered business

An active force for good in everything we do

Sustainable capital allocations and risk-adjusted returns

Refer to page 41

Despite this changing environment, through our strategic review process, it became clear that a fundamental shift in the Group strategic direction was not required, but rather, a refresh of the tenets within the Group's 2018 strategy. In this way, we could build on our success and momentum, learning from the last three years, while adapting our strategy based on the changing internal and external environment. As a result, the Bank has re-anchored and refreshed its 2021 strategy, reflected in a revised set of strategic choices to accelerate momentum into 2022.

Strategic themes 2021

Pursue growth selectively and defending market share

We were purposeful about where we compete, identifying segment, product and chosen sectors. We allocated our capital sustainably and managed risk appropriately. Our priority actions were to:

RBB

- Emphasis on the rollout of capital-light products to improve profitability
- Deliver innovative propositions for the SME, youth and entry-level segments
- Continue to strengthen our core middle market and retail-affluent propositions
- Pursue opportunities in agriculture and enterprise supply chain development programme.

CIB

- Continue building outreach through corridor model across the international markets
- Expand our reach and product offering.

Material matters

- COVID-19
- Global recovery with economic uncertainty capitals
- Strategic execution and business risks arising from internal and external drivers
- Environmental and social risks impact the bank, our customers and the operating environment.

Capitals

Accelerating a digital first business

We aimed to be a digitally powered business with superior digital experience, use data as a strategic asset, improve trust and security and function as a nimble bank. To this end we undertook the following actions:

- Accelerate digitalisation to improve customer adoption and experience
- Create seamless end-to-end client and colleague journeys
- Drive digital adoption and sales across our client base
- Leverage digital to launch new transformational products - unlocking new business models and revenue streams
- Implement straight through processing for key processes.

Material matters

- COVID-19
- Heightened resilience, fraud, people and cyber risks
- Increased compliance risk due to new and emerging regulations and oversight.

Capitals

> *"We aimed to be a digitally powered business with superior digital experience, use data as a strategic asset, improve trust and security and function as a nimble bank."*

Strategic themes 2021 continued

Build our entrepreneurial culture and create a workforce for the future

We embarked on a journey of building a winning team by developing a competitive advantage through our culture, attracting and being a home for Botswana's leading talent, organising distributed leadership around our clients and supporting and enabling our people. Specifically, we undertook the following:

- Started the process of realigning our workforce to be future fit to support mobility and agility
- Refreshed employee value proposition for competitiveness and alignment to new ways of working
- Created a conducive environment for entrepreneurial culture, collaboration, creativity, and innovation
- Reassessed our compensation and reward frameworks.

Material matters

- COVID-19
- Global recovery with economic uncertainty capitals
- Strategic execution and business risks arising from internal and external drivers
- Environmental and social risks impact the bank, our customers and the operating environment.

Capitals

Lead with purpose, focusing on customer, client and community

Our aim was to be the primary partner for our customers and clients by truly understanding and satisfying their day-to-day needs, creating and delivering value across the entire client relationship, and building a brand that instils pride in our people and clients alike. We contributed to the communities that we operate in through our citizenship agenda. Our priorities were as follows:

- Scale our Corporate Social Investment (CSI) programmes in the society
- Grow inclusive financial products and services for individuals and SMEs
- Relationship led banking at all levels
- Continue to drive more customer/client convenience through digital systems
- Apply the customer lens across the organisation to transform our service culture
- Re-affirmed our purpose and role in society to embed our new brand
- Maintained and develop regulatory relationships to actively shape the environment.

Material matters

- COVID-19
- Environmental and social risks impact the Group, our customers and the operating environment.

Capitals

Protect returns, focusing on capital usage and costs

Despite the challenges in our business environment, we have protected our returns and shareholder value by preserving capital and liquidity and protecting our balance sheet achieving:

- Solid revenue growth of 5% year-on-year.
- Cost-to-income ratio of 55% compared to 60% in the prior year.
- Credit loses declined by 70%, demonstrating our prudent management of the loan book during turbulent times.
- 81% year-on-year growth in our Profit Before Tax.
- Capital and liquidity ratios that are well above both internal limits as well as regulatory limits of 12.5% and 10% respectively.

Material matters

- COVID-19
- Global recovery with economic uncertainty capitals
- Strategic execution and business risks arising from internal and external drivers
- Environmental and social risks impact the bank, our customers and the operating environment.

Capitals

Strategic scorecard 2021

Some of the metrics used in measuring strategic success and qualitative indicators of success are discussed below:

Pursue growth selectively and defending market share
Protect returns, focusing on capital usage and costs

KPIs:
- Revenue growth
- Non-interest revenue and as a percentage of total income
- Return on equity
- Cost-to-income ratio
- Net capital creation
- Tier 1 Capital (%).

Results:
- Double digit fee income growth across all segments
- Pre-provision profit recovered materially to pre-pandemic levels
- Cost-to-income ratio reduced by 4% driven by benefits from the voluntary separation carried out in prior year and containment of costs
- Delivered a return on equity that was above the cost of equity
- Strong returns were delivered while strengthening our capital ratios, with capital and liquidity ratios closing the year above the board target range and regulatory requirements.

Accelerating a digital first business

KPIs:
- Customer experience including net promoter score
- Customer numbers and primacy
- Product holdings.

Results:

Overall good progress achieved
- Significantly increased focus on converting customers at the point of acquisition
- Improved CIB complaints turnaround time from 17 days in 2020 to under 5 days in 2021 and first-day resolution of RBB complaints from 81% to 85%
- Increased digitally active customers by 7.2%
- Continued focus on digital adoption
- Launched Spark by Absa digital wallet and agency banking.

Lead with purpose, focusing on customer, client and community

KPIs:
- Customer numbers and primacy.
- Product holdings.
- Transformation, diversity and inclusion.
- Management control approach.
- Control environment.

Results:

Overall good progress achieved
- Progressed customer metrics despite challenges arising from COVID-19 waves and new variants. Customer numbers increased year-on-year
- Customers voted us as Botswana's Best Service Provider in the banking sector through the Chartered Institute of Customer Management
- Exceeded CIB new-to-bank client onboarding targets
- Launched our inaugural hackathon and incubation program
- Colleagues planted over 700 trees to combat climate change in partnership with Green Trust Botswana and Ministry of Forestry
- Reached over 10,000 youth and trained them on financial education through our digital learning platform ReadytoWork
- Improved management control approach and control environment.

Strategic scorecard 2021 continued

Build our entrepreneurial culture and create a workforce for the future

KPIs:	Results:
• Colleague experience survey.	**Overall good progress achieved** • Showed positive year-on-year participation and improving results in our colleague experience survey • Increased level of survey participation indicates increased ownership and accountability by management and buy-in by employees • Adopted our new methodology for reporting, tracking, and diagnosing culture • Employee on-line training through Udemy to enable acquisition of future fit skills • Continued heightened utilisation of employee wellness benefits on COVID-19 related matters. These include vaccination leave, medical attention by an inhouse doctor, counselling to dealing with loss, death and bereavement.

2022 Strategy

Diversify revenue streams with deliberate transactional led growth

Retail
- Introduction of new products to build scale on fee income generation
- Innovative payment solutions, ensuring reliability and availability of our channels.

Business Banking
- Focus on agriculture in line with micro market-based insights
- Diversify our Enterprise Supply Chain Development ("ESD") program.

Corporate
- Launch of new products
- Prioritise environmental, social and governance (ESG) capabilities.

Primary partner of our clients focusing on creating value across the entire client relationship

- Relationship led banking at all levels
- Continue to drive more customer/client convenience through digital systems (transactional banking / digital lending)
- Customer lens across the organisation to transform our service culture
- Re-affirm our purpose and role in society to embed our new brand.

A digitally powered business with end-to-end consistent and seamless experience for our clients and colleagues

- Digital ecosystem and partnerships
- Accelerate digitisation and reconfigure it to improve customer adoption and experience
- Aim to be a digital and data led bank
- Drive self-service as a channel for fresh value streams.

Building a winning talented diverse team through distributed leadership

- Realign workforce to be future fit
- Create conducive environment for entrepreneurial culture, collaboration, creativity and innovation
- Refresh employee value propositions for competitiveness and alignment to new ways of working.

An active force for good in everything we do

- Introduction of sustainable finance products
- Proactively incorporate climate change into our business
- Advance inclusive financing focus
- Education and Skills Development by preparing the youth for the workplace of the future.
- Promote a Just Society by promoting efforts to deepen democracy, accountability and the effectiveness of public institutions
- Ensure a resilient and robust control environment.

Enablers: Technology and Brand

Measuring strategic success

By successfully delivering on our strategy, we will defend our market share while efficiently generating returns in line with the market over the medium term:

- **Growth** - use strong internal capital generation combined with improved primacy to grow in our chosen sectors
- **Returns** - maintain our returns above cost of equity and target return on equity of 17-20% over the medium term
- **Efficiency** - capture value through improved operating efficiency to create scope for investment in digital and new ways of work. Target a cost-to-income ratio in the low 50s over the medium term
- **Capital** - sustainably inside the Board target range and above regulatory limit. Return excess capital (beyond our growth aspiration) to shareholders to optimise returns.

Delivering possibilities and creating value

Keabetswe Pheko-Moshagane
Managing Director

> ***As a bank, we navigated the challenges of the COVID-19 pandemic commendably and defended our market share, producing a solid set of results.***

Managing Director's report

81% **Profit before tax** (2020: P364 million)	**55%** **Cost-to-income ratio** (2020: 60%)
5% **Balance sheet growth** (2020: P20.6 billion)	**7%** **Advances to customers** (2020: P13.9 billion)

Context

2021 was another challenging year; however, the Bank demonstrated agility throughout, embracing the changes brought on by COVID-19 and finding ways to survive and thrive amid the constant change. Our determination to strive for excellence remained as we continued to be a part of Botswana's growth story by supporting our customers, country, and the communities in which we operate while creating value for our shareholders.

Since the COVID-19 pandemic began, our employee safety and wellbeing have remained a top priority, underpinned by fundamental principles of compassion and empathy. We were also compelled to develop and evolve how we serve our customers as we stringently adhered to COVID-19 health and safety protocols throughout our operational network. As highlighted in the Board Chairman's report, we were not exempt from the harsh impact of COVID-19, with 587 infections from the beginning of the pandemic to December 2021. In response to the surge in infections, we encouraged employees to get vaccinated. To support this initiative, we introduced vaccine and booster dose leave, allowing employees to recover from any potential vaccine side effects. We also onboarded an in-house doctor to provide employees with medical support and guidance during these trying times.

Despite these efforts, it is with sadness that I report that we lost five of our colleagues over the last year due to the COVID-19 related illness, and my sincere condolences and sympathies go out to all who have lost loved ones during these turbulent times. I must also express my gratitude to our employees, particularly those who worked closely with our departed employees. Even during such sad circumstances, they collectively comforted one another and continued serving our customers with commitment and excellence. I am proud of how our employees demonstrated resilience in bringing our purpose to life for the communities we serve.

Economically, COVID-19 caused a severe contraction of real GDP by 8.7% in 2020, from a growth of 3% in 2019, illustrating the need to build buffers against external shocks through economic diversification. As also highlighted in the Board Chairman's report, Botswana's economy recovered by 11.4% in GDP growth in 2021, driven by base effects and the rebound in global and domestic economic activity. The easing of COVID-19 containment measures allowed the economic activity to resume, boosting business sentiment and resumption of international trade in diamonds. Inflation increased significantly from an average of 1.9% in 2020 to 6.7% in 2021. A modest recovery in domestic demand underpinned the rise in inflation, upward changes in value-added tax (VAT), administered prices and levies, and rising food prices. Despite inflation being above the target range of 3 to 6% since May 2021, the Monetary Policy Committee (MPC) maintained the bank rate flat at 3.75% throughout the year. This outcome was mainly to support economic recovery as upward pressures were considered cost-push transitory factors, not requiring policy tightening for the period under review.

Business performance

As a bank, we navigated the challenges of the COVID-19 pandemic commendably and defended our market share, producing a solid set of results. We have protected our returns and shareholder value, achieving substantial revenue growth of 5% year-on-year, culminating in an impressive 81% year-on-year increase in our Profit before tax. We closed the year with a cost- to-income ratio of 55% compared to 60% in the prior year. During turbulent times, our credit losses declined by 70%, demonstrating our prudent loan book management.

When the pandemic initially erupted, we focused on credit management, preserving capital and liquidity, and protecting our balance sheet rather than on growth. The balance sheet trends remained remarkably robust while shifting more to growth in 2021. Our capital and liquidity levels strengthened

Managing Director's report continued

further, with our capital and liquidity ratios being well above internal and regulatory limits of 12.5% and 10%, respectively. I am pleased to report that during 2021 our balance sheet grew by 5% year-on-year, driven by a 7% growth in advances to customers and 3% growth in customer deposits. Furthermore, our Return on Equity catapulted from 13% in 2020 to 20% in 2021. Please refer to the Finance Director's report on page 48 for a more in-depth analysis of our financial business performance.

Strategic deliverables

We continue to rigorously examine our strategy and choices made in this regard, and I am pleased to report that our strategic direction, as approved by the Board in December 2020, served us well in 2021. We have made positive strides in reaffirming our purpose of bringing possibilities to life for all our key stakeholders. As a result of these efforts, our customer base grew by 6.9%. Over the last year, we aligned our focus to selective growth across our business segments, making the following progress in our strategic endeavours.

Pursue growth selectively and defend market share

We are proud to report that we remained customer-centric through our spirit of Africanacity, helping our customers get things done. Our Retail and Business Banking (RBB) growth was driven by lending and non-funded income, mainly from scheme loans and Corporate and Investment Banking (CIB) value chain funding. This approach led to non-funded income growth of 14% year-on-year in the RBB segment. This outcome was underpinned by our focus on digitalisation and transactional primacy, ultimately diversifying revenue streams for the Bank and thus improving customer experience. Over the year, we have made significant headway in driving our customer value proposition in our RBB segment. Our Retail business defended its market share and saw revenue growth of 10% year-on-year. Growth for our Business Banking segment was driven mainly by construction, agriculture, commercial asset finance and the CIB value chain in the mining sector. Through the Debswana partnership in our Business Banking segment, we funded assets worth P167 million for SMEs and commercial clients on the program, with an inspiring 191 jobs created due to this partnership.

Our CIB business remains a key contributor to the mining industry, particularly the diamond mining sector, presenting the Bank with an opportunity to review our appetite in this sector, which ultimately contributed positively to our business. Over the last year, CIB realised a revenue increase of 3%. Gross loans remained flat as corporates exercised caution and waited out the impact of the pandemic. We, however, realised double-digit growth of 11% on fee income. We are pleased to report that over the last year, despite the challenges that the CIB business had to overcome, the franchise was recognised by the Euromoney Awards of Excellence and African Bank Awards as "Market Leader in Cash Management" and "Best Investment Bank of the year".

Protect returns, focusing on capital usage and costs

We remained adequately capitalised with a total capital of P3 billion and a capital adequacy ratio of 17.7%, which is soundly above the regulatory limit of 12.5%. Our liquid assets also remained solid, with our liquid asset ratio ending the year at 15.1%, above the regulatory requirement of 10%. Capital preservation and liquidity management remain a key focus area, given the fluidity in the market and the notable rise in the cost of capital.

As a bank, protecting our returns includes ensuring adequate regulatory and risk management principles and adherence to our established risk appetite. Over the last year, we continued to embed controls in our operations to enable us to respond to the rapidly changing regulatory environment. As a result, we are well prepared for the changes as detailed in our external environment and opportunities review as detailed on page 18. Our risk management approach ensures effective risk management with accountability and oversight exercised by our Board. We are confident in the comprehensive process that the Bank employs to identify, assess, respond to, and monitor all the risks we face in our operating environment.

Our operating costs have been reduced by 4% year-on-year. The significant driver in this performance is the absence of the once-off staff voluntary separation exercise costs we had in the prior year and the separation costs as we concluded the activity in 2020. On an underlying basis, our costs remained well contained due to effective cost optimisation strategies.

Accelerating a digital-first business

The accelerated digital adoption momentum that the Bank experienced in the prior year was sustained during the period under review. In line with our aim of enhancing customer experience through innovative digital solutions, we continued to drive investment in various digital platforms, including the following initiatives:

- **Spark by Absa** -our digital wallet, which targets individuals, SMEs and informal sector businesses alike, facilitating easy payments through innovative QR (Quick Response) codes
- **Agency banking** - where we provide services to our customers through third parties or agents. This approach allows customers to access financial products and services at a location nearest to them, thus breaking down barriers to financial inclusion such as cost and accessibility
- **Sky Branch for Business Banking Customers** - a virtual branch offering to our SME clientele, providing 24hour access to banking services
- **Digital corner** - our self-service offering in some of our branches coupled with educating our customers on the various uses of our digital platforms, thus reducing congestion in our branches.

Managing Director's report continued

Despite the efficiencies gained in the digital evolution, we are cognisant of the downside risks in digital adoption, including a rise in potential cybercrime and opportunistic financial crime activity. Across the Absa Group, maintaining and protecting data is critical. We remain mindful of these risks, imploring different tools to combat intentional and opportunistic criminal activities. Please refer to our Accelerating a digital first business report on page 62 for additional details on the Bank's performance in this area.

Lead with purpose, focusing on the customer, client and community

I am pleased to report that despite the restrictions of physical gathering, we have managed to remain close to our clients and remain committed to delivering innovative solutions that fully satisfy their requirements. In our pursuit of growth and market share defence, we launched various products for the convenience of our customers, including the following:

- **Family banking** -customers can enjoy world-class premier banking as a family
- **Botshelo life cover** - term assurance and whole life plans
- **105% home loan financing** - homeownership made easier for our customers
- **Absa Merchant portal** - a one-stop-shop providing merchants with transactional volumes, sales turnover and other data insights to understand their business performance better
- **Forex debit cards** for United States of America's Dollar (USD) and South African Rand (ZAR) accounts allow our customers to transact in base currency and not incur foreign currency ("FX") movement losses.

Over the last two years, we did not let the various restrictions stop us from making a difference in the communities in which we operate. In 2021, we invested P2.7 million in supporting communities throughout Botswana with our various initiatives, comprising environmental sustainability, thought leadership, education, and skills development initiatives, including the following:

- **Hackathon and incubation program** - mobilising youth innovators to come up with a digital solution for challenges faced by our Business Banking clients
- **Absa Youth Hub** - an online platform dedicated to promoting entrepreneurship and employability for the vulnerable youth group aged 18 to 25 against the unemployment rate in Botswana
- **Women in Business webinars** - educating and inspiring women who are running their businesses and those who aspire to become entrepreneurs
- **ReadytoWork** - an online learning platform which seeks to ease the transition from school to the world of work for the youth
- **F.G. Mogae Scholarship Fund** – a scholarship programme provided to deserving young Batswana who require financial assistance to pursue their masters degree. In 2021, the Bank deliberately focused on scholarships in Science, Technology, Engineering and Mathematics (STEM)
- **Environmental sustainability** – through our partnership with Green Botswana Trust, our colleague volunteer programme planted over 700 trees across the country, the majority being fruit trees planted at health clinics.

Build our entrepreneurial culture and create a workforce for the future

As a bank, our people are our strength, and we have made significant headway in building an entrepreneurial culture and a future-fit workforce. In 2021 we focused on enhancing our employee value proposition, fostering an inclusive workplace by preparing our talent for the future world of work and strengthening our leadership and succession pipeline. Demonstrating an accountable and passionate culture was the commitment of at least 50% of our workforce, who continued to deliver on our customer-obsession mandate whilst working from home. Our deliberate efforts in supporting leaders and their teams to enhance productivity, engagement and inclusivity improved our learning and development framework. Our adoption of virtual training platforms enabled personal growth and positioned our people to better participate in the evolving financial services sector. In 2021, our total learning and development spend was P5.2 million, with at least 85% of our employees participating in the various available training programs. Most of the training budget was deliberately channelled towards leadership and management development training. As part of promoting self–directed learning and assisting with retention and augmentation of our employee value proposition, the Absa scholarship was introduced. Seven scholarships were awarded internally, focusing on developing future skills for the banking industry.

Therefore, it is not surprising that the Top Employers Institute, a global authority on recognising excellence in people practices, acknowledged our human capital efforts, awarding Absa the Top Employer in Botswana certification for the work we conducted in 2021. This accolade affirms our efforts in this strategic pillar and marks an essential milestone in our journey to re-invigorate our people practices across the organisation.

The significant strides made in 2021 resulted from a combined and unified effort of a bank committed to our mandate of bringing possibilities to life for all our stakeholders.

Managing Director's report continued

Outlook

There are several headwinds to the growth outlook that we must navigate, including the possibility of new COVID-19 variants, which would lead to reinstating restrictions and weaker demand for diamonds if the global economic recovery loses momentum. Further pressures include the Russian invasion of Ukraine, persistent drought in the Southern African region, elevated inflation driven by higher commodity prices, supply chain disruptions and the adverse impact of slow economic growth in South Africa, leading to lower revenues from the Southern African Customs Union (SACU).

Therefore, we expect Botswana's real GDP growth to soften from 11.4% in 2021 to 4.9% in 2022 as activity levels out, following an initial rebound. Growth in 2022 will be underpinned by a recovery in key sectors such as mining as the effects of the pandemic recede and commodity prices rebound. The rise in diamond output will continue to be driven by additional investment in productive capacity and increased international demand for luxury goods caused by economic recovery in developed markets. The non-mining sectors are also expected to improve, supported by accommodative monetary conditions, business environment reforms and Government interventions against COVID–19, including the Economic Recovery and Transformation Plan (ERTP). The rollout of vaccines and uptake will also be crucial to the economy's recovery. We expect inflation to remain elevated over the near term and average 9.1% in 2022 but continue to trend downward to an average of 5% in 2023.

We have refreshed our strategy accordingly based on these principles, assuming no substantial political, economic, or regulatory changes. This position resulted in the five key strategic pillars that will shape our direction forging ahead:

- Diversification of our revenue streams with deliberate transactional led growth
- Primary partner of our clients focusing on creating value across the entire client relationship
- A digitally powered business with end-to-end consistent and seamless experience for our clients and colleagues
- Building a winning talented diverse team through distributed leadership
- An active force for good in everything we do.

Our strategic pillars will be supported by leveraging investment in technology and embedding our brand as critical enablers. With the successful execution of this strategy, we expect our revenue to grow at a higher single digit, credit loss ratio to remain high but on a declining trend as we observe the recovery of sectors that were highly impacted by the pandemic and return on equity to continue to improve.

Despite the above headwinds and the likelihood of the continuation of the COVID-19 pandemic remaining with us for the near future, I am assured that we will meet and exceed our stakeholder expectations.

Appreciation

I would like to thank the Board under the leadership of our Board Chairman, Mr Moroka, who joined the Board at the beginning of the second half of the year, for their continuing support. The guidance we received from our Board during calm and turbulent times alike enabled us to focus on executing our strategic deliverables seamlessly. Let me also thank my executive team for their continued hard work and commitment. Our achievements would not have been possible without the determination and support from all our employees, for which I am deeply grateful. On behalf of the Bank's management, I would also like to convey our gratitude to our regulators and other external stakeholders for allowing us to serve and make a difference in our communities. As a bank, we will continue to interact with our valued stakeholders. In this light, I am pleased to present our first Integrated Report, an essential step we have taken to complement our efforts in operating transparently and responsibly. I urge you to share your views regarding this report by email sent to the following address: *Botswana.CustomerService@absa.africa.*

Cynthia Morapedi
Finance Director

"As our most important stakeholder, our customers can take great comfort in our financial resilience, demonstrated through our strong balance sheet results."

Finance Director's report

Financial capital and capital risk management

Financial capital refers to the pool of funds available to the bank to enable our business activities. This capital can be obtained through various means, including financing, equity generated through operations and investments. The Bank manages its capital, considering both regulatory and economic capital. The Bank's regulator, Bank of Botswana, sets and monitors capital requirements for the Bank. The Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital.

Related material sections

- COVID-19
- Global recovery with economic uncertainty
- Strategic execution and business risks arising from internal and external drivers
- Environmental and social risks impact the bank, our customers and the operating environment

Strategic response

- Pursue growth selectively and defending market share
- Accelerating a digital first business
- Protect returns, focusing on capital usage and costs

Overview of 2021

Strategic performance

5%
Revenue growth
(2020: (3%))
(2019: 7%)

P73.6 milion
Revenue
(2020: (P56.2mn))
(2019: P101.0 mn)

55%
Cost-to-income
(2020: 60%)
(2019: 56%)

Shareholder value

81%
Profit before tax
(2020: 46%)
(2019: 15%)

20%
Return on equity
(2020: 13%)
(2019: 24%)

27.69 thebe
Total dividend per ordinary share
(2020:26.4 thebe)
(2019: 25 thebe)

Strong deposits and loans

P14.9 billion
Net loans and advances
(2020: P13.9 bn)
(2019: P13.4 bn)

P16.4 billion
Customer deposits
(2020: P15.9 bn)
(2019: P14.4 bn)

Normalising risk profile

P79 milion
Expected credit losses
(2020: P263 mn)
(2019: P34 mn)

P739 milion
Pre-provision profits
(2020: P627 mn)
(2019: P712 mn)

Strong capital and liquidity

17.7%
Capital adequacy ratio
(2020: 18.2%)
(2019: 19.2%)

15.1%
Liquid asset ratio
(2020: 15.8%)
(2019: 18.9%)

Finance Director's report continued

Summarised statement of Comprehensive income

	2021 P'000	% change	2020 P'000	% change	2019 P'000
Net interest income	1 048 404	(1%)	1 055 003	(1%)	1 060 535
Non- interest income	600 797	15%	520 586	(9%)	571 338
Total Revenue	**1 649 201**	**5%**	**1 575 589**	**(3%)**	**1 631 873**
Operating Expenses	(910 419)	4%	(948 411)	(3%)	(920 278)
Pre-provision profit	**738 782**	**18%**	**627 178**	**(12%)**	**711 595**
Credit losses	(79 475)	231%	(263 235)	(674%)	(34 023)
Profit before tax	**659 307**	**81%**	**363 943**	**(46%)**	**677 572**
Taxation	(156 715)	(133%)	(67 197)	57%	(156 964)
Profit after taxation	**502 592**	**69%**	**296 746**	**(43%)**	**502 608**
Basic and diuted earings (thebe per share)	**59**		**35**		**61**

Material improvement in earnings which signals business recovery

Although we are still in the recovery journey, our response strategy as a bank has yielded a positive set of financial results for the year under review signalling the recovery of our financial performance and business environment. COVID-19 still poses a risk to humanity and consequently the operating environment, this risk is further exacerbated by the Russia-Ukraine war, which in its effect has posed additional risks to the macro-economic variables, more specifically the global economic growth outlook. IMF has even revised the Botswana and sub-Saharan GDP growth rates. This indicates that in the medium term, the ease and cost of doing business will remain further constrained.

Amidst the challenges we are pleased with the momentum of our business resilience, to be able to deal with turbulent unforeseen circumstances, and we remain optimistic that our operational resilience will continue to bring value to our shareholders. Looking at the past year 2021, our digital strategy which included investment in new technologies, building new platforms, rolling out new products, portfolio management strategies especially under periods of distress, revenue diversification strategies, and building operational efficiencies have all contributed positively to our financial performance. We saw a material recovery in our profitability by 81% compared to 2020. This outcome translates to a full-year profit before tax of P659 million which is 3% short of the pre-COVID-19 profit before tax in 2019. This performance indicates that as a business we are on a solid recovery trajectory to pre-COVID-19 levels.

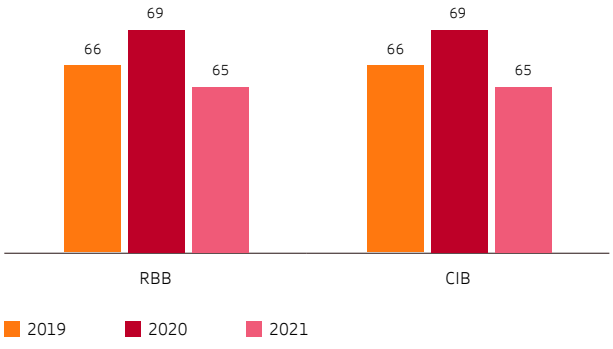
Encouraging revenue momentum

Our total revenue grew by 5% year-on-year, primarily driven by momentum in our non-funded income, which grew double-digit on account of the recovery of economic activities in 2021. This improved trajectory was evidenced across our different segments. Our business banking segment realised double digit growth of 17% on the top line, followed by our Retail banking franchise which grew 10% on the top line.

Constrained net interest margins

Due to the prevailing economic conditions which resulted in policy rate cuts in 2020, and increased cost of funding due to thin market liquidity, net interest income continued to be subdued during the period under review. Gross interest income grew 2% year-on-year, and net interest income contracted by 1% over the same period. Although we have enjoyed healthy balance sheet growth in our Retail and Business Banking (RBB) segment, net interest margins remained under pressure. As a result of liquidity constraints, our cost of funding was pushed up by 12% compared to the previous period.

Interest income as % of total segmental income (%)

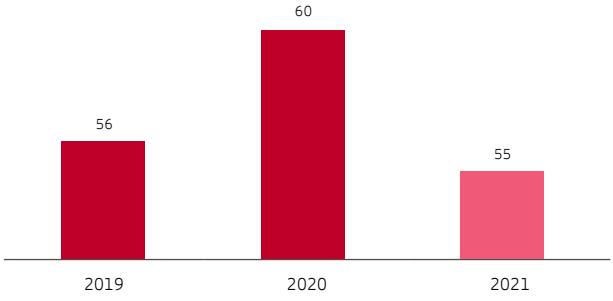


Finance Director's report continued

Strong growth in net fee and commission income

Our strategic intent to drive fee income has paid off, as noted in our net fee and commission income, which grew by 14%. In some quarters of our franchise, we noted transactional volumes picking up to pre COVID-19 levels, signalling a positive recovery in business sentiment. The bulk of this growth was propelled by digital drive and adoption coupled with the momentum in transactional volumes during the year under review. Fee and commission expenses reduced by 3% year-on-year due to pricing/recovery strategies and the resultant benefit in foreign exchange movements.

Cost to income ratio (%)



Improved and stable cost-to-income ratio

As a business, operational efficiency remains a key strategic objective for achieving an improved and stable cost-to-income ratio. Our operating costs remained well contained for the period under review with an overall reduction of 4% year-on-year, improving our cost-to-income ratio from 60% in the previous year to 55% in the period under review. The decrease resulted from robust cost containment strategies coupled with a reduction in separation spend and the absence of one-off costs relating to staff voluntary separation exercises incurred in the prior year. Over and above the absence of separation spend, our underlying operational costs remained well controlled in light of both optimisation and cost avoidance strategies which we have deployed. Due to the continued drive to bring operational efficiencies and grow our revenue, we have noted a 1% improvement in cost-to-income ratio between 2019 and 2021.

Material improvement on credit impairments

Expected credit losses (ECL) remained a significant driver of our performance for the year under review, as it was in the previous year. In the prior year, we took a deliberate approach of being pro-active in terms of forecasting significant increase in credit risk due to the impact of COVID-19. This approach resulted in a material charge to our profit or loss to the tune of P263 million in 2020. This strategy provided sound base cover from a credit loss perspective and significantly benefited the 2021 performance. During the year under review, the performance of expected credit losses was also enhanced by the stability of our portfolio performance, pro-active risk management and collection strategies, and improved macro-economic variables, which are significant contributors to our impairment modelling process. Consequently, we noted a material improvement of 70% in our ECL charge for the year compared to the previous year; owing to the prudent approach that we took in 2020 as highlighted above. The support we had accorded to our customers in 2020 with credit relief and payment moratoriums gave them much needed relief during a very challenging period. We remain proud of this initiative as it did not only provide much-needed relief but also formed a solid base for economic recovery.

Growth trajectory in our balance sheet

Summarised Statement of Financial Position

	2021 P'000	% change	2020 P'000	% change	2019 P'000
Total assets	**21 521 021**	**5%**	**20 567 869**	**9%**	**18 821 959**
Of which net loans and advances to customers	14 924 321	7%	13 904 310	4%	13 362 427
Total equity	**2 569 406**	**10%**	**2 335 391**	**5%**	**2 222 666**
Total liabilities	**18 951 645**	**4%**	**18 232 478**	**10%**	**16 599 293**
Of which customer deposits	16 399 553	3%	15 903 147	11%	14 377 542
Total equity and liabilities	**21 521 021**	**5%**	**20 567 869**	**9%**	**18 821 959**

Finance Director's report continued

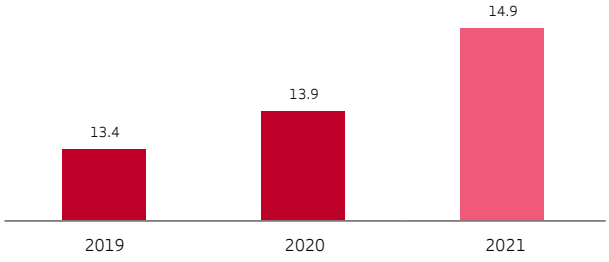
Total balance sheet growth

Our balance sheet remains solid and on an upward trajectory. On aggregate our total balance sheet has grown by 5% with a total financial position of P22 billion. We maintained the structural composition intact year-on-year with loans and customer deposits being the primary driver of our balance sheet growth. Our total capital position stands at P3 billion positioning us well to support future growth.

Growth in customer loan book

Positive growth in our customer advances was noted at 7% year-on-year, mainly driven by growth opportunities in our retail banking segment from growth in personal and scheme loans. The activity in the CIB franchise remained muted as most clients adopted a hold strategy to their growth ambitions in light of COVID-19.

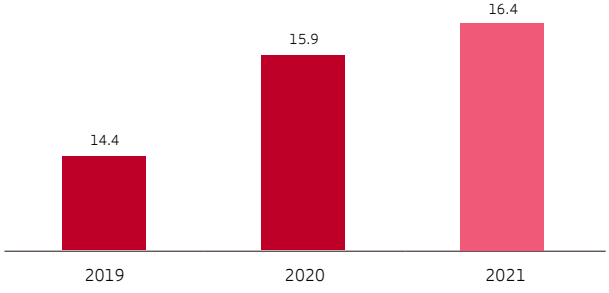
Loans and advances (P'billion)



Growth in customer deposits amidst liquidity challenges

The P496 million increase in deposit resulted from our active acquisition and penetration strategies, which enabled us to address the needs of our customers and grow our deposit base. On the retail banking space, deposit growth was driven by savings and foreign currency deposits, while business banking deposits growth was noted on the current accounts and savings accounts balances.

Customer deposits (P'billion)



> ***"Positive growth in our customer advances was noted at 7% year-on-year, mainly driven by growth opportunities in our retail banking segment from growth in personal and scheme loans. The activity in the CIB franchise remained muted as most clients adopted a hold strategy to their growth ambitions in light of COVID-19."***

Finance Director's report continued

Stable liquidity position despite subdued liquidity market

The overall market liquidity remains relatively subdued due to competing needs for funding across different sectors.

The P496 million increase in deposit growth was on the back of efforts to raise liquidity, self-fund and maintain a stable liquidity position across all segments, including tapping into the wholesale funding market.

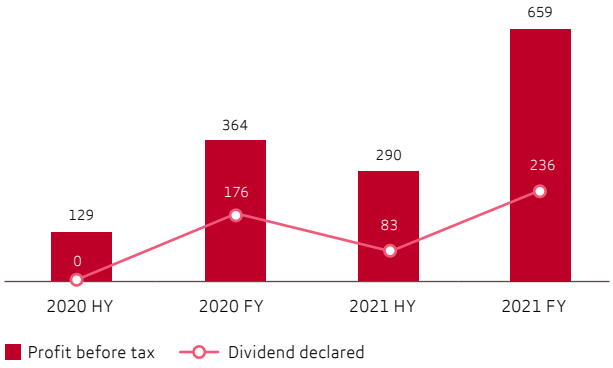
Strong capital levels

We maintained strong capital positions for the period under review, with total capital ending at P3 billion, signalling a Capital Adequacy Ratio (CAR) of 17.7% against a regulatory limit of 12.5%. Common Equity Tier 1 ratio marginally declined to 13.7% from 13.8%, although it remained comfortably above regulatory requirements.

Dividend declared and paid

In light of our improved financial performance and sound capital levels the board resolved to declare a final dividend of 27.69 thebe per share for the year ended 31 December 2021, which was paid on the 20th of May 2022, with 2020 final dividend declared of P175 million.

Dividend declared in line with profit before tax (P'million)



Strong divisional earnings growth

Retail banking

Overall revenue grew by 10% year-on-year, driven mainly by non-interest income growth of 17%. As we continued on our growth journey, our customer needs remained an eccentric part of what we do, support was provided to our customers on a digital space, with initiatives and products such as Spark and Botshelo life cover launched just in time to ensure safety of our customers as well as their social well-being. We have displayed solid assets (advances) year-on-year growth of 9%. The key performance drivers include non-materialisation of expected critical risk and improved legal recoveries.

Business banking

The growth trajectory that we are noting on Business Banking is aligned to the pockets of growth in our local economy due to the citizen economic empowerment agenda. We enjoyed revenue momentum driven by the 3% growth in the loan book brought about by strong performance of the commercial general lending book, which is aligned to the national strategic agenda. Due to the digitalisation strategy, a number of SMEs were digitally enabled, which bolstered the growth in our transactional banking proposition.

Corporate and Investment banking

CIB is a pivotal contributor to the mining sector, and this presented us with an opportunity to review our appetite which is expected to grow in 2022 as we slowly reach the pre-COVID-19 position, which will contribute positively to our trade business. We also saw the resuscitation of the property sector evidenced by several key infrastructure projects across the country. We remain encouraged by these recovery indicators as they will be beneficial in the future. We undertook deliberate strategy to attract the right deposits in order to sustain our cost-to-income ratio while ensuring a stable and optimal funding mix.

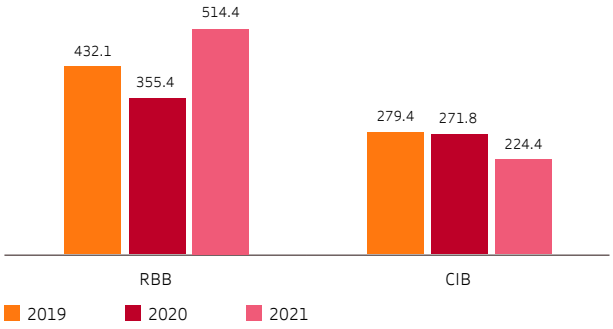
We supported our clients in extending credit relief measures during the period of severe distress due to impact of COVID-19 pandemic, a measure we deemed critical to support and ensure sustainability of their businesses. This intervention resulted in a significant impact on our impairment position which recovered more than 140% year-on-year.

Conclusion

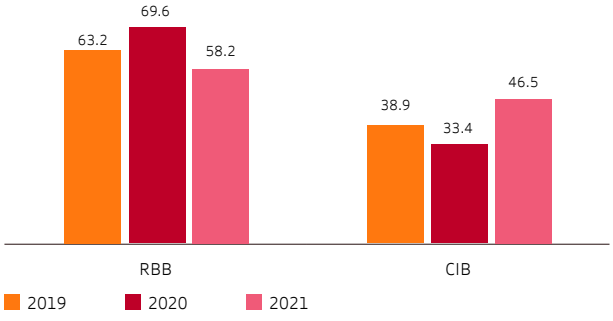
We forge ahead, cautiously optimistic, as we navigate the after-effects of the COVID-19 pandemic as the world rebuilds, with the strategic intent of ensuring that our business recovers to pre-COVID-19 levels. The economic outlook remains challenging, given the significant recovery that still needs to occur together with geo political risks, sharp increase in commodity prices as well as interruption to supply chains emerging out of Russia and Ukraine war. Inflation remains elevated and will continue to impact the cost of doing business. Although growth forecasts have been revised down to account for emerging risks, the macro-economic outlook remains promising given the forecasted recovery in GDP and other macro-economic factors locally and globally. Our key focus will continue to be delivering value to our customers and enabling them to reach their possibilities by providing the right banking solutions. We also continue to shape our entity into one that is resilient efficient, and relevant for our times.

Finance Director's report continued

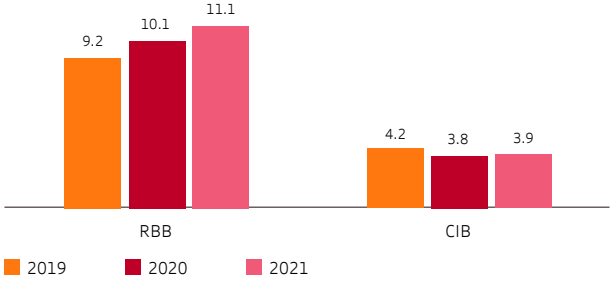
Segmental pre-provision profit (P'million)



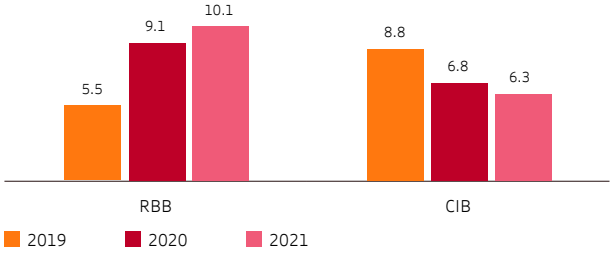
Segmental cost-to-income ratio (%)



Segmental customer loans and advances (P'billion)



Segmental customer deposits (P'billion)



"Although growth forecasts have been revised down to account for emerging risks, the macro-economic outlook remains promising given the forecasted recovery in GDP and other macro-economic factors locally and globally. Our key focus will continue to be delivering value to our customers and enabling them to reach their possibilities by providing the right banking solutions. We also continue to shape our entity into one that is resilient efficient, and relevant for our times."

Retail banking report

Retail banking serves the Bank's customers through the four customer segments, underpinned by a comprehensive suite of transactional banking, card solutions, lending solutions, deposit taking, card acquiring and digital wallet services.

- **Premier:** this offers exclusive banking that is personalised to cater to the needs of affluent and high net-worth individuals
- **Prestige:** this segment is tailor made for individuals in middle management, self-employed professionals, and commercial business owners, offering them a range of upgraded banking services and the convenience of personalised service, serving as a gateway to premier banking
- **Personal:** this segment offers banking experience to salaried and self -employed consumers in the middle- and lower-income segments. These customers are primarily served through the Bank's branch network with an increased use of digitised banking channels, that have created a more convenient and personalised experience
- **Informal and Mass:** this segment caters for those consumers who were previously excluded from the banking ecosystem. They are served through our digital channels such as the Spark by Absa digital wallet solution as well as the Agency Banking channels, which provides a seamless onboarding process and superior transactional capabilities.

We are proud to report that in 2021 we remained customer-centric through our spirit of Africanacity, helping our customers get things done. Our attention to digitalisation and transactional primacy underpins this focus, ultimately diversifying revenue streams for the Bank and improving customer experience. We have displayed solid assets (advances) year-on-year growth of 9%. Overall retail revenue grew by 10% year-on-year, largely driven by non-interest income growth of 6%, whilst net-interest income increased 7% year-on-year. We continued our journey of growth and putting our customer needs at the centre of what we do. On the back of this progress, we launched several propositions and product enhancements such as:

- Spark by Absa Botswana, which is our digital wallet to drive financial inclusion
- QR cash withdrawals on ATMs which allows customer to draw cash without using a card
- Absa Merchant portal which is a one – stop- shop providing merchants with transactional volumes sales turnover and other data insights to better understand their business performance
- Forex debit cards for United State of America's Dollar ("USD") and South African Rand ("ZAR") accounts
- Family Banking where our customers can now enjoy world-class premier banking as a family
- Our youth proposition through partnerships with iBranch, which is a Youth Hub helping young people transition into the work setting
- Multiple rewards and discount propositions for our customers to enjoy at various retail outlets
- Enablement of debit cards management on the Absa App and internet banking as well as the enablement of proof of payment downloads on the App.
- New biller partnerships with Botswana Life and Botswana Telecommunications Proprietary Limited
- Botshelo Life Cover offering both term assurance and whole of life plans and 105% home loan financing making home ownership easier for our customers.

We have seen a 5% year-on-year growth in customer numbers through these various initiatives. We are extremely proud that our efforts to focus on the rollout of capital-light products to scale non-funded income and drive transactional and customer primacy further resulted in a 7% growth in customers with a transactional banking relationship with us. This outcome is a true reflection of Africanacity – helping our customers get things done. Over the reporting period, we have vigorously defended our position in the market by pursuing selective growth to become the go-to transactional and digitally-led bank. The availability of self-service and alternative banking channels has led to a 21% year-on-year growth in the number of customers utilising our digital platforms. We continue to enhance these channels to create a seamless customer experience. The Retail business continued to focus on capital usage and costs by optimising returns, efficiency and productivity across the segment. This progress led to a 7% and 2% growth in customer loans and deposits, respectively.

Retail banking report continued

Looking ahead

Our priorities in 2022 and beyond focus on refreshed strategic priorities in light of the changes in our internal and external operating environments. We will be focused on creating new customer relationships and deepening existing ones. We aim to drive financial inclusion by creating financial linkages between the unbanked and the banked communities through the Spark by Absa Botswana digital wallet. We believe that digitalisation is a crucial cornerstone for banking in the future and therefore have a clear focus on growing our self-service capability (the need to diversify income streams on the back of enhanced customer experience), which remains imperative and an area of focus. Our employees remain integral to the service that we offer clients and how we embody Africanacity in the way we serve our valued clients and are critical as we continue evolving to become more digitally-led.

We look forward to delivering even better service to our clients, committing to continue innovating and finding solutions that make us the go-to transactional bank.

Strategic theme

- Pursue growth selectively and defend market share
- Accelerate Digital first business
- Lead with purpose: Focus on customer, client, and community.

Value creation and capitals impacted

Awards and notable achievements

- The launch of Spark by Absa
- Agency Banking proposition
- 10% year-on-year (YOY) revenue growth
- 21% YOY customer digital platforms use.

"We are extremely proud that our efforts to focus on the rollout of capital-light products to scale non-funded income and drive transactional and customer primacy further resulted in a 7% growth in customers with a transactional banking relationship with us. This outcome is a true reflection of Africanacity – helping our customers get things done."

Business banking report

Business banking serves its customers through three segments, offering a suite of products ranging from current and savings accounts, investments accounts, and call accounts. Online channels include Absa Access for Commercial banking and Agribusiness, Absa internet banking for SME banking, lending products like term loans, Agri mortgage loans, Agri productions loans, overdrafts, and Commercial Asset Finance (CAF).

We also offer trade-related products like letters of credit, performance bonds and bank guarantees. The annual business turnovers define the Business banking segments:

- Small and medium enterprises ("SMEs") banking comprises of SME portfolio, which is managed on a proactive basis by SME bankers based at the branches and SME suite. The portfolio is relatively micro and small businesses with a turnover of up to P10 million, while dedicated relationship managers manage SME relationships. The SME relationship comprises medium businesses with turnover between P10miliion up to P35 million.
- Commercial banking is mainly medium corporates with turnovers between P35million up to P200million, and the portfolio is fully managed by dedicated relationship managers and comprises businesses across all the sectors.
- Agri-Business is purely agribusinesses in commercial agriculture. It caters to primary and secondary agriculture in sectors like horticultural farming, dryland farming, livestock farming, agro-processing, agric inputs and implements suppliers. The portfolio is specialised and is managed by dedicated agric relationship managers.

Business banking has remained resilient despite the COVID-19 challenges and displayed growth in assets, liabilities, revenue contribution and profitability. We undertook a rigorous process to examine each of the strategic choices made in 2018 considering the internal and external environment changes. To ensure complete alignment across the organisation, we zoned in on the Bank's strategic priorities, translating each pillar into specific deliverables for us as a segment. To this end, we are happy to report significant and seamless momentum in executing these priorities during 2021.

Our business strategy focus is on driving Agricultur, Enterprise Supply Chain Development ("ESD") programme and the Commercial Assets finance (CAF) through major water projects' construction and mining. We have also driven capacity building through the ESD Business Club, where 973 enterprises have been trained in partnership with Botswana Unified Revenue Services ("BURS"), Local Enterprise Authority ("LEA") and independent business services providers such as collective value chain creation and Tokafala. We also signed several Memorandum of Understanding with various organisations and companies to enable SMEs to access their supplier value chain. In our effort to promote digital channel usage, we have onboarded many of our customers on the business internet banking platform. Business Banking will continue to drive its momentum to assist SMEs in accessing funding and capacitate them to manage their businesses. We will also cause the usage of digital channels to improve the ease of doing business and support our client base to grow and contribute positively to the economy.

Over the year, we have made significant headway in driving our customer value proposition. Through the Debswana partnership, we have funded assets worth P167million, which comprises commercial asset finance and working capital solutions, among others, for SMEs and commercial clients on the program. A total of 191 jobs were created in 2021 due to this partnership with Debswana. The collaboration with Debswana has resulted in the Debswana being nominated and winning the Absa Business Day Supplier Development award in 2021 for their contribution to the empowerment of the SMEs. We are not only passionate about customer centricity and community development through our value propositions, but we have made the same efforts in building our entrepreneurial culture and creating a future-fit workforce for our business. During 2021, the Business Banking relationship managers were enrolled in the relationship management academy, while the credit originators were registered on Moody's credit skills training and the entire business banking team was trained in customer service. Such initiatives have created a conducive environment for entrepreneurial culture, collaboration, creativity, and innovation.

Business banking continued

Looking ahead

Business banking will continue to drive its momentum to assist SMEs in accessing funding and capacitate them to manage their businesses. We will also drive the usage of digital channels to improve the ease of doing business and support our client base to grow and contribute positively to the economy. Agriculture, Asset Finance and the ESD programme remain our critical focus areas for developing the Business Banking portfolio. Our focus will stay mainly on creating new customer relationships and deepening existing ones by creating, enhancing, and delivering products which offer value for money to our customers. The need to diversify revenue streams due to improved customer experience is critical and a priority. Driving digital adoption will also continue to be the fundamental cornerstone for banking; thus, the focus will be on growing our self-service capability.

Strategic theme

- Pursue growth selectively and defend market share
- Accelerate Digital first business
- Lead with purpose: Focus on customer, client, and community
- Build our entrepreneurial culture and create a workforce for the future.

Value creation and impacted capitals

Awards and notable achievements

- Overall Income increased year-on-year by 17%, impacted largely by net interest income mostly on liabilities
- 191 jobs created under Debswana ESD program

"Business banking has remained resilient despite the COVID-19 challenges and displayed growth in assets, liabilities, revenue contribution and profitability."

Corporate and Investment banking report

The Corporate and Investment Banking (CIB) division provides holistic solutions to the Bank's corporate clientele.

Our bespoke offering is to a wide variety of segments, which are exposed to banking experts well versed in the following banking disciplines: transactional banking, debt and advisory services, trade and working capital, securities, markets, derivatives and risk management products, cash management, commercial property and asset finance, and online banking solutions. These offerings are targeted at our clients that fall into the following segments:

- **Public sector** - this segment addresses all local authorities (district and town councils, and land boards), and state-owned entities (parastatals)
- **Large local corporates** - this segment looks after all Corporate entities that have roots in Botswana (and, in some instances, have ambitions of expanding beyond the country's borders). Predominant in this sector will be fast moving consumer goods and consumer, hospitality and tourism, telcos, and healthcare.
- **Financial institutions group:** this sector focus on financial institutions (FI) and non-bank financial institutions (NBFI). The NBFI space includes inter-alia, insurance companies, fund managers, Direct Foreign Investments (DFI's).
- **Global corporates** - this segment hubs all corporate entities that have a worldwide reach and are a part of international organisations domiciled internationally and in Botswana. Global development organisations and the diamond portfolio also fall within this segment.

Our global markets department specialises in innovative financial solutions that help our clients manage their foreign exchange, interest rate and commodity risks, underpinned by a cutting edge online electronic trading platform called Absa Access FX trading. Our product offering includes foreign exchange spot, forwards and swaps, bonds, derivatives and structured products solutions and yield enhancement products.

In the corporate business, there was some semblance of recovery in key sectors like mining during 2021. We saw the economic activities return to the pre-COVID-19 period, particularly in the diamond sector. CIB is a pivotal contributor to the diamond sector, and this presented us with an opportunity to review our appetite, which ultimately contributed positively to our trade business. We also saw the resuscitation of the property sector evidenced by several key infrastructure projects across the country. We remain encouraged by these recovery indicators as they will be beneficial in the future. A notable strain was evident in market liquidity with deposits constrained as public sector spending budgets reduced, and fiscal policy adjustments were implemented to accommodate the economic impact of COVID-19. This situation led to tighter liquidity and margin compression in our market. We undertook deliberate efforts to attract suitable deposits through our various strategies that delivered healthy growth in our deposit base. We must hasten to state that the slowdown in most economic activity allowed us to embed our digital agenda to ensure we provide sustainable future-fit solutions. This outcome bolstered our growth in client acquisition and propelled us to deepen relationships with existing clients and deliver double-digit growth in our fee income.

From a global markets perspective, 2021 was characterised by heightened volatility, rising yields, and muted activity in the tourism sector. Despite these headwinds, the Markets business achieved double-digit growth by focusing on our core strategic pillars of pursuing growth selectively, providing excellent customer service, leveraging technology to increase customer convenience, and continuously innovating to provide bespoke products and risk management solutions. We focused our efforts on identifying opportunities in sectors that had shown more resilience, such as the health, retail, and ICT sectors. We also saw a significant uptake in risk management products. More companies decided to minimise the foreign exchange volatility in their income statements by utilising derivates such as FX options and structured forwards. However, the business experienced an unprecedented increase in government bond yields, which resulted in some significant losses in our fixed-income trading portfolio. Nonetheless, our selective growth strategy and prudent risk and loss management culminated in revenue and volumes expanding significantly in 2021.

As a business, we take pride in being customer-centric and supporting our clients by extending credit relief measures during very tough economic conditions, a measure we deemed critical in ensuring the sustainability of businesses. This intervention resulted in companies' strong recovery, resulting in a positive impairment, which recovered more than 140% year-on-year. We continued to prioritise seamless embedding of platforms that enable our clients to transact with ease across all the corporate sectors we serve. Our service model is underpinned by providing an exceptional personalised experience for our customers, enabling us to offer relevant and timely solutions. We also embarked on an exercise to re-engineer specific processes that were pain points for some of our customers. We believe that we will continue to enhance the customer experience journey through this constant cycle of feedback and improvement.

Corporate and Investment banking continued

We took further strides in leveraging technology to increase customer convenience with our Novo FX and Absa Access FX platforms. These intuitive retail and corporate FX trading platforms grew in leaps and bounds as customers welcomed the convenience of executing trades either on the go or from the comfort of their offices/homes. We believe that such platforms are well suited to modern-day banking, evolving from bricks to clicks.

The global markets business also prides itself in being a thought leader and product pioneer in the local capital market. To this end, we successfully listed a palladium exchange-traded fund on the Botswana Stock Exchange to provide investors with a low-cost alternative asset that has meaningful diversification benefits.

As CIB, we could not have weathered the storms so successfully if not for our people. Colleague wellbeing is always and will always be at the forefront of our strategy. We implemented numerous interventions such as remote working, rotational work and spreading teams across various locations. We also developed more innovative ways of delivering training and upskilling colleagues in a more virtual world of work. The result was a highly motivated team and limited business disruptions because of the COVID-19 pandemic.

Looking ahead

We are sensitive to the fact that the economy is still recovering from the advent of COVID-19, where we saw most sectors struggling and some nearing total collapse. We have seen a resurgence in the mining sector, with diamond prices returning to pre-COVID-19 levels. As a business, we have relooked at our value proposition for diamond clients as we look to support their increasing appetite. In the future, our focus will be on helping our customers to rebuild their businesses and subsequently support economic growth. The Bank will achieve this outcome by providing balance sheet optimisation and fostering the Public and Private Sector Partnerships (PPPs) to support the Government's economic agenda for delivering critical infrastructure projects. We will continue with strategic partnerships to enhance our customer value proposition and remain competitive. Digitisation remains a top priority in supporting us to deliver our Customer Value Proposition, driving client convenience. We are looking at delivering several vital projects and enhancements to our digital offering. The business is also looking at providing an Islamic Banking solution to provide bespoke banking services to the Islamic community. Creating new customer relationships and deepening existing ones will be key as we continue to enhance and deliver products, offering value for money to our customers.

Our strategy is entrenched in being the "Home of FX" and playing a pivotal role in financial markets development for our Markets business. The Markets franchise remains resolute in partnering and providing bespoke solutions to our clients.

Strategic theme

- Pursue growth selectively and defend market share
- Accelerate digital first business
- Lead with purpose: focus on customer, client and community
- Build our entrepreneurial culture and create a workforce for the future.

Value creation and impacted capitals

Awards and notable achievements

- Notable recognition as 'Market Leader Cash-Management' awarded by Euromoney Awards of Excellence
- 'Best Investment Bank of the year' awarded by African Banker Awards 2021
- Impairment recovery in excess of 15% YOY
- Double digit fee income growth
- Increased Novo FX adoption

Treasury report

The COVID-19 pandemic was at the forefront for the most of the previous year, particularly concerning the Bank's approach to liquidity and capital management.

Balance sheet management

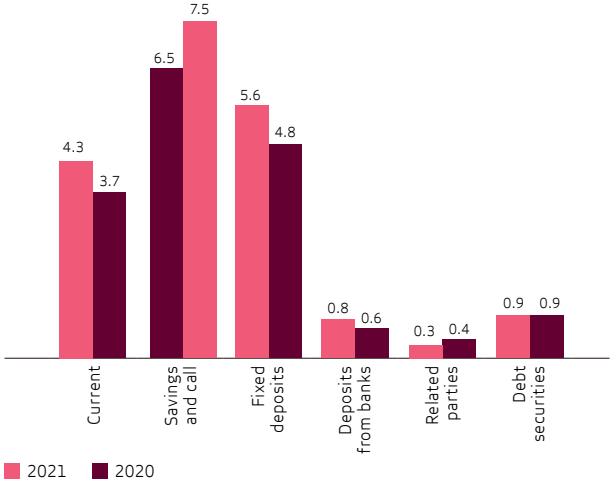
The Bank aims to efficiently deploy funding and capital resources to meet its strategic objectives within risk appetite and create value for its clients and shareholders. During the COVID-19 pandemic, the Bank employed risk management strategies and fully adhered to the minimum regulatory requirements from liquidity, capital and interest rate risk in the banking book perspectives. We engaged these risk strategies to pursue growth selectively through optimal allocation of the Bank's capital and liquidity resources to ensure sustainable growth.

Liquidity and funding

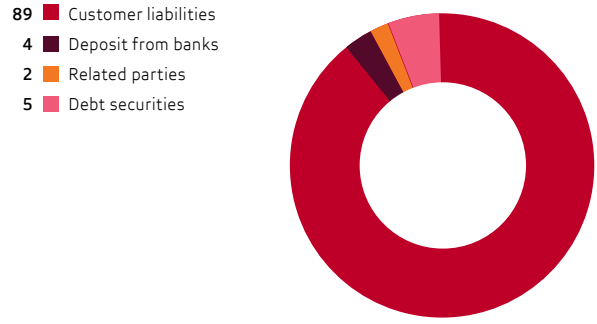
The Bank maintained a resilient balance sheet in the 2021 financial year through a funding mix based on a risk management strategy that accounted for short-term liquidity requirements and cost differentials. This approach was critical in addressing the COVID-19 operating environment, which is characterised by heightened liquidity risk in the local market. The strategic approach to managing liquidity and funding risks enabled the business to grow customer deposits by 3% year-on-year, leading to growth in customer loans and advances by 7%. A solid capital base supported this growth to withstand idiosyncratic and systematic risks that COVID-19 imposed risks may have triggered. The Bank operated within risk appetite, recording a Liquid Asset Ratio (LAR) of 15.1% above internal and regulatory limits (10%) while maintaining internal liquidity buffers targeted to mitigate unforeseen risks amid the pandemic.

Customer liabilities were up by 10.6% year-on-year, with the most significant contributors to the increase originating in savings and call deposits, current accounts and debt securities. Furthermore deposits owing to related parties saw the largest decline year-on-year, on the back of a decline in foreign currency lending. The Bank's liability base continues to be dominated by customer liabilities, which are considered as stable funding behaviourally. The Bank's liability profile continues to reflect a well-diversified funding mix.

Liquidity liability profile (P'billion)



2021 Deposit base distribution (%)

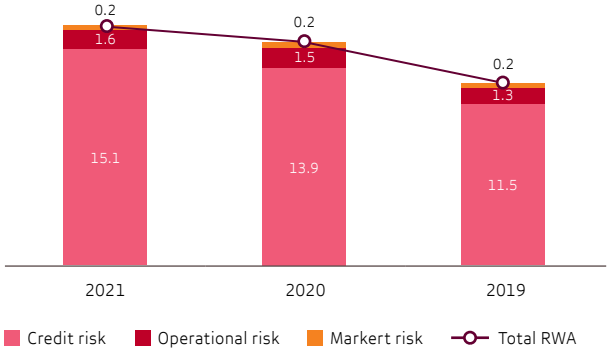


Optimal capital management was a key priority during the period under review as the Bank grew loans and advances to achieve the strategic objective of defending market share while maintaining business growth sustainably. The Bank employed various capital management initiatives that focused on Risk Weighted Assets (RWA) savings, supporting Return on Equity (ROE) growth of 7% year-on-year. Thus, the Bank enhanced shareholder value through higher dividend per share

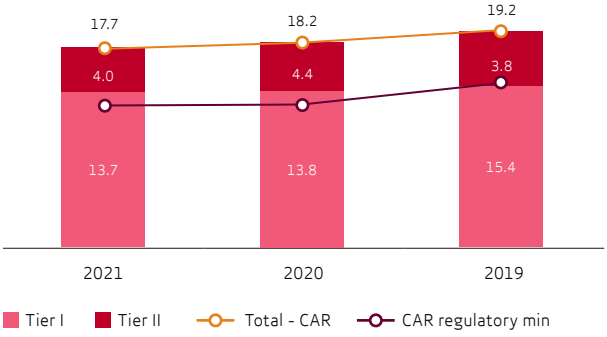
Treasury report continued

pay-outs relative to 2020. The Bank remained well capitalised throughout 2021, ending with a Capital Adequacy Ratio (CAR) of 17.7% (2020: 18.2%). The Bank manages its capital position at an internal limit that includes a Board approved buffer; this buffer is set after considering several risk types that could impact capital levels under stressed scenarios.

Risk weighted assets (P'billion)



Capital adequacy ratio (%)



Strategic theme:

- Pursue growth selectively and defend market share
- Accelerate digital first business
- Lead with purpose: focus on customer, client and community

Value creation and impacted capitals

> ***"The Bank will continue to optimise its capital structure, seek appropriate and cost-efficient funding, maintain a liquidity maturity profile to meet the Bank's growth aspirations and implement sustainable balance sheet management strategies within the Board-approved risk appetite."***

Accelerating a digital first business

The Bank's Chief Operating Office is the primary enabler in supporting business strategies led by technology, data and digital enhancements. 2021 has been a year where we have accelerated our efforts and investments on this front, enabling the Bank to reconfigure digitalisation to significantly improve customer experience. Our 2021 digital book of work comprised 51 projects (some multi-year), of which the Bank mobilised 46 during the reporting period. The majority of the initiatives are geared towards accelerating investment in digital transformation and partnerships and meeting mandatory obligations, with the remaining 20% of initiatives encompassing distribution first channels and strategic capabilities.

Critical benefits derived from our digital projects include advanced automation to improve the quality of customer interactions through process optimisation and enhanced productivity, improved turnaround times, and reduced errors. Top projects delivered during the reporting period include the following:

- Digital wallet and agency banking
- Automation - loans and cards straight through processing
- Core pricing and billing Absa Access Online (digital offering for corporate customers)
- Cash digitalisation – introduction of bulk ATMs for business banking clients
- Transactional chat/WhatsApp banking
- Sky branch
- Small, Medium Enterprise (SME) centre
- Introduction of Digital Corners QR Code withdrawal at ATMs.

We continue to invest in data and analytics to leverage and improve customer experience. Through our Customer 360 solution, we have access to a 360-degree view of customer profiles. This solution enables a view of customer transacting patterns, account holdings and behavioural spending insights. We have built customer journey maps through data tools that allow customisation and personalisation of services at different intervals throughout the customer lifecycle. We can map customer engagement and involvement, product holding, and predict dormancy at product and account levels through these journey maps and customer lifecycle management principles. Insights from customer journeys also advise the future designs of products and service models across different customer segments.

We have also built key customer experience indicators into functional scorecards, including the following dimensions: customer experience index, net promoter score, fair customer treatment, complaints index; and specifically for CIB.

Post conducting the customer experience surveys, action plans are crafted to address pain points, feedback and insights provided by customers and clients. Key indicators are monitored, and targets are set annually to enhance customer experience.

We also monitor and enhance customer experience through social media insights management by covering engagement levels, response rates, response times, feedback, and customer complaints. In cognisance of the critical nature of the Contact Centre service, key performance indicators have been enhanced, including call servicing, answer levels, call abandonment rates and call efficiency.

Looking ahead

Moving into 2022, we will seek to create seamless end-to-end client and employee journeys that are consistently measured to determine progress. This process will entail driving digital adoption and sales across our client base, optimising and automating back-end operations and leveraging digital technology to launch new transformational products and banking capabilities through our clients' channels of choice. Digital partnerships will continue to be a crucial focus for the Bank to achieve our ambitions. Enhanced investment in this area has strengthened our ability to innovate through experimentation with start-ups and corporates, and we expect this to continue. As technology becomes integrated into our business fabric, the defence of that fabric becomes significantly more important. Hence, we will continue to develop new, innovative methods to detect and identify existing and emerging cybersecurity threats.

Strategic theme

- Pursue growth selectively and defend market share
- Accelerate digital-first business
- Lead with purpose: focus on customer, client and community
- Build our entrepreneurial culture and create a workforce for the future.

Value creation and impacted capitals

Awards and notable achievements

- Best Bank on Service

Building our entrepreneurial culture and creating a workforce for the future

As a bank, our people are our strength. Through every moment, every achievement, and every conversation, our people are the heartbeat that brings possibilities to life. We acknowledge that we face constantly changing landscapes that evolve our perspectives and create the context for our actions. We embrace and learn from these dynamic circumstances. The pandemic has been the greatest teacher. While it has demonstrated our agility and amplified our resilience, it has brought into focus what matters most. It has accelerated our people response, enabling the Bank to adapt to the new working environment and ensuring that people remain engaged, productive, and responsive to dynamic market changes. In 2021, we focused on enhancing the employee experience, fostering an inclusive workplace by preparing our talent for the future world of work and strengthening our leadership and succession pipeline.

Themes for 2021	**Enhancing employee experience:** eNPS of -4.92%	**Caring for employees:** Investing in the wellbeing of employees through concerted efforts with the company doctor.
An inclusive workplace: feedback on our transformation, diversity and inclusion initiatives and employment equity outcomes.	**A future fit evolution:** Our initiatives aimed at building a future fit workforce. **60%** hybrid work environment	**Organising ourselves for success:** Key workforce outcomes and our intentions to design future fit structures. **Flexible** agile and flexible structures
Focus on talent, leadership and succession: A report on our initiatives and key metrics. **96.6%** high performer retention rate	**Investing in development:** Investments in growth and learning to develop critical and scarce skills for the future. **P5.2 million** training investment	**Enabling performance through reward:** Our reporting against key indicators that motivate for performance and to retain our talent. **P406 million** paid in remuneration, benefits, and incentives

Building our entrepreneurial culture and creating a workforce for the future continued

Enhancing employee experience

Building on the foundations of our cultural transformation journey, we remain resolute in enhancing the employee experience and building a workplace where our people find meaning and purpose. We acknowledge that to address challenges that influence the lived experience, we must continue to listen to the voices of our employees. A vital component of understanding our people is our annual employee engagement survey, which saw a participation rate of 76% during the period under review. The overall score for the quality of the employee experience is 59% (2020:56%), with 49% of employees either delighted or satisfied with their experience of working at Absa (employee sentiment) and 71.1% of employees indicating that they experience job satisfaction. In terms of advocacy, our employee net promoter score (eNPS) improved from -10% in 2020 to -4.9% in 2021.

The next step in our journey will include functions to understand specific nuances of our business areas. In early 2022, employees will be invited to participate in team culture conversations to enhance our analysis of the results before we implement the necessary actions.

Caring for employees

Our COVID-19 response focused on employee safety, health, and wellbeing. For the period under review, 587 had contracted COVID-19, with five losing their lives due to COVID-19 related complications. During the 2021 COVID-19 vaccine roll-out, the Bank and our medical aid fund arranged for employees to have easy access to vaccines and provided vaccine and booster leave, providing time off work post-vaccination to recuperate from any potential side effects. The Bank's key focus has been to ensure the safety and wellness of our employee community during this time. The Bank provided safety supplies to all employees, including vitamins to boost their immune systems and combat the COVID-19 virus. The Bank also offered employees services and support from the company doctor to manage COVID-19 and other health issues. The Bank furthermore provided psycho-social support to our employees. Both services (doctor and counselling) are provided as a benefit to Bank employees and their immediate family members at the Bank's cost.

An inclusive workplace

We continue to recognise that diversity and inclusion matter more than ever before in this intensely connected world. We remain committed to fostering an inclusive, diverse, and transformed workplace to better serve our diverse customer footprint and position the Bank as a responsible, caring business.

Senior management levels

- Women in senior leadership roles marginally increased to 45% from 44% in the previous year

Middle management levels

- Women in middle management roles remained flat at 57% year-on-year.

Our future-fit evolution

As the Bank reflected on the induced changes to our ways of work due to COVID-19 restrictions, it became clear that our employees' organisational practices and expectations have fundamentally changed. The Bank adopted the hybrid working model as standard in line with this understanding. Through a series of employee/business engagements and surveys, it is estimated that our workforce will continue to work in a hybrid manner on a 60% (office) and 40% (remote) basis.

To ready our organisation for this longer-term transition, we continue to support employees to enhance productivity, engagement and inclusiveness in a virtual world. The Bank will be guided through this journey through three horizons, from embedding the basics of hybrid working to a more flexible organisation design:

- **Horizon 1:** we continue to invest in stabilising the current remote working model while laying the foundations for flexible working
- **Horizon 2:** we are accelerating hybrid working with our employees either working remotely, onsite or hybrid. We will also start the move towards flexible working
- **Horizon 3:** we will embed and optimise hybrid working (with a specific emphasis on culture and collaboration) and mature the framework for flexible working at scale.

Organising ourselves for success

Our industry is increasingly competitive, and pressure remains for the Bank to be an adaptive financial services provider. To meet post COVID-19 market demands and enable our strategy, we adapted by aligning and promoting the right strategic capabilities and structures to facilitate the design of effective, efficient, and flexible systems. Beginning with our most senior cohort, we ensured direct individual alignment with our strategic ambitions and created a differentiated approach to performance measurement at different levels. In so doing, we strengthened alignment between employee contribution and business priorities - to link business performance, individual performance, and ultimately reward.

Building our entrepreneurial culture and creating a workforce for the future continued

Focus on talent, leadership, and succession

Despite changes in our leadership and consequently the pace of talent deployment efforts, we remain steadfast in strengthening our leadership and succession pipeline. Our renewed approach ensures that:

- We have our best talent in our highest value-adding roles
- We build more robust leadership and succession pipelines
- We embed talent management as a business leader, as well as people manager-led organisational practice and culture that delivers sustainable strategic performance and employee career growth.

To improve our leadership and succession pipeline, we have taken a deliberate approach to developing the next line of leadership individually and collectively through bespoke development plans. We have also amplified our efforts to build an enterprise-wide young talent proposition that identifies and accelerates the development of next-generation leaders. Lastly, we have improved our organisational talent management capabilities by refreshing our philosophy, framework, process and tools as the bridge to our enhanced talent mobility programme. 75% of the learning budget was expended on selective leadership interventions for top talent, succession talent and line management upskilling as per talent and career plans. The Absa Group Leadership Academy has built partnerships with renowned business schools such as the International Institute for Management Development (IMD), Duke, Strathmore, and Henley Business School. This partnership has allowed the Bank to incorporate and weave its leadership credo and competencies in the programmes to produce high calibre leaders. Therefore, our employees were exposed to high-quality programmes such as Ignite Her women's development, Leadership Excellence, Transform, Personal Branding, Dare to Lead, and Manager Essentials. Our Country Management Committee underwent executive coaching and other leadership interventions such as masters programmes, Singularity U and Personal Branding for senior people.

Investing in development

Learning has accelerated towards an interactive, self-directed, primarily digital experience that employees can opt into anywhere, anytime, on any device and at any pace. While the primary objective remains reskilling and upskilling of employees for the future of work, we also aim to instil a mindset of lifelong learning. Our philosophy that our employees have the infinite power to become a constantly better version of themselves has come to life through our learning campaigns. In 2021, our total learning and development spend was P5.2 million, which was directly invested in the training and development of our employees. 85% of our employees participated in training programmes, with employees accessing 46 482 available learning programmes. The Bank enabled these training interventions through various learning platforms, recording approximately 23 854 learning hours. The bulk of our training budget was spent on leadership and management, developing managers and leaders capable of driving the Bank's agenda into the future while focusing on the sustainability of the Bank. Furthermore, the Bank provided 798 participants with free virtual personal mastery sessions. This initiative assisted participants in dealing with uncertainty, controlling emotions, and rebounding from obstacles to perform at work and home.

As part of enabling our employees to work in a hybrid environment and effectively deal with virtual meetings and activities, the Bank partnered with Assento, a Microsoft certified trainer, to deliver Microsoft Teams end-user training. There was a direct focus on building technical skills in the technology space to ensure all employees have current competencies. The Bank extensively assessed skill levels and benchmarked to current competencies, then crafted a bespoke plan for every employee with a succession rate of 80%. Udemy and Absa digital campus continued to assist self-driven employees in building requisite skills in the digital space.

As part of promoting self–directed learning and assisting with retention and augmentation of our employee value proposition, the Absa Scholarship was introduced. Seven scholarships were awarded internally, focusing on developing future skills for the banking industry. The Bank will continue this initiative to fully support employees' career ambitions while building requisite skills for the future.

In 2021, the Bank also successfully delivered learning weeks with 503 participants. Learning weeks are the vehicles we use to build competencies and support the career growth of employees. These interventions give them access to learning outcomes, exposing them to world-class thought leaders while giving them tools to reflect and start working on their growth and careers.

Enabling performance through reward

Our efforts have been directed at strategically allocating reward resources, aligned with performance, and ensuring appropriately competitive fixed remuneration. We continue to pursue increasing trust in the Bank's remuneration frameworks and outcomes with stakeholders, doing so through improved transparency and a clear link between performance and reward outcomes. In 2021, we paid P406 million (excluding taxes), remuneration, benefits and incentives, to our employees (2020: P427 million). Our unionised employee basic salary bill increased by 5%, with management receiving an average of 3%. These increases contributed to an overall improvement in fixed remuneration of our more junior employees. Our bonus pool, aligned to headline earnings, allows the Bank to recognise and reward strong performance accordingly.

Building our entrepreneurial culture and creating a workforce for the future continued

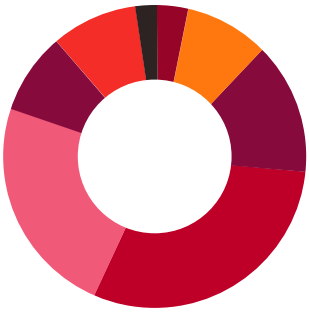
Building a sustainable business

Our total workforce declined from 1 101 in 2020 to 1 069 in 2021 due to natural attrition and targeted hiring efforts that responded to current market conditions. Voluntary attrition increased in 2021, while total employee turnover decreased from 8.6% to 5% in 2020 and 2021.

Employee tenure profile

Headcount

Age Range	Total	%
>60	3	0%
20-25	37	3%
26-30	113	9%
31-35	184	14%
36-40	388	30%
41-45	299	23%
46-50	110	9%
51-55	110	9%
56-60	30	2%
Grand Total	1274	100%



We have noted a reduction in employee relation cases compared with the previous reporting period. Below are the 2021 risk thresholds and the Bank's performance therein:

- Misconduct as a % of workforce – 1.9% (target <5%)
- Dismissals as a % of misconduct cases – 0.1% (target <5%)

Looking ahead

Our priority in 2022 is to become more digitally led. We look forward to delivering even better employees experience, committing to continue innovating and enhancing our employee value proposition, cementing our position as the Top Employer.

Strategic theme

Build our entrepreneurial culture and create a workforce for the future.

Value creation and capitals impacted

Awards and notable achievements

Absa Bank of Botswana received the Top Employer Award from the Top Employer Institute. The Top Employers Institute is a global authority to recognise excellence in People practices. Our certification marks an important milestone in our journey to re-invigorate the Bank's People practices.

> ***To improve our leadership and succession pipeline, we have taken a deliberate approach to developing the next line of leadership individually and collectively through bespoke development plans.***

Leading with purpose – Citizenship report

The Bank remains confident in the interventions that it has developed to address the continued social and economic development of the communities in which it operates. We have made significant progress in Thought Leadership, Education and Skills Development, and Environmental Sustainability, which are the key pillars of our strategy. Whilst the COVID-19 pandemic has created challenges for the effective implementation of some of our programs, it has provided us with an opportunity to embrace technology and deliver our citizenship agenda.

In January 2021, we launched our inaugural hackathon and incubation program. This programme seeks to mobilise youth innovators, connect them with existing clients from our Business Banking portfolio so they can appreciate their challenges and provide them with a platform to create innovative solutions. The Bank provided three teams with laptop computers and internet connectivity to ensure consistent attendance of the incubation program. Over eight weeks, the teams attended weekly learning sessions with industry experts, including Companies and Intellectual Property Authority (CIPA), Local Enterprise Authority (LEA) and Botswana Communications Regulatory Authority (BOCRA) and participated in an entrepreneurship boot camp with The NeoHub. They also received a one-year subscription to Udemy, an online learning platform. The first prize-winning team has provided a development and maintenance contract for their solution.

The Absa Youth Hub is an online platform dedicated to building capacity and upskilling the vulnerable youth group aged 18 to 25. Since the programme's inception in June 2021, 1 500 youth have been trained, and 19 placed in employment and internships. The Youth Hub is being implemented in partnership with a youth-owned entity, iBranch Recruiters. It utilises our existing ReadytoWork platform and connects participants with human resource practitioners/recruiters in real-time. It features a career development programme that focuses on upskilling youth and assisting them to become employed. The specific services provided include career services programmes such as curriculum vitae writing, interviewing skills, email and Short Message Service (SMS) job notifications, preparation for aptitude tests, industrial training, and internships.

F.G. Mogae Scholarship Fund is one of our primary citizenship programs where we provide scholarships to deserving young Batswana who require financial assistance to pursue master's degrees. We have supported over 75 Batswana to date, with the latest intake taking place in 2021 focusing on Science, Technology, Engineering and Mathematics (STEM). To this end, eight students have been offered a scholarship, and they will be studying Computer Science, Engineering, Mining Engineering, Chemical Engineering, Biological Science and Biotechnology.

Whilst COVID-19 has severely impacted how we engage our communities, we are utilising technology to deliver education and skills development to the youth. Our digital learning platform ReadytoWork remains relevant and continues to make an essential contribution to the education of young people. In 2021 ReadytoWork was utilised for training 10 610 young people. We partnered with the United Stated Agency for International Development (USAID) to train youth and adolescents on critical life skills that will enable them to become economically active. ReadytoWork is an online learning platform which seeks to ease the transition from school to the world of work for youth. It offers four modules on money, entrepreneurship, work and people skills. ReadytoWork comes at no cost for the user and is available to young people aged 18 to 35. We have hosted ReadytoWork sessions where colleagues from various business units volunteered to speak on issues relating to money and work skills.

The Bank has continued with its Women in Business webinars, which seek to educate and inspire women running their businesses and those who aspire to become entrepreneurs. Initially launched in 2020 under the theme "Reimagining Business for Women Entrepreneurs," we hosted three webinars in 2021. The first featured our colleagues discussing our Enterprise and Supply Chain business unit, Agriculture and Procurement. The second discussed "Opportunities in Agriculture and the third "Export opportunities for SMEs in Botswana.

Our employee volunteering programme remains an integral part of our Citizenship Agenda. We encourage our employees to play an active role in building communities by providing small grants, matched funding and time off work to share their skills. Our primary campaign in 2021 was our tree planting campaign, where we sought to conserve our environment and contribute to solving the issue of climate change. We partnered with Green Botswana Trust and sought guidance and support from the Department of Forestry. As of the end of December 2021, 64% of our employees had planted over 700 trees, of which over 90% were fruit trees at clinics, schools, kgotlas and community libraries across Botswana.

Leading with purpose report - citizenship report continued

To continue to address the negative impact of the COVID-19 pandemic, the Bank donated 5 000 masks to pupils of the Hukuntsi Sub District. Moreover, Absa has committed to contributing 60 water tanks to communities across Botswana. We have partnered with Stepping Stones International and Global Communities (previously Project Concern International) and donated 31 water tanks to communities in the Southern part of the country. The remaining 29 water tanks will be delivered to communities in the Northern part of the country.

Looking ahead

In 2022, we will sharpen our focus on the environmental pillar, driving activities that will manage our environmental footprint. These efforts will include internal and external elements culminating in an impactful response to the challenges posed by climate change and waste production. The Bank will continue to play a meaningful role in the social and economic development of the nation through deliberate interventions in education and skills development, financial inclusion and advancing social justice. Our colleagues will be encouraged to volunteer their time and skills to promote sustainable development.

Strategic theme

- Lead with purpose: Focus on customer, client, and community

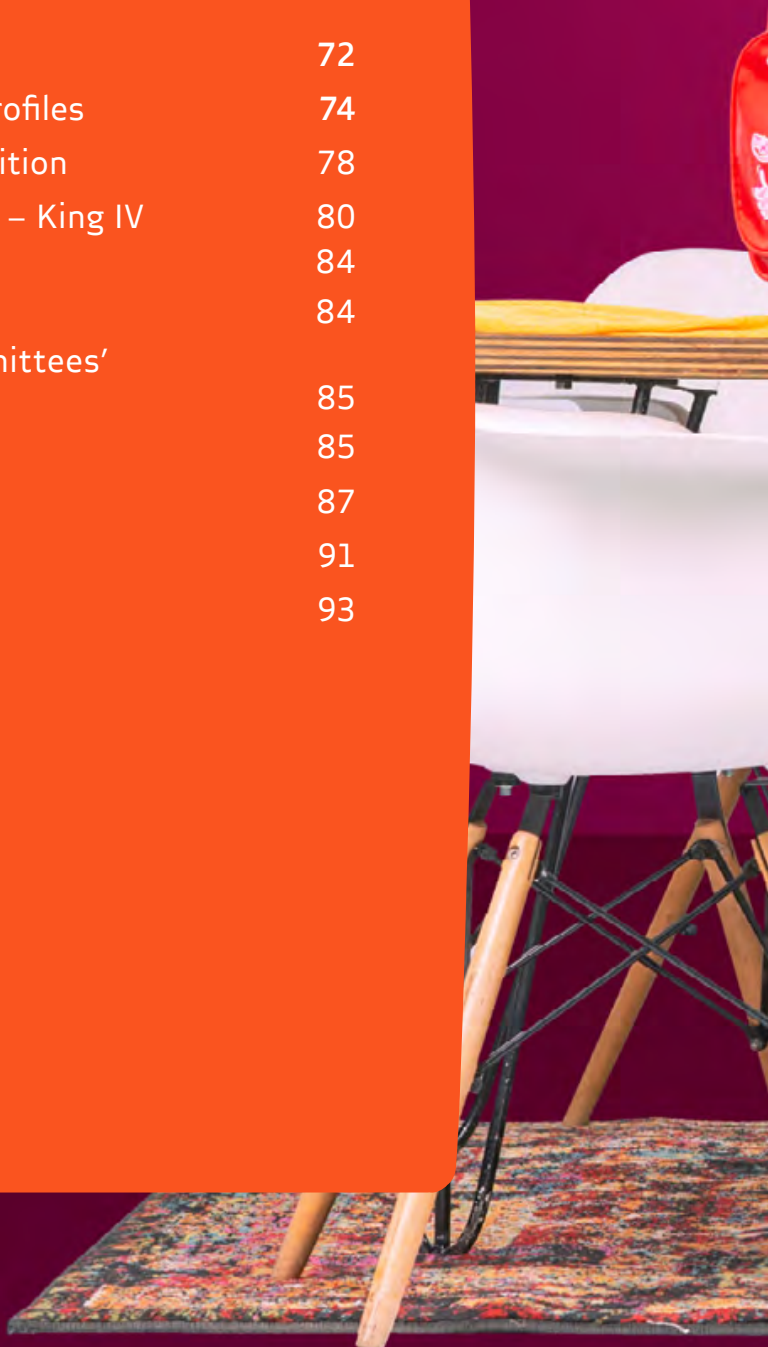
Value creation and capitals impacted

Awards and notable achievements

- Launch of our inaugural hackathon and incubation program
- Over 700 trees planted across the country by our employees
- 10 610 youth trained through our ReadytoWork platform
- We hosted three women in business webinars

"We launched our inaugural hackathon and incubation program to connect youth inventors with existing clients from our Business Banking Portfolio so they can appreciate their challenges and provide them with a platform to create innovative solutions. Over eight weeks, the teams attended weekly learning sessions with industry experts and entrepreneurial skills development training. The first prize-winning team was provided with a development and maintenance contract for their solution."

Creating value through strong governance



Board of Directors

Non-executive Directors

Daniel Neo Moroka

Board Chairman

Independent Non-Executive Director

Daniel Neo Moroka was appointed an Independent Non-Executive Director and Board Chairman of the Bank effective 1 July 2021. Neo has over 40 years of experience spanning corporate industry locally and regionally and the public sector in Botswana, with expertise in financial services, retail and wholesale, oil and gas, mining, and the trade sectors. He is currently the resident director of the De Beers Group of Companies and Chairman of De Beers Global Sight Holder Sales in Botswana. Having joined De Beers in 2010, he is responsible for the overall strategic direction and governance of the companies in Botswana and the management of the relationship between De Beers and the Government of Botswana.

Neo was previously the Chief Executive Officer of organisations such as BP Botswana, BP Zambia, and BP Southern Africa while serving on the boards of listed entities such as Funeral Services Group and Sefalana Holdings. He has previous experience in the banking sector and has served as a Non-Executive Director for Bank of Botswana, Barclays Bank of Botswana, and the National Development Bank.

A former politician serving as the Minister of Trade and Industry from 2004 to 2009 in the Government of Botswana, Neo is also a member of the Botswana Institute of Bankers and the Institute of Directors, South Africa. He holds a BSc (Magna Cum Laude) in Wildlife and Fisheries Sciences from Texas A&M University and a Master of Science in Animal and Range Sciences from New Mexico State University, United States of America.

Cosmas Moapare

Lead Independent Non-Executive Director

Chairperson of the Audit Committee
Member of the Credit Committee

Cosmas joined the Bank's Board of Directors in March 2020 and is a Chartered Accountant by profession. He is the founder and Chief Strategy Officer of Cosburg (Pty) Ltd. He has held various positions at Botswana Telecommunications Corporation, Botswana Telecommunications Authority (now BOCRA), and the Local Enterprise Authority (LEA), where he was the Deputy Chief Executive Officer.

Cosmas has immense directorship experience with past seats on the boards of Air Botswana, the National Development Bank (NDB) and the Finance and Risk Subcommittee of the Botswana Institute of Development Policy Analysis (BIDPA), as well as the Botswana Institute of Accountants (BICA) Practice Review Committee. Cosmas has also served as the Chairman of the LEA Pension Fund.

Cosmas holds a Bachelor of Commerce degree from the University of Botswana and is a Fellow of the BICA.

Benjamin Monaheng Kodisang

Independent Non-Executive Director

Chairperson of the Credit Committee
Member of the Audit Committee

Benjamin joined the Bank's Board of Directors in March 2020 and is the founder and Chief Executive Officer of ALT Capital Partners, a Pan African impact investor focusing on economic infrastructure, social impact property and private equity.

He has over 25 years of investment expertise, having been the Chief Executive Officer of Sanlam Alternative Investments, Managing Director of STANLIB Asset Management and Africa, and Managing Director of Old Mutual Property. Ben previously served as President and Director of the South African Property Owners Association (SAPOA); Chairman of Western Cape's Trade, Investments and Destination Marketing Agency (WESGRO). He was also the first Chairman of the Johannesburg Securities Exchange (JSE)-listed SA Corporate Real Estate Fund.

He has worked in Botswana, South Africa, Namibia, Lesotho, Swaziland, Kenya, Tanzania, South Sudan, Ghana, Nigeria, India, and Saudi Arabia. Benjamin holds a Bachelor of Commerce Honours degree from the University of South Africa and is a Chartered Accountant.

Sari Helena Nikka

Independent Non-Executive Director

Chairperson of the Risk Committee
Member of the Human Resources Remunerations and Nominations Committee

Sari joined the Bank's Board of Directors in March 2020 and has made her career in international finance. She previously served as the Chief Executive Officer of Norsad Finance Limited (Botswana, Zambia), an impact investor and regional private credit firm offering medium to long-term risk capital to mid-market growth companies across the southern Africa region. She has considerable experience on international best practices on environmental, social and governance standards.

Before working for Norsad, she was the Programme Director (Finnpartnership) and Senior Investment Manager for Finnfund, the Finnish development financier and professional impact investor investing in responsible and profitable businesses in developing countries. She was also a Project Finance Advisor for Finnvera Plc (Finland), a specialised financing company that promotes Finnish exports to emerging markets and developing countries.

Sari has served on various boards and board committees of companies and investment funds investing in Africa, Asia, Latin America and Eastern Europe. She has a range of experience in project finance, senior debt instruments, mezzanine and equity investments, and financing solutions for microfinance institutions and commercial banks.

Sari holds a Master of Science degree in Economics and Business Administration from Turku School of Economics and Business Administration in Finland.

Board of Directors continued

Kgotlayarona Ramaphane

Independent Non-Executive Director

Chairperson of the Human Resources, Remuneration and Nominations Committee
Member of the Risk Committee

Kgotlayarona joined the Bank's Board of Directors in August 2018 and has over 30 years of experience in Project and Business Management in Public Enterprises. He previously served as the Chief Executive Officer of the Public Enterprises Evaluation and Privatisation Agency (PEEPA). He also served as Head-Performance Monitoring of PEEPA, where his responsibility included advising the Government on performance and corporate governance issues in parastatals.

Before his appointment to PEEPA, Kgotlayarona served in several high-profile positions in leading organisations, including Botswana Railways and Botswana Technology Centre. He has also served as a Board Member of Botswana Privatisation Assets Holding.

He holds a Master of Business Administration (MBA) from the University of Stirling (United Kingdom), a Bachelor of Commerce from the University of Botswana, and a Certificate in High-Performance Leadership from the University of Oxford.

He is also a qualified PRINCE2 Project Management Practitioner and a Corporate Governance Practitioner.

Sethunya Makepe-Garebatho

Independent Non-Executive Director

Member of the Human Resources, Remuneration and Nominations Committee
Member of the Risk Committee

Sethunya joined the Bank's Board of Directors in September 2021. With a forte in labour law and employee relations, Sethunya has more than 26 years of experience working for various organisations such as Debswana Diamond Company, the Botswana Telecommunications Corporation and Global Resorts Botswana. She is the Managing Director and Principal Consultant of People Connections, a human resource and consultancy practice she founded in 2002.

She previously served on the boards of Botswana Housing Corporation, Botswana Stock Exchange, Botswana Trade Commission and Women's Finance House. She has also served as an Independent Trustee of the Alexander Forbes Retirement Fund and in the University of Botswana's Human Resources Committee Council. She is currently a council member of Maru-A-Pula Secondary School.

Sethunya holds a Bachelor of Laws (LLB) from the University of Botswana, a Master of Science degree in Project Management from the University of Bolton in the United Kingdom, an Executive Leadership Program with Oxford University, and has recently completed an Executive Coaching Program, as well as a Compliance Management Programme with the University of Cape Town. She is a qualified Mediator and Arbitrator, having completed a Post Graduate Diploma in Alternative Dispute Resolution with the University of Pretoria, South Africa, in conjunction with the Arbitration Foundation of Southern Africa.

Thabo Kagiso Matthews

Independent Non-Executive Director

Member of the Credit Committee
Member of the Audit Committee

Thabo joined the Bank's Board in March 2022 and is currently the Managing Director of Fibre Sourcing Botswana. Thabo has previously worked in senior management roles for Barclays Bank, Mascom Wireless, KPMG Consulting, Accenture, and Deloitte Consulting. He was the Managing Director of Sechaba Brewery Holdings Limited from January 2020 to June 2021.

For much of his career, Thabo has provided management consulting services to organisations in public and private sectors in Botswana and South Africa. After heading Deloitte Botswana's consulting offering, he established his consulting firm providing services to clients directly and through subcontractor services. He recently expanded his entrepreneurial interests by venturing into the information technology and transportation spaces.

Thabo previously served on the Botswana Life Retirement Annuity Fund boards, Bayport Financial Services, Standard Chartered Bank Education Trust, Sechaba Brewery Holdings Limited, and Kgalagadi Breweries Limited. He is currently a council member and trustee of Maru-A-Pula Secondary School. He holds a Bachelor of Arts (Honours) in Economics and Computer Science from Sussex University (United Kingdom).

Saviour Mwepu Chibiya

Non-Executive Director

Absa Group Limited Nominee

Saviour joined the Bank's Board in April 2022 as the Absa Group Limited ("the Group") nominee. He has over 29 years of regional and international experience in financial institutions like CitiGroup, Barclays Bank, and the Group. His experience includes leadership roles including Chief Executive Officer, Managing Director ("MD") and Regional Head for varied segments, including corporate and investment banking ("CIB") and retail and business banking ("RBB").

He joined the Group in 2010 as MD (Managing Director) of Barclays Bank Zambia Plc. In 2017, he joined the Absa Regional Operations ("ARO") leadership team as Regional MD, assuming increasingly pan-African regional responsibilities. Reporting to the Group Chief Executive, Saviour is currently the Group Executive for ARO. In his current role, he is responsible, together with RBB and CIB, for the Group's ARO businesses and the Group's strategy, collaboration, and relationships with its key stakeholders across these businesses. Saviour is a member of the Group Executive Committee and provides input in terms of the overall Group's strategy and, in particular, the strategic choices for the Group's growth in the ARO banks.

Saviour has previously served on the boards and board committees of Barclays Bank Zambia Plc, Barclays Life Zambia Ltd, Zambia Electronic Clearing House Ltd and Citibank Zambia Ltd. He is a past chairperson of the Bankers Association of Zambia and past vice-chairman of Junior Achievement. Saviour is a fellow of the Zambia Institute of Banking and Financial Services and holds an Economics degree from the University of Zambia.

Country Management Committee

Keabetswe Pheko-Moshagane*

Managing Director

Keabetswe joined the Bank in 2010 and is a seasoned executive with over 12 years of experience in the banking and telecommunications industry. She was previously the Head of Core Banking Applications, after which she held the position of the Head of Technology, overseeing bank projects, programmes, and initiatives to ensure the Bank operates in a stable environment. Before being appointed the Managing Director in April 2019, Keabetswe held the Bank's Chief Operations Officer (COO) position. She was also the Chairperson of the Bankers Association of Botswana until April 2021.

Keabetswe has a Bachelor of Administration in Information Technology specialising in IT Management and Business Applications from the Tshwane University of Technology and has attended several leadership trainings. She holds a Master's in Business Administration with Mancosa and the Absa Leadership Academy program, conducted in conjunction with the prestigious IMD Business School in Switzerland. Keabetswe also recently completed a programme in Positive Leadership and Transformation with IE University, Spain.

Before joining the Bank, she consulted for various companies and industries in South Africa.

Cynthia Morapedi *

Finance Director

Cynthia joined the Bank in October 2015 as the Financial Controller. She is a Chartered Accountant with over 16 years of work experience. Before joining the Bank, she held the position of Finance Manager at African Banking Corporation t/a BancABC now Access Bank, leading a division responsible for financial reporting, business planning, performance and analytics, tax management, treasury operations, governance and control and general administration. She was appointed Finance Director in July 2020.

Cynthia holds a Master of Business Administration from the University of Oxford Brookes (UK), and a bachelor's degree in accounting obtained from the University of Botswana. She is a Fellow of the Association of Certified Chartered Accountants (ACCA, UK), admitted as a full member in 2006. Cynthia has also completed several leadership programs.

Kealeboga N. Bojosi

Head of Legal and Secretariat

Kealeboga joined the Bank in 2012 as a Legal Advisor and was appointed Head of Legal and Secretariat in 2015.

He has read, taught and practised law in Botswana and England, specialising in Banking, Finance, General Commercial Law and Corporate Governance.

Amongst other qualifications, he holds an LLM from the University of Cambridge and a Doctor of Philosophy from Oxford University. He is a Solicitor of the Supreme Court of England and Wales.

He has also completed several executive management courses, including the Oxford Leadership Program and Executive Finance Program through the Said Business School, Oxford University.

* Keabetswe and Cynthia are also members of the Bank's Board of Directors as Executive Directors.

Country Management Committee continued

Lesley Bradley

Corporate Banking Director

Lesley joined the Bank in 2003 and has 30 years of experience in the banking industry. She was appointed Corporate Banking Director in 2020 and has held various senior positions within Corporate and Investment Banking across various Coverage and Product sectors. Before joining the Bank, she was the Regional Head of Cash Management for Standard Chartered Bank overseeing Botswana, Zambia, and Zimbabwe.

Lesley holds a Bachelor of Commerce (Management) Degree from the University of Botswana and has completed various leadership training programmes, including the Management Development Programme from the University of Stellenbosch.

Titose Musa

Head of Compliance

Titose joined the Bank in 2013 and has over 20 years of experience in the banking sector. Her extensive experience includes Organisational Strategic Alignment, Risk Management, Performance and Financial Management Change, and People Management.

Before joining the Bank, she held several senior positions at Standard Chartered Bank, including Cluster Head of Operational Risk - Southern Africa, Head of Operational Risk and Head of Marketing and Branch Management.

Titose holds a Bachelor of Arts in Humanities from the University of Botswana, a Master of Science in Strategic Management from the University of Derby, and an Anti–Money Laundering Compliance certificate from the Association of Certified Compliance Professionals in Africa (ACCPA).

Luka Disho

People Function Director (Acting)

Luka joined the Bank in 2014 as a Senior People Business Partner before being appointed as Acting People Function Director in March 2021.

He has nineteen years of experience in the Human Resources field, covering areas such as strategy, employee relations, performance management, talent management, reward and recognition, employee value propositions, and employee engagement. Before joining the Bank, he worked with organisations such as Stanbic Bank Botswana and Bank of Botswana.

He holds a bachelor's degree in Business Administration (Management) from the University of Botswana and a masters degree in Business Administration (MBA) from the University of Stellenbosch Business School.

Country Management Committee continued

Krishnan Menon

Chief Operating Officer

Krishnan joined the Bank in 2020 and has over 18 years of experience in the banking industry, with a primary focus on retail and corporate banking across multiple geographies, including the United Kingdom (UK), Middle East, Asia, and Africa. He was with the Barclays PLC Group for over a decade, managing corporate operations for the UK and subsequently being the Chief Administrative Officer of Barclays Shared Service Centres in India.

In 2012, Krishnan moved to Africa to lead the operational transformation initiative for the region, which oversees the utilisation of viable digital alternatives to traditional operations.

He holds a Bachelor of Science in Mathematics from Calicut University, India.

Barati Rwelengera

Head of Marketing and Corporate Relations (Acting)

Barati joined the Bank as the Chief Internal Auditor in 2016 and has over 15 years of audit experience. In that role, she oversaw the effectiveness of governance, risk management and control over current and evolving risks in the current and expected business environment. She is currently the Chief of Staff, overseeing the Marketing and Corporate Relations (MCR) department.

Before joining the Bank, Barati worked at Letshego Holding Limited, where she left as the Group Head of Internal Audit. Barati also previously worked for Pricewaterhouse Coopers (PWC), where she provided audit and other assurance services to various clients across all industries in Botswana. She brings a wealth of experience, having been involved in international assignments in the United States of America.

Barati is a fellow member of the Association of Chartered and Certified Accountants (ACCA) and holds a Post Graduate Diploma in Business Administration from the University of Cape Town's Graduate School of Business. She is also a qualified PRINCE2 project management practitioner.

Leroy Klein

Chief Risk Officer

Leroy joined the Bank in 2008 and was appointed Country Treasurer in 2017 and Chief Risk Officer in May 2021. He has over 13 years of experience in the banking sector, having held middle and senior management roles within the Treasury and Risk functions.

Before joining the Bank, he worked for KPMG Botswana as a Senior Auditor. Leroy is a Fellow of the Association of Certified Chartered Accountants (ACCA- UK) and is a member of the Botswana Institute of Chartered Accountants (BICA).

Leroy has completed the Executive Development Programme at the University of Stellenbosch Business School and various other leadership courses while with the Bank. He is currently pursuing a Masters in Business Administration at Oxford Brookes University.

Country Management Committee continued

Valeta Mthimkhulu

Retail Banking Director

Valeta joined the Bank in 2020 and has over 20 years of diverse and extensive experience in banking, mostly in retail and business banking, corporate affairs, marketing, and project management.

Before joining the Bank, she was the country head for retail banking at Standard Chartered Bank, Zimbabwe.

Valeta previously worked for Barclays Bank Zimbabwe for 19 years and was appointed the Consumer Banking Director for Barclays Bank Zimbabwe from June 2011 to May 2018. She also previously held the role of Regional Head of Corporate Affairs at Barclays Bank, overseeing Zimbabwe, Botswana and Zambia. She has served on various Boards in Zimbabwe in the banking and non-profit sectors.

Valeta holds a Masters of Philosophy in Development Finance from the University of Stellenbosch Business School and a Bachelor of Commerce Degree in Banking.

Maungo Mokotedi

Chief Credit Officer

Maungo joined the Bank in 2018 as the Head of Corporate Credit and was appointed the Chief Credit Officer in November 2021. He has 20 years of experience in the financial service sector, 18 of which were in banking.

Maungo has supported strategic priorities, business growth and led diverse teams at middle and senior management level across three banks and one top tier micro-lending and financial services business.

Maungo is an accountancy graduate from the University of Botswana and holds a Masters of Science in Strategic Management from the University of Derby, UK.

Salma Baduel

Country Treasurer

Salma joined the Bank in 2014 and has ten years of experience in the banking sector, with a particular focus on Treasury. Beginning her career in Treasury at First Capital Bank as a Money Market Trader, she joined the Bank, where she held various management roles within Treasury. She had the Head of Balance Sheet Management role before being appointed as the Country Treasurer in December 2021.

During her period with the Bank, she completed various Treasury related courses and completed a short-term assignment in Absa Group. Her duties included overseeing the Liquidity, Interest Rate Risk and Capital Management processes in all the Absa Africa Entities.

Salma holds a Bachelor of Science in Mathematics from the University of Botswana and is currently enrolled in an Executive Masters programme in Positive leadership and Transformation with IE university, Spain.

Creating value through strong governance

The year under review saw the Bank remain committed to business integrity and the principles of good corporate governance in all activities with direct support from the Bank's Board of Directors ("the Board").

Board structure and composition

The role of the Board is to provide effective and ethical leadership, acting in a way that is considered in good faith, promoting the success of the Bank for the benefit of its stakeholders. During the period under review, the Board achieved this through the following actions:

- Approving and upholding the Bank's purpose, values, and behaviours
- Engaging proactively with the Bank's management to test, challenge, improve, and implement the Bank's strategy
- Overseeing the performance of management
- Providing challenges, counsel, and support to management
- Receiving reports from management on matters pertaining to the agendas of Board and Board Committees, including governance, internal control, assurance, risk, capital management, business performance, resourcing, technology and other enablers; and to challenge action taken by management
- Testing, challenging, and implementing controls, processes, and policies enable risk to be assessed and managed.

Objectives

The main objectives of the Board are as follows:

- Ensure the Bank complies with applicable laws and regulations
- Discuss, agree to, and regularly review, the Bank's business strategies so that they remain in line with those of the Group and, where necessary, recommend adjustments for the Bank to keep up with local market considerations
- Monitor business performance and be responsible to shareholders for creating and delivering sustainable shareholder value, through sound business management
- Establish and embed the Group corporate management model and behaviours, underpinning the achievement of the Group's objectives
- Agree proposals that fall within the discretion of the Board
- Execute other important control functions.

The Board must ensure that management strikes an appropriate balance between promoting long-term sustainable growth and delivering short-term performance. Accordingly, there should be alignment between the Bank's strategy as approved by the Board, and the Group's overall strategy as set by the Group's Board.

Board composition and changes

We have a diverse Board, ranging broadly in age, race, gender, ethnicity, culture, educational background, skills, experience and knowledge. The size and composition of the Board are prescribed by the Bank's Constitution and the Board Charter, which specifies that the minimum number of Directors shall be five and the maximum number shall be twelve, at least half of which shall be resident in Botswana. The composition of the Board is also guided by provisions of the Banking Act, the Botswana Stock Exchange to ("BSE") Listings Requirements, the BSE Code of Best Practice on Corporate Governance ("the Code"), and the Group policies. Compliance with these practices ensures that the Board comprises individuals with a relevant blend of skills, experience and expertise within the context of the size and business of the Bank. This approach to board composition provides a fertile environment for discussion, debate, input, challenge and thoughtful outcomes.

Furthermore, the Board annually reviews and updates the Board Skills Matrix to ensure any identified skills gaps are taken into consideration in the Board recruitment process as and when necessary. The Board is composed of Non-Executive Directors ("NEDs") and Executive Directors ("EDs"). The Executive Directors are the Managing Director and the Finance Director.

In our previous annual report, the Bank updated stakeholders on the recruitment drive undertaken by the Human Resources Remunerations and Nominations Committee ("HR Committee") and the Board, post the 3 NED resignations reported in 2020. In June 2021, after eleven years on the Board, Ambassador Alfred Dube, the Interim Board Chairman, retired from the Board. On 1 July 2021, the Board appointed and welcomed Mr Daniel Neo Moroka as the Board Chairman, approved by shareholders at the Bank's 35th AGM. During the period under review, the Board further welcomed Ms Sethunya Makepe-Garebatho as an independent NED, subject to the approval of our shareholders at the AGM on 28 June 2022. At the beginning of 2022, the Board welcomed Mr Thabo Matthews and Mr Saviour Chibiya to the Board, subject to shareholder

Corporate governance report continued

approval at the AGM scheduled for 28 June 2022. Mr Matthews joins the Board as an independent NED and Mr Chibiya as the Group nominee and a NED. The Board thus currently comprises eight NEDs and two EDs and is within the "related parties" threshold as prescribed by the Bank of Botswana in the "Guidelines on the Appointment of Directors and Senior Management Officials for Banks".

Board meetings

The Board has a minimum of four scheduled meetings per year, and all Directors are expected to attend all sessions. In practice, the Board meets more frequently than four times per year, responding to the demands of the business. In 2021, the Board held ten meetings, one of which was a meeting only for the Non-Executive Directors. A quorum for Board meetings consists of a majority of the members. A quorum may be reached if the members attend in person or by teleconference.

Through the Company Secretary, the Board prepares a Board and Board Committees calendar and forward-planners to ensure that all relevant matters for the Board and the Board Committees' consideration are prioritised. Board meeting attendance is essential in the Board's ability to discharge its duties and responsibilities, and care is taken in preparing the Board calendar to enable attendance. We expect and receive a significant commitment from our Board members. Members of senior management of the Bank and assurance providers (external auditors) may attend meetings by invitation in line with the Charter and the Terms of Reference of each Board Committee. However, they do not form part of the quorum of any meeting.

Director	Board	Audit Committee	Risk Committee	Human Resources, Remuneration and Nominations Committee	Credit Committee
Alfred Dube*	5/5	-	-	-	0/2
Daniel Neo Moroka**	5/5	-	-	-	-
Kgotlayarona Ramaphane	10/10	-	5/5	9/9	-
Sari Helena Nikka	10/0	4/4	5/5	9/9	-
Cosmas Moapare	10/10	4/4	-	-	4/4
Benjamin Monaheng Kodisang	10/10	4/4	-	-	4/4
Sethunya Dorothy Makepe-Garebatho***	4/4	1/1	1/1	1/1	1/1
Keabetswe Pheko – Moshagane	9/9	3/4	4/5	6/7	3/4
Cynthia Morapedi	9/9	4/4	5/5	7/7	4/4

* Ambassador Dube retired from the Board on 28 June 2021.
** Mr Moroka was appointed to the Board on 1 July 2021.
*** Ms Makepe-Garebatho was appointed to the Board on 15 September 2021.

Corporate governance report continued

Corporate governance review and application of King IV

As cited above, the Board has ultimate accountability for the performance and affairs of the Bank and for ensuring that the Bank adheres to high standards of ethical behaviour. The Board adheres to and has adopted local and international corporate governance principles. Locally, as an entity listed on the BSE, the Bank is subject to and adheres to BSE listings requirements and the BSE Code.

The Code provides that every company listed on the BSE's domestic board should have a balanced board. The Bank, therefore, strives to ensure that its Board is balanced and effective and supports the highest standards of corporate governance, comprising all relevant skills and experience. To achieve the requirements of a balanced and effective board, the Bank also strictly adheres to the Bank of Botswana Guidelines on the Appointment of Directors and Senior Officials ("Bank of Botswana Guidelines"). These guidelines apply to all licensed banks and guide the implementation of the provisions of the Banking Act (Chapter 46: 04) concerning the appointment of effective boards.

Additionally, and per international best practices, the Board ensures that management identifies, measures, and monitors various risks through several control mechanisms. In doing so, the Board annually reviews, approves, and has oversight on the Bank's principal and critical risk frameworks, such as the Enterprise Risk Management Framework ('ERMF'), the Operational Risk Management Framework ("ORMF"), the Conduct Risk Framework and the Reputational Risk Framework.

The Group adheres to the King IV Report on Corporate Governance for South Africa, 2016™ ("King IV"), and as a subsidiary company, the Bank, therefore, also applies King IV. The Board adopted the Group Governance Framework, developed as a general governance improvement mechanism for the Group according to the recommendations of King IV. This Framework standardises the application of policies and standards. It also ensures compliance with the Bank's minimum requirements in governance, internal controls, financial management, human resource management, legal and regulatory compliance, internal audit, ethics management, stakeholder relationships and sustainability. It provides clarity on the roles and responsibilities of the Group and subsidiary boards, the proportional application of King IV by subsidiaries, and the management of discretion limits across the Group.

Similarly, the Bank also adopted the Group's Policy on Legal Entities and Directors, operationalising fundamental governance principles for the effective board and legal entity governance. Through the Board Risk, Credit and Audit Committees, the Board continuously governs risk to support the Bank in setting and achieving its strategic objectives and ensure compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the Bank. The Board is also continuously seeking to improve our governance practices and comply with the 17 Principles of King IV. In this way, the Board constantly assesses and evaluates its performance and that of its committees, chair, and members, supporting improvement in its performance and effectiveness in line with King IV.

Corporate governance report continued

King IV Principle	Status	Comments
Principle 1: The governing body should lead ethically and effectively	Applied	The Board sets the tone and leads the Bank ethically, effectively and responsibly. The Board reviews individual Board members' respective declarations of interest at the beginning of every Board meeting, which assists the Board in ensuring ethical decision-making in the best interest of the Bank. The Board considers actual and potential conflicts of interest in the annual assessment of directors' independence. A director may accept other Board appointments, provided that any potential conflicts are considered and appropriately disclosed and managed. The appointments do not conflict with the Bank and adversely affect the director's fiduciary duties. In decision-making, individual Board members act with independence but on a consensus basis, with competence, commerciality and challenge, and the necessary awareness, insight and information.
Principle 2: The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.	Applied	The Board has approved the Absa Way Code of Ethics and delegated its implementation throughout the Bank to management. This code is reviewed and approved annually and outlines our values and expected behaviours when engaging with our fellow employees, customers, shareholders, Governments, regulators, business partners, suppliers, competitors and the broader community. In 2021, the Board continued to receive the Conduct Risk report quarterly from the Head of Compliance, including various indicators that point to the implementation and adherence to the approved code of ethics. Indicators include employee training attendance, number and types of whistle-blowing reports, and implementation plans for crucial compliance initiatives.
Principle 3: The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.	Applied	The Bank is grounded in the communities in which we operate. The Board oversees the Bank's stakeholder policies and takes an inclusive stakeholder approach, recognising the need for transparent disclosure and open communication channels. The Board is engaged and, annually, signs off the Bank's strategy, inclusive of the citizenship strategy. Every quarter, the Board is engaged in citizenship initiatives and strategic updates. In 2021, the Board challenged management to expand and enhance the Bank's sustainability strategy, which was subsequently presented and approved in March 2022.
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.	Applied	The Board is accountable for the performance of the Bank, considering the possible positive and negative outcomes of the Bank's activities and outputs on the economy, society and the environment in which we operate. The Board and management have a combined strategy session annually for appreciation and contribution to the Bank's core purpose and enabling strategic pillars. In 2021, considering the COVID-19 strategic response as the Board approved in May 2020 and the holistic 2020 performance, the Board considered and approved a refreshed strategy in December 2021.

Corporate governance report continued

King IV Principle	Status	Comments
Principle 5: The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects.	Applied	The annual financial statements for the year ended December 2021 were approved by the Board on 22 March 2022 and shared with relevant stakeholders on 30 March 2022. The Board is engaged every quarter on the Banks performance and any risks to its short, medium and long-term prospects. It has ensured that this publication contains reports that will enable stakeholders to assess the Bank's performance.
Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.	Applied	The Board has approved key policies and frameworks that promote good corporate governance and duly monitor embedment. The Board Charter and Board Committees Terms of Reference are reviewed and approved annually to continuously improve corporate governance in the Bank.
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.	Applied	As previously indicated, the Board recognised that the number of NEDs is not aligned with the size and complexity of the organisation and commenced a recruitment process, to this end, appointing three NEDs in March 2020. However, with the resignation of three members of the Board at the end of 2020, the Board commenced a recruitment process. At the date of this publication, the Board had eight NEDs and two EDS and was at an advanced stage of the recruitment of one more NED. Once this is concluded, the Board will have nine NEDs on the Board, as per the Bank's constitution and Board charter. In terms of the recruitment exercise, the Board took a decision to deliberately promote gender diversity in the consideration and assessment of candidates. As at the approval of this report, the Board comprised ten directors, four of whom are women.
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.	Applied	The Board reconstituted Board Committees in July 2020, after the recruitment and induction of new NEDs. However, following the resignation of three NEDs during the latter part of 2020, the composition of the Board Risk and Board Human Resources Remunerations and Nominations Committees in particular. In 2021, the Board still operated with one NED chairing the Board Risk Committee and the Board HR Committee and one NED - a member of the Board Audit, Risk and HR Committees. However, in March 2022, after the recruitment of a substantial number of NEDs, the Board Committees had the adequate membership to effectively discharge their respective Board Committee mandates.
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.	Applied	In November 2019, the Board engaged an independent external company to facilitate the evaluation of the Board. In 2020, the Board again engaged an external company to assist the Board with formulating an action plan to address feedback of the assessments as shared with the Board. Furthermore, in 2021, the Board focused on the actions as raised. In June 2021, the Board carried out an internal evaluation assessment, with the only material action arising being the conclusion of the NED recruitment exercise and reconstitution of the Board Committees. As at December 2021, the Board had managed to close over 90% of the identified recommendations.

Corporate governance report continued

King IV Principle	Status	Comments
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.	Applied	In addition to the Board authority delegated framework, the Board approves every Senior management appointment. Through the Board Human Resources Remunerations and Nominations Committee, ensure adequate succession for senior management. In 2021, the Board considered and approved appointments for the Chief Risk Officer, Chief Credit Officer, Country Treasurer and the Human Resources Director. The Board receives a report on senior management succession and development every quarter to ensure continuous monitoring of this key indicator.
Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.	Applied	The Board guides and oversees the management of compliance risk, remuneration, enterprise-wide risk management, and the related lines of defence that support good governance practices. The Board actively monitors the control environment and adjusts risk appetite and growth objectives accordingly.
Principle 12: The governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives.	Applied	The Board actively monitors technology as a critical strategic enabler. In 2021, the Board reviewed the Bank's digital strategic objectives against key priorities in accelerating a digital-first business, as detailed on page 62. Every quarter, the Board receives an update on the execution of key technology initiatives through the Board Audit Committee.
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 organisation being ethical and a good corporate citizen.	Applied	The Board recognises that sound corporate governance practices are vital for creating and sustaining shareholder value and ensuring that behaviour is ethical, legal and transparent, thereby reducing the risk of value erosion. The Board is committed to continuous improvement in corporate governance principles, policies, and practices by remaining abreast of evolving regulations and best practices. In 2021, the Board enhanced compliance and regulatory developments through engagement with regulators and feedback on proposed corporate governance guidelines. As part of the induction program, the Board Chairman engaged in key stakeholder meetings, including meeting with regulatory and oversight bodies, and partaking in community initiatives.
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.	Applied	We have seen significant progress over the last year in remuneration, combined assurance, and our relationships with our investors, in particular. In 2021, the Board reviewed and thoroughly considered and exercised oversight on the critical decisions regarding remuneration, such as the salary mandate, bonus pool and executive remuneration. The 2021 remuneration report, provided on page 87 was crafted in consideration of stakeholder feedback and demonstrated the Board's commitment to transparency.

Corporate Governance report continued

King IV Principle	Status	Comments
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.	Applied	The Board exercised oversight and requisite risk management through an Enterprise Risk Management Framework, ensuring the following: • Risk appetite set and monitored • Combined assurance approach • Solvency, liquidity and going concern status regularly tested • Capital allocation deliberated and executed • Liquidity and funding tested and stressed.
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 organisation over time.	Applied	The Board continuously assesses stakeholder feedback to improve its governance roles and responsibilities. During the previous AGM, the Board met with, considered, and deliberated various stakeholder feedback on several expectations, which have been incorporated throughout this report.
Principle 17: The governing body of an institutional investor should ensure responsible investment.	Not Applicable	

Board evaluation and effectiveness

The Board conducts an annual self-assessment to review efficacy, identify improvement areas, and encourage constructive dialogue. All gaps and proposed improvements are assessed at Board meetings, and the Board agrees upon remedial actions. At the end of 2019, the Board engaged an independent and external company to facilitate the effectiveness of the Board, Board members, Board Committees, and the Secretariat. In 2021, the Board conducted an internal self-assessment, identifying the need to reconstitute the Board committees to better execute their mandates, which was subsequently closed in March 2022. Based on this evaluation, the Bank appointed additional Non-Executive Directors to ensure that the Board has the appropriate balance of knowledge, skills, experience, diversity, and independence to discharge its governance role and responsibilities objectively and effectively to evaluate its performance and that of its committees.

Board skills and training

The members of the Board are individuals from a diverse range of industrial and professional skills, knowledge and experience and are not involved in the day-to-day management of the Bank. The Bank maintains a Board skills matrix designed to continually review and assess skills, expertise, and knowledge requirements and ensure that all skills needed to discharge its mandate effectively are present. The skills matrix is tabled for review and approved annually by the Board. Furthermore, the Bank's Board continuously assesses the areas for development and training required by the board. Such training is provided annually to enhance the Board's skills and knowledge further. Over the reporting period, the Board was trained on several topics, including corporate governance, ethics, IFRS standards, integrated reporting and sustainability.

The Bank's Secretariat function is comprised of Dr Kealeboga Bojosi (Head of Legal and Secretariat) and Ms Yonta Leburu (Company Secretary). Dr Bojosi has read, taught and practised law in Botswana and England, specialising in banking, finance, general commercial law and corporate governance.

Corporate Governance report continued

Amongst other qualifications, he holds an LLM from the University of Cambridge and a Doctor of Philosophy from Oxford University. He is a Solicitor of the Supreme Court of England and Wales and has also completed several executive management courses, including the Oxford Leadership Program through the Said Business School, Oxford University. During 2021, Dr Bojosi completed the Executive Finance Program through the Said Business School, Oxford University. Ms Leburu is a qualified attorney, duly admitted in the High Court and Other Courts of the Republic of Botswana. She has over ten years of experience in the banking industry across multiple portfolios, specialising in compliance risk management and corporate governance. She holds a Bachelor of Social Science and a Bachelor of Laws from the University of Cape Town, a Post Graduate Diploma in Compliance Risk Management from the University of Johannesburg and has completed several leadership and compliance programmes, including the Young African Leaders Initiative, certification in anti-money laundering with the Association of Certified Compliance Professionals in Africa, and US Corporate Law and Governance with New York University, USA. During 2021, Ms Leburu completed her LLM in Global Corporate Compliance with IE University, Spain. Furthermore, over the reporting period, the Secretariat participated in appropriate corporate governance and BSE Listings requirements training to ensure continuous awareness of relevant best practices in executing secretariat responsibilities for a listed financial institution. The Board has thus duly satisfied itself of the competence, qualifications and experience of the Secretariat function.

The Board charter and Board Committees' terms of reference

The Board Charter is the document guiding our Board and its committees, specifically its activities and decisions, dealings with each other, and management and stakeholders. It addresses the composition and responsibilities of the Board and Terms of Reference for the Bank's Committees, reviewed and approved by the Board annually. Good corporate governance practice is an essential ingredient in creating and sustaining shareholder value and ensuring that conduct is ethical, legal, and transparent for all the Bank's stakeholders. Therefore, the Bank has significant responsibilities to its customers and the public in contributing to a stable and secure environment, thereby enhancing trust in the financial institutions industry.

The Board Charter is aligned to the King IV Code, establishing the following key matters:

- The Board's responsibilities and functions
- The role and responsibilities of the Chairperson, shareholders and management
- The governance structure of the Board.

Each Committee has Terms of Reference ("ToR") that set out the following:

- The role of the Committee
- The composition of the Committee
- The process for the conduct of meetings.

The Charter and Board Committee ToRs are reviewed annually by the Board to ensure compliance with local and international standards. This also ensures effectiveness and relevance, and the proper functioning of the Board and its Committees.

Board Committees

Board Committees assist the Board in the execution of its duties and responsibilities, with each committee comprising suitably skilled directors and statutory committees being chaired by independent non-executive directors. Each committee has written terms of reference that are reviewed annually and mapped to applicable legislation, regulations, and governance practices to ensure relevance and compliance.

Audit Committee

The Board Audit Committee meets at least four times a year and had four meetings during the period under review. Its primary objective is to ensure that the Bank has implemented and manages an effective audit management plan and set of policies that will support the Bank's ability to achieve its strategic objectives. In line with corporate governance best practice, a NED other than the Chairperson of the Board is appointed to chair the Committee. Mr Cosmas Moapare is the Chairman of the Committee. As management representatives, the following are mandatory attendees to the Committee meetings.

- Managing Director
- Finance Director
- Head of Compliance
- Chief Operating Officer
- Chief Risk Officer
- Chief Internal Auditor
- Head of Legal

Corporate governance report continued

The Committee, which has written ToRs approved by the Board and in compliance with the Banking Act, Chapter 46:04, reports to the Board every quarter to ensure compliance with applicable laws, rules and standards. In particular, the Committee monitors financial controls, accounting systems, and shareholder reporting. It also assesses the management of critical financial risks. The Bank's Finance Director, a position currently held by Ms Cynthia Morapedi, who is also an executive director of the Board, works closely with the Audit Committee and has free access to the Chairperson and members of the Committee. The internal assessment conducted by the Board during 2021, included an evaluation of the Finance Director, who is a Chartered Accountant with over 16 years of work experience, having led teams responsible for financial reporting, business planning, performance and analytics, tax management, treasury operations, governance and control and general administration. Ms Morapedi holds a Bachelor's Degree in Accounting from the University of Botswana, a Masters of Business Administration from the University of Oxford Brookes (UK), and is a fellow of the Association of Certified Chartered Accountants (ACCA), UK. The Audit Committee is duly satisfied with the appropriateness of the expertise and experience of the Finance Director. The Audit Committee further assessed the performance of the Chief Internal Auditor, a function which is accountable to the Audit Committee, and is a position currently held by Ms Idah Nkoloi. Ms Nkoloi is a fellow member of the Association of Chartered Certified Accountants (ACCA), a fellow member of the Botswana Institute of Chartered Accountants (BICA) and is a Certified Internal Auditor (CIA). The function is responsible for developing and maintaining the Quality Assurance and Improvement Program (QAIP) as required by the Standards for the Professional Practice of Internal Auditing. The external and internal auditors have free access to the Chairperson of the Committee. In particular, the programme monitors vital financial controls, accounting systems, and shareholder reporting on the management of key financial risks.

Risk Committee

The Board Risk Committee meets at least four times a year, with five meetings occurring during the period under review. Its primary objective is to ensure that the Bank has implemented and managed an effective risk management plan and policies that will support the Bank's ability to achieve its strategic goals. The Committee ensures that the Bank has sufficient capital and liquidity processes in place and that its management is effective and optimal. In 2021, the Committee was chaired by Mr Kgotlayarona Ramaphane with the following as mandatory attendees to the Committee meeting:

- Managing Director
- Finance Director
- Chief Internal Auditor
- Chief Operating Officer
- Chief Risk Officer
- Head of Compliance
- Treasurer
- Head of Legal

Credit Committee

At the end of 2019, in line with good corporate governance practice and upon recommendation of the Bank of Botswana, the Bank established the Credit Committee, which commenced work in the third quarter of 2020. This Committee is separate from the Risk Committee and is mandated to exercise oversite over Credit Risk. The Credit Committee meets at least four times a year and had four meetings during the period under review. In 2021, the Committee comprised Ambassador Alfred Dube and Mr Cosmas Moapare, chaired by Mr Benjamin Kodisang. Ambassador Dube retired from the Board in June 2021, which left the Committee with two NEDs. The Bank appointed Mr Maungo Mokotedi as the Chief Credit Officer in November 2021. Together with the Finance Director and Managing Director, the Chief Credit Officer is a mandatory invitee to this Committee.

The following are other invitees to the Committee

- Retail Director
- Corporate Banking Director
- Head of Corporate Credit
- Economist
- Head of Retail Credit
- Head of Business Support and Corporate Recoveries

Corporate governance report continued

Human Resources, Remunerations and Nominations and Committee

The Board Human Resources Remunerations and Nominations Committee meets at least four times at least four times a year, meeting nine times during the period under review - with two of those meetings of the NEDs. The Committee is chaired by Kgotlayarona Ramaphane and has the Managing Director, Finance Director and People Function Director as mandatory attendees of the Committee. The Committee's primary objective is to provide oversight over recruitment, staffing, succession planning, and executive management performance and compensation through a review of various incentive proposals. The Committee is also tasked with reviewing the level of competency and skill at the Executive and Board levels, and providing recommendations for achieving the best overall skills coverage, whether through up-skilling or recruitment. In addition, it is within the Committee's mandate to consider the overall strategy and approach to any issues or projects of significant impact on the Bank's People Function. However, it is essential to note that the mandate of the Committee does not extend to day-to-day management activities.

Remuneration report

As a Bank, our remuneration principles and policies guide the actions we take in this regard, factoring into consideration good corporate governance and international best practice, as well as feedback received from our various stakeholders. Our remuneration policy stems from the following pillars:

- Attract, retain and engage high-calibre individuals who have the skills, ambition and talent to deliver our strategy
- Support the realisation of our stakeholder aspirations, with a specific focus on rewarding our employees for the achievement of our strategy within our risk appetite relative to performance and shareholder returns
- Align the long-term interests of our executives and shareholders by ensuring remuneration outcomes are transparent and are aligned to the value we create in the short, medium and long-term
- Pay for performance by aligning incentive outcomes to performance and value created
- Drive our culture, while taking ownership and accountability for responsible, sustainable business growth and success
- Continuously build confidence and trust in our reward outcomes through high quality reward governance, engagement and disclosure
- Deliver fair and responsible remuneration through regular reviews of remuneration differentials and appropriate decisions that impact our most junior employees.

"The members of the Board are individuals from a diverse range of industrial and professional skills, knowledge and experience and are not involved in the day-to-day management of the Bank. The Bank maintains a Board skills matrix designed to continually review and assess skills, expertise, and knowledge requirements and ensure that all skills needed to discharge its mandate effectively are present. The skills matrix is tabled for review and approved annually by the Board."

Corporate Governance report continued

From a non-executive directors' perspective ("NEDs"), the Group Directors Affairs Committee ("DAC") conducts market research and assessments on the appropriateness of NEDs fees every two years. Based on the results of such assessments, recommendations are made to the Board, and subsequently shareholders. At the 2020 Annual General Meeting ("AGM"), shareholders approved slight increases in NED fees, which were effective from January 2020 and paid throughout 2021. The DAC will carry out remuneration market research at the beginning of 2022 and taking all factors into consideration, recommend any changes in NED fees that post approval at the AGM, will be paid with effect from January 2022.

In terms of executive directors' remuneration, our principles and practices were designed to deliver remuneration that is market-competitive; fair and responsible; incentivise performance; assists in attracting and retaining talent and those with scarce skills; and is aligned with the risk and conduct expectations of the Bank. In doing so, the Board remained cognisant of the balance of stakeholder interests over the long term when considering the remuneration fixed and variable pay outcomes. Factors considered include a comparison of the remuneration practices and policies of competitor banks, available market information, talent and critical skills retention, overall Group performance as well as the Group's approach to remuneration. Over the last year, the Group Remuneration Committee continued to evolve the remuneration policy to strengthen remuneration frameworks further and improve market competitiveness. Several fundamental principles guided its decision-making, including:

- A strong focus on pay for performance at a short-term incentive pool level and in the distribution of the pools, and for individuals, differentiated reward outcomes based on performance and contribution. Pay for performance is a key principle in considering fixed remuneration increases, and short and long-term incentive outcomes.
- Ensuring the market competitiveness of the Group's total remuneration offering to support the attraction, motivation and retention of critical talent and scarce skills.
- A fundamental commitment to fair and responsible remuneration across the dimensions of differentials of pay between executives and other employees.
- An appropriate balance of stakeholder interests over time. This includes considering the needs and interests of shareholders, employees, customers and the communities we operate in when determining remuneration outcomes.

The Board, through the HR Committee thus reviewed and exercised oversight on the critical decisions regarding executive and bank-wide remuneration, including the salary mandate and country bonus pool distribution principles. Bank performance is a critical lens through which remuneration decisions are made, and key considerations included:

- Headline earnings of P340.8m, which was 69% greater than the earnings generated in prior year. This resulted in a ROE) of 20.4% which was materially higher than the prior year (2020: 13%) and above our COE (10.7%)
- Impairment charges of P79m were significantly lower than prior year (2020: P263m)
- Revenue – year-on-year growth of 4.7%
- The Bank maintained stability on its capital position with a marginal movement on the CET 1 ratio 13.7% (2020: 13.8%) supported by improved profitability as well as capital precision initiatives to support our strategic liquidity initiatives
- Sound business recovery strategy and steering the business through significant and volatile events, such as COVID-19.

The Bank delivered a strong performance in 2021, and this is reflected in our remuneration outcomes. As the Board, we have sought to ensure an appropriate balance of stakeholder interests in these outcomes and focused on attracting, motivating, and retaining skilled and talented individuals. In this context, we continue to give considerable attention to ensuring that our remuneration philosophy and policy are fit-for-purpose and support the Bank's strategy. During 2022 we will review the impact of our 2021 remuneration outcomes on employee engagement and identify further opportunities to strengthen our frameworks.

Remuneration of Non – Executive Directors

NED remuneration as approved at the AGM is as follows:

	P'000
Board Chairman	P 618
Board Members	P 203
Audit Committee Chairperson	P 137
Audit Committee Member	P 68
Risk Committee Chairperson	P 80
Risk Committee Member	P 40
Human Resources Remuneration and Nominations Chairperson	P 79
Human Resources and Remuneration and Nominations Member	P 39
Credit Committee Chairperson	P 79
Credit Committee Member	P 39

Corporate Governance report continued

Director	Board	Audit Committee	Risk Committee	HR Committee	Credit Committee	Total (P)
Alfred Dube	289 327				10 004	**299 331**
Daniel Neo Moroka	308 962					**308 962**
Sethunya Makepe-Garebatho	67 760					**67 760**
Kgotlayarona Ramaphane	203 280		80 036	78 540		**361 856**
Cosmas Moapare	203 280	136 532			39 270	**379 082**
Sari Helena Nikka	203 280	68 266	40 018	39 270		**350 834**
Benjamin Monaheng Kodisang	203 280	68 266			78 540	**350 086**

Remuneration of executive management and directors

Country Management Committee ("CMC") Remuneration:

(BWP)	2020	2021	YOY (%) change
Total CMC Salary	19 946 398	20 696 938	4%
Average CMC Salary	**1 424 743**	**1 592 072**	**12%**
Medical aid	504 903	570 987	13%
Pension	2 216 678	2 268 139	2%
Other Employee Benefits	5 381 576	3 927 007	-27%
Total Fixed remuneration	28 049 555	27 463 071	-2%
Total Non-deferred cash award	1 738 616	5 249 512	-
Total Deferred cash award	695 800	-	-
Deferred share award	-	449 829	-
Total Short-Term Incentives	2 434 416	5 699 341	134%
Total Remuneration	**30 483 971**	**33 162 412**	**9%**

Executive Directors' Remuneration:

	Cynthia Morapedi (Finance Director)			Keabetswe Pheko-Moshagane (Managing Director)		
(BWP)	2020	2021	% Change	2020	2021	% Change
Salary	1 1 92 285	1 670 657	40%	3 076 500	3 102 000	1%
Medical Aid	34 116	53 198	56%	43 092	45 468	6%
Pension	160 958	225 539	40%	415 328	418 770	1%
Other Employee Benefits	261 443	292 412	12%	1 513 608	1 064 452	-30%
Total fixed remuneration	**1 648 802**	**2 241 806**	**36%**	**5 048 528**	**4 630 690**	**-8%**
Non-deferred cash award	200 000	450,000	125%	-	1 199 512	-
Deferred cash award	-	-	-	695 800	-	-
Deferred share award	-	-	-	-	449 829	-
Total Short-Term Incentives	**200 000**	**450 000**	**125%**	**695 800**	**1 649 341**	**137%**
Total Remuneration	**1 848 802**	**2 691 806**	**46%**	**5 744 328**	**6 280 031**	**9%**

Corporate Governance report continued

Notes

- The CMC refers to senior management officials as defined by the Guidelines on the Appointment of Directors and Senior Management Officials of Banks, and are executives reporting to the Managing Director
- The average CMC salary calculation includes individuals that held acting appointments at CMC level, post CMC employee exits
- The Board has two executive directors, being the Finance Director and the Managing Director
- The Finance Director's salary was increased post incumbent's promotion from Finance Controller to acting Finance Director and then permanent Finance Director in 2020. During 2021, post assessment and review of relevant market data and alignment, Finance Director received an out of cycle salary adjustment
- All shares referred to, form part of the Absa Group Limited share incentive plans. No shares are awarded for Absa Bank Botswana Limited
- All deferral in respect of the short-term incentive award made from April 2020 will only be in shares, with no cash election. For 2020 performance, those employees identified as Material Risk Takers, had the cash portion of their bonus deferred for a period of one year into Cash Value Plan (CVP). Release was subject to the additional CET1 safety and soundness validation. The award was granted in April 2021. All deferral in respect of the short-term incentive award made for 2021 performance was in Absa Group Limited shares. Deferred awards disclosed in 2021 were granted in April 2022
- Short-term incentives are not defined as incentives that are settled in the next 12 months after the reporting period, but rather represent the category of performance-based awards (comprising a cash payment and a deferred award) per the Group's Remuneration Policy, to which no future performance targets apply. The only conditions attached to deferred short-term incentives relate to the continued service requirements over the vesting period (three years)
- Total awarded remuneration disclosed in 2020 includes the fixed remuneration paid during 2020, the total short-term incentive in respect of 2020 performance granted in April 2021. Amounts disclosed in 2021 follow the same principle, except that the short-term incentive awarded for 2021 performance consist of a cash award and a deferred share award
- All long-term incentive awards, as part of the Absa Group Limited Share scheme for qualifying employees, is excluded from this report. This will be enhanced in the next reporting cycle.

Categories of remuneration:

- **Fixed remuneration:** is inclusive of payments made in respect of salary, medical aid benefits, pension and other monthly benefit, including allowances
- **Other employee benefits:** includes benefits available to employees such as mobile bill payments, security services and utilities allowances
- **Variable remuneration:** is inclusive of bonus payments of which a portion may be delivered in the form of share / cash-based payments. Variable remuneration is used to reward the delivery of performance targets. Discretionary annual bonus awards are the primary variable remuneration mechanism and are used to reward performance
- **Non-deferred cash awards:** For all employees, non-deferred cash awards are paid following the end of the performance year to which they relate, normally in March
- **Deferred cash awards:** For the Managing Director, the cash portion of the 2020 bonus was subject to deferral under the Cash Value Plan vesting on the first anniversary of the award subject to continued service, malus and clawback provisions.

Management Committees

Country Management Committee (CMC)

The Country Management Committee (CMC) is responsible to the Board for implementing strategies and policies approved by the Board, formulating and implementing operational decisions, and managing the Bank based on their knowledge and experience. The CMC acts as the operational management forum responsible for delivering the Bank's strategy. NEDs challenge, monitor and approve strategies and policies recommended by the CMC.

The objectives of the CMC are to ensure the following:

- That business conducted is compliant with required local and international legislation and regulations
- The effective implementation of Absa Group policies and governance arrangements across all lines and functions of the business
- The integrity of the operational, control, compliance, and governance framework of the Bank as a part of Absa Group
- The efficient implementation of business plans
- That performance is maximised across all lines and functions of the business.

Membership of the CMC comprises the following:

- Managing Director (as its Chairperson)
- Finance Director
- Treasurer
- Chief Risk Officer
- Retail Banking Director
- Chief Operating Officer
- Head of Corporate Investment Banking
- Head of Compliance
- Head of Marketing and Corporate Relations
- People Function Director
- Head of Legal.

Asset and Liability Management Committee (ALCO)

The primary purpose of the Country ALCO is to achieve sustainable and stable profits within a framework of acceptable financial risk and controls. The ALCO meets at least once a month to maximise the value generated from actively managing the Bank's balance sheet and economic risks within agreed risk parameters. Therefore, it is primarily focused on forecasting and scenario modelling.
The objectives of the Country ALCO are to manage the following aspects of the business:

- Funding and investment of the balance sheet
- Liquidity and cash flow
- Exposure to interest and exchange rate movements
- Capital position and dividend flow
- Asset and liability margins and Internal Transfer Pricing arrangement
- Compliance with all Internal and regulatory limits and ratios for the above activities
- Managing the ALM Strategic Agenda.

Membership of the Country ALCO comprises the following:

- Managing Director (as its Chairperson)
- Head of Corporate and Investment Banking
- Retail Banking Director
- Treasurer (alternate chair)
- Finance Director
- Head of Balance Sheet Management (Secretary)
- Chief Risk Officer
- Head of Business Banking.

By invitation

- Chief Operating Officer
- Head of Markets
- Head of Transactional Banking.

Executive Risk Committee (ERC)

The Executive Risk Committee (ERC) is responsible for reviewing the bank wide risk profile. The Committee is further responsible for the following:

- Satisfying itself as to the positioning of the Bank's risk profile in relation to STP/strategy, and board-approved risk appetite
- Recommending to the Board and the Board Committees the Bank's proposed risk appetite, stress test scenarios and results
- Conducting review and challenge of risk practices and the control environment as required by the Enterprise Risk Management Framework (ERMF), for all Principal Risks except for Treasury and Capital, which are managed through a different Governance structure.

Membership of the Executive Risk Committee comprises the following:

- Chief Risk Officer (Chairman)
- Managing Director
- Finance Director
- Chief Operating Officer
- Head of Technology
- Head of Compliance
- Head of Marketing and Corporate Relations
- Retail Director
- Head of Business Banking
- Head of Corporate and Investment Banking (CIB)
- People Function Director
- Treasurer
- Head of Legal.

Corporate Governance report continued

Permanent Invites or Attendees
- Chief Internal Auditor
- Head of Operational Risk
- Head of Governance and Control
- Head of Wholesale Credit
- Head of Retail Credit
- Head of Market Risk
- Chief of Staff and Strategy
- Head of Fraud.

Remunerations and Promotions Committee (RPC)

The duties and responsibilities of this management committee are as follows:
- Approve salary increases, bonuses, long-term incentives and awards, all subject to Group approval
- Approve bonus funding requests in line with Board Remuneration Committee decisions
- Approve customised reward schemes subject to Group governance
- Monitor compliance with Legal and regulatory requirements as they apply to appointments and rewards
- Provide oversight of appointments and compensation, and review all appointments to the CMC and direct reports to the Managing Director
- Review and recommend proposed placements onto the CMC.

Membership of the Remunerations and Promotions Committee comprises the following:
- Managing Director (Chairperson)
- Finance Director
- People Function Director.

Operations Committee (OPCO)

The duties and responsibilities of this management committee are to as follows:
- Provide oversight of all key operational issues facing the Bank (including IT and other operational projects) and to ensure timely, robust delivery of operational and IT investments within budget
- Ensure the effectiveness of operational and IT capability and resource management across the Bank
- Provide management oversight and review of all operational and IT projects, and ensure that projects are managed according to PRINCE 2 principles, and within timelines and budge
- Review Group, Global Retail Banking (GRB) and the Group operations and IT projects intended for, or impacting upon the country
- Provide oversight of sourcing and alliances
- Review business continuity management

Issues are escalated and reported to the Managing Director, Country Management Committee and the Chief Operating Officer where resolution at OPCO is not possible.

Membership of the Operations Committee comprises the following:
- Chief Operating Officer (Chairperson)
- Finance Director
- Retail Banking Director;
- Chief Risk Officer
- Head of Compliance
- Corporate Director
- People Function Director
- Head of Technology
- Head of Consumer Operations
- Head of Governance and Control
- Head of Sourcing
- Head of Customer Service
- Head of Control Rigour
- Head of Change and Performance Improvement
- Head of Payments.

Brand and Reputation Committee

The duties and responsibilities of the Committee are as follows:
- Considering approval/declines of all introducer relationships except for those that require Group Introducer Committee approval
- Ensuring the approvals are aligned to the Group Introducer Policy and Standard
- Ensuring that there is a multi-stakeholder approach for the approvals, and that business, legal, regulatory, and financial crime risks are assessed at the same time by relevant stakeholders
- Protect and enhance the brand and reputation of Absa
- Support the Bank in being a leading company in the field of citizenship
- Ensure that the Bank treats customers fairly in accordance with its "Treating Customers Fairly" principles
- Confirm and monitor the implementation of the External Corporate Affairs plan and the Community and Environmental strategy
- Monitor the implementation of and report all issues related to Brand and Reputation.

Membership of the Brand and Reputation Committee comprises the following:
- Managing Director (Chairperson)
- Finance Director
- Chief Operations Officer

Corporate Governance report continued

- Head of Legal
- Corporate Banking Director
- Head of Marketing and Corporate Relations
- Retail Director
- Chief Risk Officer
- Head of Compliance
- Retail Director
- Treasurer
- Money Laundering Reporting Officer.

Risk Control Forum (RCF)

The Risk Control Forum is mandated with provision of regular review of the Control Environment (Governance, Risks and Controls) in accordance with the Enterprise Risk Management Framework (ERMF) requirements. The duties and responsibilities of the Forum are as follows:

- Framework strategy and policy alignment – overseeing the alignment, implementation and compliance to the Operational Risk Management Framework and Control Management Framework Strategy and Policies
- Governance and performance monitoring – Government and oversight of the overall performance, execution, and alignment of the Country Strategy to Control
- Regulatory compliance - oversee the monitoring of Legal and Regulatory changes in the external environment impacting on operational risk management and ensure compliance with relevant laws, regulations and the directives of state authorities
- Risk identification – identifying risks impacting business and ensure that action plans are put in place to address the control weaknesses identified
- Decision making - to ensure business risks and issues are adequately addressed and escalated
- Issue tracking - ensuring that issues and actions are tracked until the risk has been mitigated
- Take primary accountability for risk identification, ownership, management and control, including embedding a supportive risk culture.

Membership of the Risk and Control Forum comprises of the following:

- Head of Governance and Control (as its Chairperson)
- Head of Operational Risk
- Head of Compliance.

The business invitees to the Forum comprise the following:

- Head of Business Banking
- Head of Branch Network
- Rigour Manager-Business Banking
- Head of Marketing and Corporate Relations
- Governance and Control
- Consumer Governance.

Governance outlook

Heading into 2022, the Board will focus on the following actions:

Corporate governance – concluding the recruitment of the Board and ensuring that the board size and skills are in line with the complexity of the organisation. Ensuring that the Board continues to adhere to the highest level of corporate governance.

Strategy – the Board will oversee the execution of the approved short-term plan for 2022 and the medium-term plan within the framework of the control environment and having regard to the uncertainties of the macro environment.

Technology – the Board will oversee the technology and digital journey of the Bank. This object is aligned with Group objectives, ensuring the consistent provision of services, a safe and secure environment (with a particular focus on information and data protection and cyber), an optimised and sustainable customer experience (recognising the different needs of our customers) and sustainable benefits realisation, within the context of an accelerated pace of change.

People and culture – monitor and assess the Bank's progress concerning the following:

i. Customer centricity
ii. Our values and ethical practices
iii. Talent strategy
iv. Performance and reward.

Force for good – the Board will monitor the implementation of the Bank-approved sustainability strategy regarding environmental, social and governance matters.

Annual financial statements for the year ended 31 December 2021

Directors responsibilities and approval

for the year ended 31 December 2021

The directors are responsible for overseeing the preparation, integrity and objectivity of the annual financial statements that fairly present the state of the affairs of Absa Bank Botswana ("the Group") at the end of the financial year and the net income and cash flows for the reporting period, and other information contained in this report.

To enable the directors to meet these responsibilities:

- All directors will endeavor to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach.
- The Board sets standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that both on and off statement of financial position assets are safeguarded, and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties.
- The Board and management identify all key areas of risk across the Group and endeavor to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems and discipline are applied and managed within predetermined procedures and constraints; and
- The internal audit function operates unimpeded and independently from operational management, appraises, evaluates and, when necessary, recommends improvements to the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business

To the best of their knowledge and belief, based on the above, the directors are satisfied that there has been no material breakdown in the operation of the systems of internal control and procedures during the year under review.

The Group consistently adopts appropriate and recognised accounting policies which are supported by reasonable and prudent judgements and estimates on a consistent basis. The annual financial statements of the Group have been prepared in accordance with the provisions of the Companies Act of Botswana (Companies Act, 2003); the Banking Act (CAP 46; 04); comply with International Financial Reporting Standards (IFRS) and all applicable legislation.

The directors have no reason to believe that the Group will not be a going concern in the reporting period ahead, based on forecasts and available cash resources. These annual financial statements have accordingly been prepared on this basis.

It is the responsibility of the independent auditors to report on the annual financial statements. Their report to the shareholders on the consolidated and separate financial statements is set out on pages 100 to 103.

The directors' report on pages 98 to 99 and annual financial statements of the Group and Company which appear on pages 104 to 210 were approved on 22 March 2022 and are signed on its behalf by

Daniel Neo Moroka
Chairman of the Board

Keabetswe Pheko - Moshagane
Managing Director

Cosmas Moapare
Chairman of the Board Audit Committee

Corporate Governance report

for the year ended 31 December 2021

The Absa Group Limited (Absa Group or the Group) adopted a governance framework for all subsidiaries in the Group as set out in the Absa Group Limited Group Policy on Legal Entities and Directors (the Code).

The Board of the Group adopted the Group Policy on Legal Entities and Directors.

The directors of the Group are of the opinion that the Group has applied the principles and recommendations of the Code, in all material respects, regarding the period under review.

Board of directors
The Board consists of:
- 6 Non-executive directors
- 2 Executive directors

Company secretary
All directors have access to the advice and services of the company secretary, who provides guidance to the Board as a whole and to individual directors regarding how their responsibilities should be discharged in the best interest of the Group.

Audit committee
The Board has concluded that the audit committee has satisfied its responsibilities.

Internal audit
The internal audit function is conducted by the local internal audit function with oversight from Absa Group internal audit.

Remuneration policy
The Group has adopted the Absa Group Limited Human Resources policies. The executive directors of the Group are full time employees of the Group and therefore earn no directors' fees for their services as directors.

Risk management
The Group manages the risk of the business in partnership with Absa Group Limited. Risk policies, standards, and strategies are jointly created between the two parties with execution managed by the local Risk team, country management team, and Board of directors.

Integrated sustainability reporting and disclosure
The results of the Group are consolidated into the Absa Group Limited financial results which address sustainability at a Group level.

Managing stakeholder relationships
As a subsidiary, the Group is governed by the stakeholder management of Absa Group Limited.

Fundamental and affected transactions
Directors are requested to declare their directorships in other organisations, at least, on a quarterly basis. The Group has appropriate policies and procedures to govern any potential conflict of interest, in instances where the Group does conduct business with entities in which its directors have an interest.

Information technology governance
Information Technology governance is performed in terms of the Absa Group Limited Information Technology Policy.

Compliance
The Group has a Compliance Officer that monitors compliance with the applicable legislation. The Compliance Officer forms part of the Group Compliance function

Directors' report

for the year ended 31 December 2021

Company registration number	Absa Bank Botswana Limited BW00001237900 Absa Insurance Services Proprietary Limited BW00001179345 Absa Securities Botswana Proprietary Limited BW00002543818
Country of incorporation and domicile	Botswana
Nature of business and principal activities	Absa Bank Botswana Limited ("the Bank") is a public limited company listed on the Botswana Stock Exchange and domiciled in Botswana. The annual financial statements of the Group comprise of the Bank and its wholly owned subsidiaries Absa insurance Services (Pty) Ltd and Absa Securities Botswana (Pty) Ltd, (together referred to as "the Group"). Absa Insurance Services (Pty) Ltd (private limited company) is an insurance agent which earns its fees from referral of life and non-life insurance products. Absa Bank Botswana Limited ("the Bank") offers a range of retail, business, corporate and investment, and wealth management solutions. Absa Securities Botswana provides investments advisory and market making licenses such as debt capital markets, equity capital markets and Mergers and Acquisitions.
Directors	**Daniel Neo Moroka** (Independent Non-executive Director - Chairman of the Board) appointed 1st July 2021 **Cosmas Moapare** (Independent Non-executive Director) **Sari Nikka** (Independent Non-executive) **Benjamin Kodisang** (Independent Non-executive) **Sethunya Dorothy Makepe-Garebatho** (Independent Non-executive) appointed 15th September 2021 **Kgotlayarona Ramaphane** (Independent Non-executive Director) **Alfred Dube** (Non-executive) retired 28th June 2021 **Keabetswe Pheko-Moshagane** (Executive - Managing Director) **Cynthia Morapedi** (Executive - Finance Director)
Registered office	Deloitte House Plot 64518 Fairgrounds Gaborone, Botswana
Business address	5th Floor, Building 4 Prime Plaza Plot 74358 Central Business District Gaborone
Postal address	P O Box 478 Gaborone Botswana
Date of incorporation	17 March 1975
Holding company	Absa Group Limited
Auditors	Ernst & Young Plot 22, Khama Crescent PO Box 1519, Gaborone
Company secretary	Dr. Kealeboga Bojosi

Directors' report (continued)

for the year ended 31 December 2021

Review of financial results

The consolidated and separate financial results of Absa Bank Botswana Limited are set out in the attached consolidated financial statements. In light of the anticipated economic impact of COVID-19, the Directors have assessed the Group's ability to continue as a going concern and acknowledged the risk of lower revenue and profits in the medium term.

The Directors have concluded that there are no material uncertainties that could have cast significant doubt over the Group's ability to continue as a going concern for at least a year from the date of approval of the financial results.

	Consolidated		Company	
Key performance indicators	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Profit for the year	502 592	296 746	477 329	290 419
Total comprehensive income	490 039	284 620	464 776	278 293
Dividends declared and paid:				
-Dividends paid (net of waiver in 2020)	175 533	169 692	175 533	169 692
-Interim dividend paid	83 000	-	83 000	-
-Dividend declared	236 000	175 533	236 000	175 533
Net assets	2 569 406	2 335 391	2 510 043	2 301 291

Authorised and issued share capital

There were no changes to the authorised or issued share capital for the year under review. The share capital is disclosed in note 36.

Property, plant and equipment

Details of changes in property, plant and equipment during the year are reflected in note 23.

Events after the reporting date

There were no events material to the understanding of these financial statements that occurred between the financial year end and the date of this report other than as disclosed in note 56. Mr Thabo Kagiso Matthews was appointed as an Independent Non-Executive Director with effect from the 15th of March 2022 subject to final confirmation at the next annual general meeting.

Going concern

The consolidated financial statements have been prepared on the basis of accounting policies applicable to a going concern.

Independent Auditor's report

for the year ended 31 December 2021

To the Shareholders of Absa Bank Botswana Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Absa Bank Botswana Limited and its subsidiaries ('the Group') set out on pages 104 to 210, which comprise of the consolidated and separate statements of financial position as at 31 December 2021, and the consolidated and separate statements of 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 notes to the consolidated and separate financial statements, including a summary of significant accounting policies, but excluded the sections marks as "unaudited" in notes 4.3 and 46.1.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of the Group and Company as at 31 December 2021, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Companies Act of Botswana (Cap 42:01) and the requirements of 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 (IESBA Code) and other independence requirements applicable to performing audit of the Group and the Company and in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and in accordance with other ethical requirements applicable to performing the audit of the Group and Company. 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.

Expected credit losses (ECLs) relating to loans and advances (Group and Company)

The disclosures associated with the key audit matter are set out in the consolidated and separate financial statements in the following notes:

- Note 2.16.2 - Expected credit losses on financial assets on the consolidated financial statements
- Note 4 – Impact of COVID-19 (excludes any numbers marked as unaudited)
- Note 10- Expected credit losses
- Note 21 – Loans and advances to customers
- Note 22 - Credit risk reconciliation – expected credit loss allowance
- Note 46.7 – Credit risk

Key audit matter	How the matter was addressed in our audit
We identified the audit of expected credit losses (ECL) relating to loans and advances to customers as a key audit matter considering the following: • The Group's loan and advances to customers are material to the consolidated financial statements; • The high degree of estimation uncertainty, significant judgements and assumptions applied in estimating ECL on loans and advances to customers; and • The COVID-19 pandemic has created significant economic volatility and uncertainty, requiring increased subjective management judgement in developing its economic forecasts and the estimation of ECL on loans and advances to customers.	Our audit effort included the following procedures in addressing the key audit matter: We have updated our understanding of management's process over credit origination, credit monitoring and credit remediation and tested the relevant controls identified within these processes. • **Modelled ECL provisions** With the assistance of our quantitative specialists, we have assessed the design and implementation of the ECL models, including assessing the significant assumptions applied with reference to the requirements of IFRS 9: Financial Instruments: Expected Credit Loss methodology (IFRS 9). We have tested the operating effectiveness of management's ECL modelling controls which support the assumptions used in determining the probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters included in the models. Our quantitative specialists have reperformed the model calculations using assumptions as per the model documentation, and our independently reperformed PD, EAD and LGD parameters, to test accuracy of ECL calculations. We have assessed the appropriateness

Independent Auditor's report (continued)

for the year ended 31 December 2021

Key audit matter	How the matter was addressed in our audit
• **Modelled ECL provisions** A significant portion of the ECL is calculated on a modelled basis. The development and execution of these models requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters. Significant increases in credit risk (SICR) are assessed based on the current risk of default of an account relative to its risk of default at origination. This assessment incorporates judgement and estimation by management, including judgements relating to the impact of the COVID-19 pandemic. • **Estimation and incorporation of multiple forward-looking macro-economic scenarios** These scenario forecasts are developed by Absa's Group economics unit and have required increased levels of management judgement, given the COVID-19 pandemic is an unprecedented event with material impacts on economic activity and incomes. • **Management adjustments** Management adjustments are applied to ECL model outputs where the existing models do not fully incorporate factors which impact on the ECL. In the current year, management have recognised that COVID-19 is an extraordinary event. The ECL models are not calibrated to cater for the full impact of the current levels of economic volatility and complexity. Within the Retail portfolios, management thus developed new macro-economic analytical models to determine appropriate adjustments to modelled PDs and LGDs when recognising ECL. Within the Wholesale portfolios existing model approaches were adjusted for the impacts of COVID-19, supplemented by industry sector adjustments. These adjustments are subject to a high degree of subjective management judgement. • **Stage 3 ECL provisions assessed on an individual basis** A significant portion of loans and advances to customers are assessed for recoverability on an individual basis, primarily in the Corporate, Investment Bank, and Business Banking portfolios which requires specific audit effort. Significant judgements, estimates and assumptions are applied by management to: o Determine if the financial asset is credit impaired; o Evaluate the valuation and recoverability of collateral; o Determine the expected future cash flows to be collected; and o Estimate the timing of the future cash flows. • **Disclosures related to credit risk** Credit Risk disclosures are significant as they rely on material data inputs and explain the management judgement, estimates and assumptions used in determining the ECL, including management adjustments and sensitivity analyses. Due to the extensive nature of these disclosures which are non-routine and very specific to the economic conditions, the assessment of the reasonableness of the disclosures required significant audit effort.	of the significant increases in credit risk (SICR) methodologies and calibrations of the models and have tested the stage allocations including the SICR for a sample of portfolios and individual exposures. The reperformed ECL numbers have been compared to the Group's ECL numbers per stage and per portfolio. We have tested the completeness and accuracy of data inputs into the models by tracing a sample of data inputs back to the information sourced by management from internal systems and external data providers. • **Estimation and incorporation of multiple forward-looking macro-economic scenarios** We have tested controls over the approval of updated macro-economic forecasts and related ECL impacts. With assistance from our economics specialists, we have assessed the appropriateness of the macro-economic forecasts and scenario weightings by benchmarking these against external evidence and economic data. With the assistance of our quantitative and economics specialists, we have assessed the design and application of the macro-economic analytical models and sensitivity approaches adopted by management. We performed independent ECL quantification analyses on economic forecasts and industry stresses, which incorporated independently estimated economic impacts as a result of the COVID-19 pandemic considering third party and our own data, to assess the reasonability of the macro-economic management adjustments. • **Management adjustments** We reperformed a sample of the management adjustments, challenged the appropriateness of the assumptions and inputs used and have assessed management's governance processes over the management adjustments. We have assessed management's rationale for the macro-economic variable (MEV) adjustments and evaluated them against our understanding of the factors used based on independent data. Where there is a range of uncertain potential outcomes, we have considered a range of possible outcomes, formed an independent view using independent data and discussed with management regarding our views. • **Stage 3 ECL provisions assessed on an individual basis** We have tested management's processes and key controls over judgements used to determine whether specific exposures are credit impaired, including the completeness and reasonability of these assessments. Our procedures focused on assessing the reasonability of the estimate of the amount and timing of expected future cash flows used in measuring ECL. We have performed the following for a sample of stage 3 exposures: o Where exposures are collateralised, we tested Absa Group'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. o Where future cash flows are estimated based on the loan counterparty's enterprise value, we have tested these valuations with reference to available market information and counterparty specific information. o We have utilised our valuation specialists for a sample of more complex valuation assessments. • **Disclosures related to credit risk** We evaluated whether the credit risk disclosures are consistent with the ECL information tested which included the ECL data, models, estimates, management adjustments and macroeconomic forecasts.

Independent Auditor's report (continued)

for the year ended 31 December 2021

Other information

The directors are responsible for the other information. The other information comprises the information included in the 215-page document titled "Absa Bank Botswana Limited Integrated report 2021" which includes the Directors' responsibilities and approval, the Corporate governance report and the Directors' report, 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 other information also includes the sections marked as unaudited in the consolidated and separate financial statements and described in our Opinion paragraph above. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the consolidated 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, the requirements of the Companies Act of Botswana (CAP 42:01) and the requirements of the Banking Act (Cap 46:04), and for such internal control as the directors determines is necessary to enable the preparation of the 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 director is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the director either intends 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's and the Company's financial reporting processes.

Auditor's responsibilities for the audit of the consolidated statements

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

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

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

Independent Auditor's report (continued)

for the year ended 31 December 2021

We communicate with the director's 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.

Ernst & Young

Ernst & Young
Practicing member: Bakani Ndwapi
Partner
Certified Auditor
Membership number: 19980026
Gaborone
Date: 29 March 2022

Statements of comprehensive income

for the year ended 31 December 2021

	Notes	Consolidated 2021 P'000	Consolidated 2020 P'000	Company 2021 P'000	Company 2020 P'000
Effective interest income	5	1 370 771	1 342 663	1 370 771	1 342 663
Effective interest expense	6	(322 367)	(287 660)	(322 367)	(287 660)
Net interest income		**1 048 404**	**1 055 003**	**1 048 404**	**1 055 003**
Fee and commission income	7	538 367	488 543	480 976	440 947
Fee and commission expense	7	(106 196)	(109 999)	(105 128)	(109 999)
Net fee and commission income		**432 171**	**378 544**	**375 848**	**330 948**
Net trading income	8	164 513	138 630	164 513	138 630
Other income	9	4 113	3 412	32 299	34 639
Total income		**1 649 201**	**1 575 589**	**1 621 064**	**1 559 220**
Expected credit losses	10	(79 475)	(263 235)	(79 475)	(263 235)
Net operating income		**1 569 726**	**1 312 354**	**1 541 589**	**1 295 985**
Staff costs	11	(445 966)	(479 573)	(445 966)	(479 573)
Infrastructure costs	12	(142 618)	(128 926)	(142 618)	(128 926)
Administration and general expenses	13	(321 835)	(339 912)	(322 105)	(340 163)
Operating expenses		**(910 419)**	**(948 411)**	**(910 689)**	**(948 662)**
Profit before tax		659 307	363 943	630 900	347 323
Taxation expense	14	(156 715)	(67 197)	(153 571)	(56 904)
Profit for the year		**502 592**	**296 746**	**477 329**	**290 419**
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Movement in financial assets at fair value through OCI					
Fair value (losses)/ gains arising during the reporting period		(15 315)	(15 546)	(15 315)	(15 546)
Deferred tax		2 762	3 420	2 762	3 420
		(12 553)	**(12 126)**	**(12 553)**	**(12 126)**
Total other comprehensive income for the year, net of tax		**(12 553)**	**(12 126)**	**(12 553)**	**(12 126)**
Total comprehensive income for the year, net of tax		**490 039**	**284 620**	**464 776**	**278 293**
Earnings per share					
Basic and diluted (thebe per share)	15	**58.98**	**34.82**		

The accompanying notes form an integral part of these consolidated financial statements.

Statements of financial position

for the year ended 31 December 2021

		Consolidated		Company	
	Notes	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Assets					
Cash	26	640 880	645 784	640 880	645 784
Balances at central bank	16	515 501	775 787	515 501	775 787
Trading portfolio assets	17	84 361	212 332	84 361	212 332
Derivative financial instruments	18	27 981	48 430	27 981	48 430
Financial assets at fair value through OCI	19	1 968 408	2 042 225	1 968 408	2 042 225
Loans and advances to banks	20	1 183 600	1 010 533	1 183 600	1 010 533
Due from related parties	51	1 698 453	1 404 496	1 726 432	1 547 126
Loans and advances to customers	21	14 924 321	13 904 310	14 924 321	13 904 310
Other receivables	25	121 345	152 775	120 514	152 775
Property, plant and equipment	23	246 141	252 083	246 141	252 083
Intangible assets	24	2 273	2 717	2 273	2 717
Deferred tax assets	30	107 787	110 635	105 321	110 087
Taxation refundable	39	-	5 762	-	5 110
Investment in Subsidiary	53	-	-	-	-
Total assets		**21 521 051**	**20 567 869**	**21 545 733**	**20 709 299**
Equity and liabilities					
Liabilities					
Deposits from banks	27	793 730	553 623	793 730	553 623
Due to related parties	51	317 530	350 958	412 079	536 810
Customer deposits	28	16 399 553	15 903 147	16 399 553	15 903 147
Derivative financial instruments	18	43 151	42 396	43 151	42 396
Other payables	32	409 509	375 858	408 768	380 585
Provisions	31	32 128	37 828	20 920	22 779
Taxation payable	39	21 523	-	22 968	-
Debt securities in issue	34	341 078	394 192	341 078	394 192
Subordinated debt	35	593 443	574 476	593 443	574 476
Total liabilities		**18 951 645**	**18 232 478**	**19 035 690**	**18 408 008**
Shareholders' equity					
Stated capital	36	17 108	17 108	17 108	17 108
General risk reserve	37	133 842	118 347	118 347	118 347
Fair value reserves	37	(22 306)	(9 753)	(22 306)	(9 753)
Share-based payment reserve	37	3 629	1 120	3 629	1 120
Share capital reserve	37	2 060	2 060	2 060	2 060
Retained income	37	2 435 073	2 206 509	2 391 205	2 172 409
Total equity attributable to equity holders		**2 569 406**	**2 335 391**	**2 510 043**	**2 301 291**
Total equity and liabilities		**21 521 051**	**20 567 869**	**21 545 733**	**20 709 299**

The accompanying notes form an integral part of these consolidated and separate financial statements.

Statement of changes in equity

for the year ended 31 December 2021

Consolidated

	Stated capital P'000	General risk reserve P'000	Fair value reserves P'000	Share-based payment reserve P'000	Retained income P'000	Share capital reserve P'000	Total equity attributable to equity holders P'000
Balance at 1 January 2020	**17 108**	**118 347**	**2 373**	**3 323**	**2 079 455**	**2 060**	**2 222 666**
Profit for the year	-	-	-	-	296 746	-	296 746
Other comprehensive income for the year	-	-	(12 126)	-	-	-	(12 126)
Total comprehensive income for the year	**-**	**-**	**(12 126)**	**-**	**296 746**	**-**	**284 620**
Dividends paid	-	-	-	-	(213 040)	-	(213 040)
Recognition of share-based payments	-	-	-	(2 203)	-	-	(2 203)
Capital reinvestment (note 42)	-	-	-	-	43 348	-	43 348
Total transactions with owners	**-**	**-**	**-**	**(2 203)**	**(169 692)**	**-**	**(171 895)**
Balance at 31 December 2020	**17 108**	**118 347**	**(9 753)**	**1 120**	**2 206 509**	**2 060**	**2 335 391**
Balance at 1 January 2021	**17 108**	**118 347**	**(9 753)**	**1 120**	**2 206 509**	**2 060**	**2 335 391**
Profit for the year	-	-	-	-	502 592	-	502 592
Other comprehensive income for the year	-	-	(12 553)	-	-	-	(12 553)
Total comprehensive income for the year	**-**	**-**	**(12 553)**	**-**	**502 592**	**-**	**490 039**
Dividends paid	-	-	-	-	(258 533)	-	(258 533)
Recognition of share-based payments	-	-	-	2 509	-	-	2 509
Transfer (from)/to retained earnings	-	15 495	-	-	(15 495)	-	-
Total transactions with owners	**-**	**15 495**	**-**	**2 509**	**(274 028)**	**-**	**(256 024)**
Balance at 31 December 2021	**17 108**	**133 842**	**(22 306)**	**3 629**	**2 435 073**	**2 060**	**2 569 406**
Note	**36**			**50**			

The accompanying notes form an integral part of these consolidated separate financial statements.

Statement of changes in equity

for the year ended 31 December 2021

Company

	Stated capital P'000	General risk reserve P'000	Fair value reserves P'000	Share-based payment reserve P'000	Retained income P'000	Share capital reserve P'000	Total equity attributable to equity holders P'000
Balance at 1 January 2020	**17 108**	**118 347**	**2 373**	**3 323**	**2 051 682**	**2 060**	**2 194 893**
Profit for the year	-	-	-	-	290 419	-	290 419
Other comprehensive income for the year	-	-	(12 126)	-	-	-	(12 126)
Total comprehensive income for the year	**-**	**-**	**(12 126)**	**-**	**290 419**	**-**	**278 293**
Dividends paid					(213 040)	-	(213 040)
Recognition of share-based payments	-	-	-	(2 203)	-	-	(2 203)
Transfer to retained earnings	-	-	-	-	43 348	-	43 348
Total transactions with owners	**-**	**-**	**-**	**(2 203)**	**(169 692)**	**-**	**(171 895)**
Balance at 31 December 2020	**17 108**	**118 347**	**(9 753)**	**1 120**	**2 172 409**	**2 060**	**2 301 291**
Balance at 1 January 2021	**17 108**	**118 347**	**(9 753)**	**1 120**	**2 172 409**	**2 060**	**2 301 291**
Profit for the year	-	-	-	-	477 329	-	477 329
Other comprehensive income for the year	-	-	(12 553)	-	-	-	(12 553)
Total comprehensive income for the year	**-**	**-**	**(12 553)**	**-**	**477 329**	**-**	**464 776**
Dividends paid	-	-	-	-	(258 533)	-	(258 533)
Recognition of share-based payments	-	-	-	2 509	-	-	2 509
Capital reinvestment (note 42)	-	-	-	-	-	-	-
Total transactions with owners	-	-	-	2 509	(258 533)	-	(256 024)
Balance at 31 December 2021	**17 108**	**118 347**	**(22 306)**	**3 629**	**2 391 205**	**2 060**	**2 510 043**
Note	**36**			**50**			

The accompanying notes form an integral part of these consolidated separate financial statements.

Statement of cash flows

for the year ended 31 December 2021

		Consolidated		Company	
		31 December	31 December	**31 December**	31 December
		2021	2020	2021	2020
	Notes	P'000	P'000	P'000	P'000
Cash flows from operating activities					
Cash used in operations	38	(249 304)	(535 463)	(278 505)	(539 468)
Net increase in loans and advances to customers		(1 027 621)	(697 781)	(1 027 621)	(697 781)
Interest received	43	1 331 084	1 287 801	1 331 084	1 287 801
Interest paid	42	(316 216)	(283 280)	(316 216)	(283 280)
Income taxes paid net of refunds	39	(123 820)	(115 472)	(117 965)	(113 242)
Increase in deposits due to customers		497 631	1 522 860	497 631	1 523 861
Increase in amounts due from related parties		(139 593)	(33 552)	(24 942)	(183 132)
Increase in deposits due to other banks		240 107	250 651	240 107	250 651
Increase/(decrease) in amounts due to related parties		41 500	(180 306)	(49 805)	(29 952)
Decrease in statutory reserve with the Central Bank		60 986	388 496	60 986	388 496
(Increase)/decrease in derivative financial instruments		(25 209)	3 050	(25 209)	3 050
Net cash generated from operating activities		**289 545**	**1 607 004**	**289 545**	**1 607 004**
Cash flows from investing activities					
Payments for property plant and equipment	23	(23 295)	(69 502)	(23 295)	(69 502)
Proceeds from disposal of property plant and equipment	40	298	48	298	48
Payments for intangible assets	24	-	(2 552)	-	(2 552)
Decrease in long term financial instruments held at FVOCI		(197 567)	(606 432)	(197 567)	(606 432)
Purchase of trading portfolio assets		(463 465)	(710 232)	591 870	(710 232)
Proceeds from disposal of trading portfolio assets		591 870	497 400	(463 465)	497 400
Net cash used in investing activities		**(92 159)**	**(891 270)**	**(92 159)**	**(891 270)**
Cash flows from financing activities					
Dividends paid to shareholders	41	(258 533)	(169 693)	(258 533)	(169 693)
Issuance of debt securities	34	167 087	131 000	167 087	131 000
Redemption of debt securities	34	(220 201)	(88 000)	(220 201)	(88 000)
Proceeds from on subordinated debt	35	-	215 660	-	215 660
Capital payment of lease liabilities		(32 583)	(28 211)	(32 583)	(28 211)
Net cash used in financing activities		**(344 230)**	**60 756**	**(344 230)**	**60 756**
Net (decrease)/increase in cash and cash equivalents		**(146 844)**	**776 490**	**(146 844)**	**776 490**
Cash and cash equivalents at the beginning of the year		4 592 116	3 815 626	4 592 116	3 815 626
Cash and cash equivalents at the end of the year	44	**4 445 272**	**4 592 116**	**4 445 272**	**4 592 116**

The accompanying notes form an integral part of these consolidated financial statements.

Summary of accounting policies

for the year ended 31 December 2021

1. Statement of compliance

The annual consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and the requirements of the Companies Act of Botswana (Companies Act 2003); the Botswana Banking Act (Cap 46:04) and all applicable legislation.

The annual consolidated and separate financial statements of Absa Bank Botswana Limited were authorised for issuance by the board of directors on 22nd March 2022 and are available for inspection at the Bank's registered office.

2. Significant accounting policies

The significant accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

2.1 Adoption of new and revised accounting standards

During the current year the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for consolidated reporting periods beginning on 1 January 2021. For details of the new and revised accounting policies refer to note 54.

2.2 Basis of preparation

Apart from certain items that are carried at fair valued amounts as explained in the accounting policies below the financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.

The financial statements are presented in thousands of Pula (P'000) the presentation currency of the Group. All amounts have been rounded to the nearest thousand unless otherwise advised.

2.3 Consolidation

The annual consolidated and separate financial statements include those of the Group comprising of Absa Bank Botswana Limited and Absa Insurance Services (Proprietary) Limited and Absa Securities Botswana (Proprietary) Limited.

Subsidiaries are all entities over which the Group has control. The Group controls and hence consolidates an entity when it is exposed or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group will only consider potential voting rights that are substantive when assessing whether it controls another entity. In order for the right to be substantive the holder must have the practical ability to exercise that right. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

IntraGroup transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Group for the purposes of the consolidation. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date except for:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal Groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Summary of accounting policies (continued)

for the year ended 31 December 2021

2.3.1 Investment in subsidiary

Subsidiaries are entities in which the Bank has at least 50% of the equity and control. Investments in subsidiaries are measured at cost less impairment.

2. Significant accounting policies (continued)

2.4 Business combinations

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period or additional assets or liabilities are recognised to reflect new information obtained about facts and circumstances that existed at the acquisition date that if known would have affected the amounts recognised at that date.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred to reflect new information obtained about facts and circumstances that existed at the acquisition date that if known would have affected the amounts recognised at that date.

2.5 Foreign currency

Functional currency and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency "). The consolidated financial statements are presented in Pula which is the Group's functional and presentation currency.

In preparing the consolidated financial statements transactions in currencies other than the functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. Refer to note 8 for exchange gains and losses recognised.

2.6 Revenue recognition

Net interest income

Interest revenue and interest charges which are calculated using the effective interest method are separately presented in the statement of comprehensive income. Effective interest on loans and advances at amortised cost and debt instruments at fair value through other comprehensive income as well as the interest expense on financial liabilities held at amortised cost are calculated using the effective interest rate method. This results in the allocation of interest and direct and incremental fees and costs over the expected lives of the assets and liabilities.

The effective interest method requires the Group to estimate future cash flows in some cases based on its experience of customers' behaviour considering all contractual terms of the financial instrument as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities) there are no individual estimates that are material to the results or financial position.

Effective interest rate (EIR) method

The Group's EIR method recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation by nature requires an element of judgement regarding the expected behavior and life cycle of the instruments as well expected changes to Group's base rate and other fee income/expense that are integral parts of the instrument.

The Group's EIR (and therefore the amortised cost of the financial statements) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset as well as fees and costs that are an integral part of the EIR.

Revenue from contracts with customers

Revenue from contracts with customers is measured based on the transaction price specified in a contract with a customer and excludes amounts on behalf of third parties. The Group recognises the revenue from contracts with customers when it transfers control over to the customers.

Revenue from contracts with customers is presented in "fee and commission income".

The following is a description of the principal activities from which the Group generates its revenue from contracts with customers:

Summary of accounting policies (continued)

for the year ended 31 December 2021

2 Significant accounting policies (continued)

2.6 Revenue recognition (continued)

Fee and commission income

Credit-related fees and commissions

Banking fees such as bundled service fees transactional fees and account management fees are recognised over the over which the underlying service is provided to the customer. Transactional fees such as cash withdrawal period fees deposit fees debit order fees etc. are recognised at the point in time of transactions with customers and payment is received monthly. The performance obligation on bundled services is satisfied on a monthly basis.

Commitment fees

Commitment fees relate to loan commitments where it is not probable that the loan will be drawn. Such fees are regarded as a return for the provision of a service and are amortised over the commitment period. These fees may be received upfront or on a monthly basis.

Net trading income

In accordance with IFRS 9 trading positions are held at fair value and the resulting gains and losses are included in profit or loss together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Income arises from both the sale and purchase of trading positions margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates equity prices and other market variables.

Gains or losses on assets or liabilities reported in the trading portfolio are included in profit or loss under "net trading income" together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

2.7 Leasing

The Group's leases consist mostly of property leases including branches, head offices, ATM sites and other administrative buildings. None of these leases are considered individually significant to the Group. Leases are negotiated for an average term of three to five years although this differs depending on the jurisdiction and type of property. Some leases will include renewal options but these are generally renewals at market rates to be negotiated at the time of renewing the contract. These rates will only be included in the lease liability once it is reasonably certain that the Group will exercise the extension option. Most leases in the Group have fixed escalations with a limited number of inflation linked leases.

Where the Group is the lessor and the lease is a finance lease the leased asset is not held on the statement of financial position; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease discounted at the rate of interest implicit in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. The Group recognises leased assets on the statement of financial position within property and equipment.

As lessee

Where the Group is a lessee a right-of-use asset and corresponding lease liability are recognised at commencement date. The right-of-use asset is initially and subsequently measured at cost less any accumulated depreciation and imp recognised on a straight-line basis over the lease term. The right of use asset is included within property plant and equipment in the statement of financial position. The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease if readily determinable or the lessee's incremental borrowing rate. Lease liabilities are subsequently measured at amortised cost. Interest is recognised within net interest income and the lease liability is included within other payables in the statement of financial position.

The lease payments in relation to short term leases (leases with a lease term of 12 months or less at commencement date) and leases in which the underlying asset is of low value are recognised as an expense on a straight-line basis over the lease term.

As lessor

Where the Group is the lessor and the lease is a finance lease the leased asset is not held on the statement of financial position; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease discounted at the rate of interest implicit in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. The Group recognises leased assets on the statement of financial position within property and equipment.

2.8 Employee benefits

Staff costs

Short-term employee benefits including salaries accrued performance costs salary deductions and taxes are recognised over the reporting period in which the employees provide the services to which the payments relate. Performance costs are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are recognised on an undiscounted basis over the period of service that employees are required to work to qualify for the benefits.

Summary of accounting policies (continued)

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.8 Employee benefits (continued)

Defined benefit scheme

In 2016 a contractual agreement was signed between the Fund and the insurer which specifies that the obligation in respect of the pensioners has transferred to the insurer. In the past the annual pension increase declared by the Board of Trustees of the Fund was closely aligned to the prevailing inflation and was higher than the 2.5% as prescribed by the Fund rules. At the time of sourcing annuities this was regularised. The fair value of Insurance Policy is aligned to the defined benefit obligation and any change in fair value of this plan asset was considered to arise from remeasurement and accounted within other comprehensive income. The remaining surplus is not available to the Group and is treated as a reduction in asset ceiling and is accounted as such.

The Group recognises contributions due to defined contribution plans as an expense as and when the services are rendered by employees that entitle them to such contributions. Any contributions unpaid at the reporting date are therefore included as a liability.

Valuation of the retirement benefit plan

The Group treats any change in the fair value of plan assets in the form of a qualifying insurance policy due to plan amendments as change due to remeasurements and any resultant gains or losses are transferred to other comprehensive income ('OCI'). The valuations and contributions towards the defined benefit plans were determined using actuarial valuations.

The actuarial valuations involved making assumption about discount rates expected rates of return on assets future salary increases mortality rates and future pension increases. Any changes in these assumptions impacted the carrying amount of pension obligations.

In 2015 the Group took out a pension policy with an independent insurer to assume the payments in respect of the current defined benefit pensioners. This resulted in a change in the fair value of plan assets. Management treated this as a remeasurement with the movement being recognised in line with the requirements of IAS 19 Employee Benefits.

2.9 Share-based payments

Employee services settled in equity instruments

The Group operates equity-settled and cash-settled share-based payment plans.

Employee services settled in equity instruments

The cost of the employee services received in respect of the shares or share options granted is recognised in profit or loss, with a corresponding increase in equity, over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

Absa Group Limited operates a number of share schemes across multiple subsidiaries within the Absa Group. An individual subsidiary within the Absa Group that receives services as part of a share-based payment arrangement that is equity-settled from the perspective of the Absa Group shall account for that award as equity-settled in its separate financial statements only when:

- The awards granted are settled with the subsidiary's own equity instruments; or
- The entity has no obligation to settle the share-based payment transaction

Where these criteria are not met the award will be cash settled in the separate financial statements of the subsidiary.

In terms of the rules of the share-based payment schemes currently in effect within the Group (explained further in note 50) Absa Group Limited has the ultimate obligation to settle the deferred awards and is accordingly considered to be the grantor of the awards under IFRS 2. The Group therefore accounts for the current schemes as cash share-based payment arrangements.

The accounting treatment under IFRS 2 as determined to be required in the separate financial statements of the Group applies regardless of any intra-Group repayment arrangements that might be in place.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet non-vesting condition is treated as a cancellation resulting in an acceleration of recognition of the cost of the employee services.

The fair value of shares is the market price ruling on the grant date in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These take into account the exercise price of the option the current share price the risk-free interest rate the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award as are any other non-vesting conditions.

Employee services settled in cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense with a corresponding increase in liabilities over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in profit or loss. No amount is recognised for services received if the awards granted do not vest because of a failure to satisfy a vesting condition.

Summary of accounting policies (continued)

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.10 Taxation

Income tax expense represents the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities.

Current taxation

Income tax payable on taxable profits ("current taxation") is recognised as an expense in the reporting period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior reporting period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred taxation

Deferred tax is provided in full using the liability method on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated annual financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the reporting date which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Current and deferred tax

Current and deferred tax are recognised in profit or loss except when they relate to items that are recognised in other comprehensive income or directly in equity in which case the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination the tax effect is included in the accounting for the business combination.

Withholding taxation

Dividends are taxed at 7.5% or other applicable rates as prescribed by double tax agreements in place in the hands of the recipients of the dividends.

Value added taxation

Revenues expenses and assets are recognised net of the amount of VAT except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority in which case the VAT is recognised as part of the asset; and
- receivables and payables that are stated with the amount of VAT included.

Non-recoverable VAT on operating expenditure is disclosed separately in operating expenditure in the statement of comprehensive income. The net amount of VAT recoverable from or payable to the taxation authority is included as part of receivables or payables in the statement of financial position.

2.11 Property, plant and equipment

Freehold land is not depreciated.

Properties in the course of construction for production supply or administrative purposes are carried at cost less any recognised impairment loss. Cost includes professional fees and for qualifying assets borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property plant and equipment when completed and ready for its intended use. Depreciation of these assets on the same basis as other property assets commences when the assets are ready for their intended use.

Property plant and equipment is stated at cost which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment if required. Subsequent costs are capitalised if these result in an enhancement to the asset.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives using the straight-line method. The estimated useful lives residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis.

An item of property plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Useful lives and residual values

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

	Useful lives Years
Property, plant and equipment	
Freehold property	50
Office equipment, computers, ATMs and point of sale devices	3 - 7
Motor vehicles	5
Furniture and fittings	5

Leasehold property and rented property improvements are depreciated over a period that is the shorter of the unexpired period of the lease or its useful life.

Summary of accounting policies (continued)

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.12 Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Useful lives

Intangible assets	Useful lives Years
Capitalised computer software	3 - 5

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised if and only if all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

2.13 Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired.

If any indication exists or when annual impairment testing for an asset is required the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an assets or cash generating units (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use the estimated future cash flows are 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. In determining fair value less costs of disposal recent market transactions are taken into account. If no such transactions can be identified an appropriate valuation model is used. These calculations are corroborated by valuation multiples and quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For non- financial assets an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists the Group estimates the assets or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its cost amount nor exceed the carrying amount that would have been determined net of depreciation had no impairment loss been recognised for the asset in prior years.

Summary of accounting policies (continued)

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.14 Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation which can be reliably estimated.

2.15 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured.

Contingent liabilities are not recognised on the statement of financial position but are disclosed unless the outflow of economic resources is remote.

2.16 Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are capitalised to the initial carrying amount of the financial asset/liability as appropriate on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract which is the trade date or the settlement date.

On initial recognition it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However if fair value can be evidenced by comparison with other observable current market transactions in the same instrument or is based on a valuation technique whose inputs include only data from observable markets then the instrument should be recognised at the fair value derived from such observable market data.

For valuations that have made use of significant unobservable inputs the difference between the model valuation and the initial transaction price (Day One profit) is recognised in profit or loss either on a straight-line basis over the term of the transaction or over the reporting period until all model inputs will become observable where appropriate or released in full when previously unobservable inputs become observable.

2.16.1 Classification and measurement of financial instruments

On initial recognition, the Group classifies its financial assets into the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income; or
- Fair value through profit or loss;

The classification and subsequent measurement of financial assets depends on:

- The business model within which the financial assets are managed; and
- The contractual cash flow characteristics of the asset (that is, whether the cash flows represent solely payments of principal and interest).

Business model assessment:

The business model reflects how the Group manages the financial assets in order to generate cash flows and returns. The Group makes an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The factors considered in determining the business model include:

(i) how the financial assets' performance is evaluated and reported to management;

(ii) how the risks within the portfolio are assessed and managed; and

(iii) the frequency volume timing for past sales expectations in future periods and the reasons for such sales.

The Group reclassifies debt instruments when and only when the business model for managing those asset changes. Such changes are highly unlikely and therefore expected to be very infrequent.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI):

In making the assessment of whether the contractual cash flows have SPP characteristics the Group considers whether the cash flows are consistent with a basic lending arrangement. That is the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs such as liquidity risk and administrative costs together with a profit margin.

Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement the cash flows would not be considered to be SPPI and the assets would be mandatorily measured at fair value through profit or loss as described below. In making the assessment the Group considers inter alia contingent events that would change the amount and timing of cash flows prepayment and extension terms leverage features 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. tenor mismatch). Contractual cash flows are assessed against the SPPI test in the currency in which the financial asset is denominated.

Summary of accounting policies (continued)

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

2.16.1 Classification and measurement of financial instruments (continued)

Debt Instruments:
Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective such as loans and Government and corporate bonds. The Group classifies its debt instruments as follows:

- Amortised cost -Financial assets are classified within this measurement category if they are held within a portfolio whose primary objective is the collection of contractual cash flows where the contractual cash flows on the instrument are SPPI and that are not designated at fair value through profit or loss. These financial assets are subsequently measured at amortised cost where interest is recognised as effective interest within Effective interest income using the effective interest rate method. The carrying amount is adjusted by the cumulative expected credit losses recognised.
- Fair value through other comprehensive income - This classification applies to financial assets which meet the SPPI test and are held within a portfolio whose objectives include both the collection of contractual cash flows and the selling of financial assets. These financial assets are subsequently measured at fair value with movements in the fair value recognised in other comprehensive income with the exception of interest income expected credit losses and foreign exchange gains and losses that are recognised within profit or loss. When the financial asset is derecognised the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to Net trading income in profit or loss. Interest income from these financial assets is included as Effective interest within Effective interest income using the effective interest rate method.
- Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are mandatorily measured at fair value through profit or loss. Gains and losses on these instruments are recognised in profit or loss. The Group may also irrevocably designate financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income as at fair value through profit or loss if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise. These will be subsequently measured at fair value through profit or loss with gains and losses recognised as Gains and losses from banking and trading activities or in profit or loss.

Equity instruments:
IFRS 9 provides that at initial recognition an irrevocable election may be made to present subsequent changes in the fair value of an equity instrument in other comprehensive income provided that the instrument is neither held for trading nor constitutes contingent consideration recognised in a business combination. Amounts recognised in other comprehensive income are not subsequently recognised in profit or loss. Dividends when representing a return on investment continue to be recognised in profit or loss when the Group's right to receive payment is established. All equity instruments for which the designation at fair value through other comprehensive income has not been applied are required to be recognised at fair value through profit or loss.

Financial Liabilities
Financial liabilities that are held at amortised cost are measured in accordance with the effective interest rate method. That is the initial fair value (which is normally the amount borrowed) is adjusted for premiums discounts repayments and the amortisation of coupon fees and expenses to represent the effective interest rate of the liability.

Financial liabilities classified as held for trading are subsequently measured at fair value through profit or loss with changes in fair value being recognised in profit or loss.

A financial liability may be designated at fair value through profit or loss if

(i) measuring the instrument at fair value eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

(ii) if the instrument belongs to a Group of financial assets or financial liabilities that are managed on a fair value basis in accordance with a documented risk management or investment strategy. Own credit gains or losses arising from the valuation of financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income and are not subsequently recognised in profit or loss.

2.16.2 Expected credit losses on financial assets

The Group uses a mixed approach to impairment where parameters are modelled at an individual financial instrument level or on a portfolio basis when they are only evident at this higher level. A collective approach will only be carried out when financial instruments share similar risk characteristics which could include factors such as instrument type collateral type industry geography and credit risk ratings.

The Group recognises expected credit losses based on unbiased forward-looking information. Expected credit losses are recognised on

- financial assets at amortised cost
- lease receivables
- debt instruments at fair value through other comprehensive income
- loan commitments not measured at fair value
- financial guarantee contracts not measured at fair value

Summary of accounting policies (continued)

for the year ended 31 December 2021

2. Significant accounting policies (continued)
2.16 Financial instruments (continued)
2.16.2 Expected credit losses on financial assets (continued)

Impairment is recognised based on a three-stage approach:

Stage 1: Exposures where there has not been a significant increase in credit risk since origination. For these exposures an expected credit loss is recognised based on the credit losses expected to result from default events that are possible within 12 months of the reporting date. Interest income is calculated based on the gross carrying value of these instruments.

Stage 2: Exposures for which the credit risk has increased significantly since initial recognition. For these exposures lifetime expected credit losses should be recognised (i.e. credit losses from default events that are possible over the life of the instrument). The Group will assess whether a significant increase in credit risk has occurred based on

(i) qualitative drivers including being marked as high risk or reflected on management's watch list; and

(ii) quantitative drivers such as the change in the asset's cumulative weighted average

(iii) lifetime probability of default (PD). Any exposure that is more than 30 days past due will also be included in this stage. Interest income is calculated based on the gross carrying value of these instruments.

Stage 3: Exposures which are credit impaired. For these exposures expected credit losses are based on lifetime losses. Assets are considered to be credit impaired when they meet the regulatory definition of default which includes unlikeliness to pay indicators as well as any assets that are more than 90 days past due. Interest income is calculated based on the carrying value net of the loss allowance.

EAD is the estimated amount at risk in the event of a default (before any recoveries) including behavioral expectation of limit usage by customers in the various stages of credit risk.

- PD is the probability of default at a particular point in time which may be calculated based on the defaults that are possible to occur within the next 12 months; or over the remaining life; depending on the stage allocation of the exposure.
- LGD is the difference between the contractual cash flows due and the cash flows expected to be received discounted to the reporting date at the effective interest rate. The expectation of cash flows takes into account cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The estimate reflects the amount and timing of cash flows expected from the enforcement of collateral less the costs of obtaining and selling the collateral. The collection of any cash flows expected beyond the contractual maturity of the contract is also included.

Lifetime of financial instruments

For exposures in stage 2 and stage 3 the maximum lifetime over which expected credit losses should be measured is the maximum contractual period over which the Group is exposed to credit risk. The Group estimates cash flows by considering all contractual terms of the financial instrument (for example prepayment extension call and similar options) through the expected life of that financial instrument. In rare cases when it is not possible to reliably estimate the expected life of a financial instrument the Group use the remaining contractual term of the financial instrument.

Certain credit exposures include both a drawn and an undrawn component and the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to the contractual notice period. In this case expected credit losses are measured over the period that the Group is exposed to credit risk even if that period extends beyond the maximum contractual period. This applies to overdrafts credit cards and other revolving products.

These contracts are cancellable at very short notice and they have no fixed term but credit may continue to be extended for a longer period and may only be withdrawn after the credit risk of the borrower increases which could be too late to prevent losses. For these types of products the expected life is based on the behavioral life i.e. the period over which there is exposure to credit risk which is not expected to be mitigated by credit actions (e.g. limit decreases) even though the contract permits immediate limit decrease.

Forward looking information

Forward-looking information is factored into the measurement of expected losses through the use of multiple expected macro-economic scenarios that are either reflected in estimates of PD and LGD for material portfolios; or adjusted through expert credit judgement where the effects could not be statistically modelled.

Curing of a Distressed Restructure

The distressed restructure classification is discontinued when the following conditions are met:

It is established that the obligor is able to meet the requirements of the revised terms and conditions of the restructure;

A minimum observation period of 12 months or as per local regulatory requirement where requirement is in excess of 12 months after the restructure is has been put in place during which the obligor must comply with the revised terms and conditions;

In most cases this will equate to a minimum of 12 full consecutive monthly payments. In the case of clients with longer dated repayment terms (e.g. quarterly) the 12 month observation period will still apply but more emphasis should be placed on qualitative factors in the assessment of the cure; and

Summary of accounting policies (continued)

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

2.16.2 Expected credit losses on financial assets (continued)

The classification of the loan into a performing category may be made subsequent to an evaluation by the BU Watch List Committee regarding the qualitative factors in addition to compliance with the revised payment terms and conditions. Qualitative factors include compliance with the loan covenants and compliance with other existing loan obligations. Where these conditions are not met the obligor continues to be under probation and considered to be a distressed restructure until all requirements are met. Compliance with the conditions is assessed quarterly at a minimum by the appropriate SLoD official (e.g. Distressed Asset Manager).

2.16.3 Derecognition of financial instruments

Full derecognition only occurs when the rights to receive cash flows from the asset have been discharged cancelled or have expired or the Group transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership including credit risk prepayment risk and interest rate risk. When an asset is transferred in some circumstances the Group may retain an interest in it (continuing involvement) requiring the Group to repurchase it in certain circumstances for other than its fair value on that date.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors) such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in profit or loss. Where the terms of an existing liability are not substantially modified the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

On derecognition of a financial instrument any difference between the carrying amount thereof and the consideration received is recognised in profit or loss.

Write offs

a. The gross carrying amount of a financial asset shall be directly reduced ('written off') when the entity has no reasonable expectations of recovering it in its entirety or a portion thereof. A write-off constitutes a de-recognition event for accounting purposes. (For example an entity plans to enforce the collateral on a financial asset and expects to recover no more than 30 per cent of the financial asset from the repossess. If the entity has no reasonable prospects of recovering any further cash flows from the financial asset it should write off the remaining 70 per cent of the asset). Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the impairment line of the profit or loss.

b. The point of which an account will be written-off is:

appropriate at the point when the entity has no reasonable expectations of recovering a financial asset (the asset is reduced to perfecting collateral (no longer any planned direct pursuit of the obligor) either in its entirety or a portion thereof

- where it does not make sense from a cost perspective to endeavor any further collection efforts;
- Where local regulators dictate a different outcome to the above two instances local regulation will supersede Group requirements.

Enforcement of collateral

Property pledged as collateral by customers is repossessed following the foreclosure of the loans that are in default. Repossessed properties are maintained off balance sheet with the respective loan recognized to the extent of discounted fair value of collateral held. The repossessed assets are not recognized on the statement of financial position as title or ownership of the assets never transfers to the Group. Properties pledged as collateral are taken into consideration when calculating credit exposures and impairment provisions.

2.16.4 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities Ordinary share capital Proceeds are included in equity net of transaction costs. Dividends and other returns to equity holders are recognised when declared by the Board.

Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared in accordance with the Companies Act of Botswana (Companies Act 2003). Capital reinvestment relates to dividends re-invested back by Absa Group and these are treated as capital injections back into back into capital.

2.16.5 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks including foreign exchange forward contracts and interest rate swaps.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Summary of accounting policies (continued)

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

2.16.5 Derivative financial instruments (continued)

Derivatives embedded in financial liability non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

2.16.6 Offsetting

In accordance with IAS 32 Financial Instruments: Presentation the Group reports financial assets and financial liabilities on a net basis on the statement of financial position only if there is a current legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.17 Cash and cash equivalents

For the purposes of the statement of cash flows cash comprises cash on hand and demand deposits and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less.

2.18 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Group and the number of basic weighted average number of ordinary shares excluding treasury shares held in employee benefit trusts or held for trading. When calculating the diluted earnings per share the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held.

2.19 Segmental reporting

The Group's segmental reporting is in accordance with IFRS 8 Operating Segments (IFRS 8). Operating segments are reported in a manner consistent with the internal reporting provided to the Country Management Committee (CMC) which is responsible for allocating resources and assessing performance of the operating segments and has been identified as the Chief Operation Decision Maker (CODM).

All transactions between business segments are conducted on an arm's length basis. Income and expenses directly associated with each segment are included in determining business segment performance.

Assets excluding loans and advances to customers financial instruments trading portfolio assets and derivative instruments and liabilities excluding deposits due to customers derivative financial instruments and debt securities in issue are not identifiable to any one of the reportable segments and can be used interchangeably between segments. As a result these are not reviewed by chief operating decision maker. Therefore segmental disclosure relating to these has not been provided.

All transactions between segments are carried in the normal course of business. Our management reporting system reports our inter-segment service at a cost reduction and does not take them as internal revenue. Inter-segment service mainly represents utilisation of manpower resource of one segment by another on a project-by-project basis. Inter-segment services are charged based on an internal cost rate including certain indirect and direct overhead costs but without profit margin.

The segment analysis for the year is detailed on note 50.

2.20 Loan commitments

The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period or are cancellable by the Group subject to notice conditions. Under IFRS 9 loan commitments must be measured with reference to the quantum of ECL required to be recognised. In the case of undrawn loan commitments the inherent credit risk is managed and monitored by the Group together with the drawn component as a single exposure. The EAD on the entire facility is therefore used to calculate the cumulative ECL. As a result the total ECL is recognised in the ECL allowance in respect of the financial asset unless the total allowance exceeds the gross carrying amount of the financial asset. If this is the case the excess ECL is recognised as a provision on the face of the statement of financial position.

2.21 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument. Financial guarantees are initially recognized in the consolidated financial statements under provisions at fair value on the date that the guarantee was given.

The premium is recognized in the income statement in Net fees and commission income on a straight- line basis over the life of the guarantee.

Undrawn loan commitments and letters of credit re commitments under which over the duration of the commitment the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts these contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees letters of credit and undrawn loan commitments where the loan agreed to be provided is on market terms are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECL are disclosed on our financial statement notes. The Bank occasionally issues loan commitments at below market interest rates. Such commitments are subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognized less when appropriate the cumulative amount of income recognized.

The Group has elected not to apply IFRS 4 Insurance Contracts as permitted for financial guarantee contracts since the bank has not explicitly asserted that it considers such contracts to be insurance contracts.

The premium is recognized in the income statement in Net fees and commission income on a straight- line basis over the life of the guarantee.

Summary of accounting policies (continued)

for the year ended 31 December 2021

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

Undrawn loan commitments and letters of credit re commitments under which over the duration of the commitment the Bank is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts these contracts are in the scope of the ECL requirements. The nominal contractual value of financial guarantees letters of credit and undrawn loan commitments where the loan agreed to be provided is on market terms are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECL are disclosed on our financial statement notes. The Bank occasionally issues loan commitments at below market interest rates. Such commitments are subsequently measured at the higher of the amount of the ECL allowance and the amount initially recognized less when appropriate the cumulative amount of income recognized.

The Group has elected not to apply IFRS 4 Insurance Contracts as permitted for financial guarantee contracts since the bank has not explicitly asserted that it considers such contracts to be insurance contracts.

3. Judgements and estimates

In the preparation of the consolidated financial statements management is required to make judgements estimates and assumptions that affect reported income expenses assets liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements within the next financial period.

Judgements made by management that could have a significant effect on the amounts recognised in the consolidated financial statements include:

- Expected credit losses of financial assets
- Useful lives and residual values of property plant and equipment (Note 23)
- Useful lives and residual values of intangible assets (Note 24)
- Valuation of the share-based payment reserve
- Basis for determining fair values of investments
- Basis for provision for commission refund
- Valuation of the retirement benefit plan (Note 29)
- Accounting treatment for repossessed assets (Note 2.16.3)

The consideration of credit risk is a fundamental process for the Group as it ultimately determines the impairment losses recognised from an accounting perspective. This section describes the processes and assumptions applied in estimating impairment under IFRS 9.

Expected credit losses (ECL) of financial assets

Approach to impairment of credit exposures

The measurement of ECL involves a significant level of complexity and judgement including estimation of probability of default (PD) loss given default (LGD) a range of unbiased future economic scenarios estimation of expected losses and estimation of exposure at default (EAD) and assessing significant increases in credit risk.

The purpose of estimating ECL is neither to estimate a worst-case scenario nor to estimate the best-case scenario. The estimate reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In some cases relatively simple modelling is considered to be sufficient without the need to consider the outcome under different scenarios. For example the average credit losses of a large Group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed.

Under IFRS 9 the Group recognises ECL based on a stage allocation methodology with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the 12 months losses associated with events of default that are expected to occur within 12 months of the reporting date (12-month ECL).

Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (lifetime ECL). The assessment of whether an exposure should be transferred from stage 1 to stage 2 is based on whether there has been a significant deterioration in credit risk. This is a relative measure where the credit risk at the reporting date is compared to the risk that existed upon initial recognition of the instrument. Exposures are classified within stage 3 if they are credit impaired.

For IFRS 9 purposes, two distinct PD estimates are required:

- 12 month PD: the likelihood of accounts entering default within 12 months of the reporting date.
- Lifetime PD: the likelihood of accounts entering default during the remaining life of the asset.

For the purposes of credit modelling under IFRS 9 the PD is calculated on a point in time (PIT) basis and reflects the likelihood of default assessed based on the prevailing economic conditions at the reporting date adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default. PIT PDs do not equate to a long run average. This is a key distinction between the IFRS 9 ECL models and the Group's Basel III models. Under Basel III the PD is the average of default within the next 12 months calculated based on the long-run historical average over the full economic cycle (that is through the cycle (TTC).

Summary of accounting policies (continued)

for the year ended 31 December 2021

3. Judgements and estimates (continued)

Expected credit losses (ECL) of financial assets (continued)

Approach to impairment of credit exposures (continued)

IFRS 9 provides that financial asset should be written off and accordingly derecognised when the Group believes there to be no reasonable expectation of recovery. The Group has well-governed internal policies which define how an individual account should be assessed for write-off and which ensure that post write-off recoveries remain insignificant over the long run. Further the policies are recalibrated over time as and when actual recovery experience changes. Whilst the Group's write-off policy determines the point of derecognition at an individual account level it also impacts the level of recoveries modelled on a collective basis for the purposes of determining LGDs to be applied at a portfolio level. Under IFRS 9 the Group applies the write-off assumptions consistently at both an individual account level and on a collective modelling basis. This means that the Group's LGD model includes only the present value of forecast recoveries on a pool of loans up until the designated point of write-off. Recoveries which are therefore forecast to be received post the point of write-off are excluded from the LGD model. Recoveries of amounts previously written off are recognised as an ECL gain in the statement of comprehensive income as and when the cash is received.

In calculating LGD losses are discounted to the reporting date using the EIR determined at initial recognition or an approximation thereof. For debt instruments such as loans and advances the discount rate applied is the EIR calculated on origination or acquisition date. For financial guarantee contracts or loan commitments for which the EIR cannot be determined losses are discounted using a rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows (to the extent that such risks have not already been taken into account by adjusting the cash shortfalls).

Approach to impairment of credit exposures

The EAD model estimates the exposure that an account is likely to have at any stage of default in future. This incorporates both the amortising profile of a term loan as well as behavioural patterns such as the propensity of the client to draw down on unutilised facilities in the lead up to a default event.

Expert credit judgement may in certain instances be applied to account for situations where known or expected risk factors have not been considered in the ECL assessment or modelling process or where uncertain future events have not been incorporated into the modelled approach. Adjustments are intended to be short term measures and will not be used to incorporate any continuous risk factors. The Group has a robust policy framework which is applied in the estimation and approval of management adjustments.

Retail portfolio

Ratings assigned across each Retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter. The rating is used in decisions concerning underwriting and account management and is used to calculate regulatory capital economic capital and IFRS 9 ECL. The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

- Internal risk estimates of PD EAD and LGD are based on historical experience and are reliant on historical data.
- PDs are assigned at account level and consist of three elements namely:
  - a term structure capturing typical default behavior by the months since observation;
  - a behavioral model which incorporates client level risk characteristics; and
  - a macro-economic model that incorporates forward looking macro-economic scenarios
- EADs are assigned at an account level and are based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits if present.
- LGDs are assigned at account level and are based on the LGD pool to which the account has been assigned. Relevant historical data used in LGD estimates include observed exposure at the point of default recovery strategies re-defaults cure and write-off rates. The models make use of risk drivers such as loan-to-value (LTV) and attributes that describe the underlying asset.

Wholesale portfolio

The Wholesale rating process relies both on internally developed PD EAD and LGD rating models and vendor provided solutions. The Wholesale rating process relies on quantitative and qualitative assessments that could be manual or automated. Wholesale PDs and LGDs are modelled using the parameters from regulatory models as a starting point. Parameters are adjusted for differences between requirements under Basel III and IFRS 9.

- PD ratings are assigned on a customer level. Information used in the calculation of customer PD ratings includes financial statements projected cash flows equity price information behavioral information as well as quality assessments on strength of support. In converting Basel III compliant PDs to PDs appropriate for the purposes of IFRS 9 the main adjustments effected comprise:

Summary of accounting policies (continued)

for the year ended 31 December 2021

3. Judgements and estimates (continued)

Expected credit losses (ECL) of financial assets (continued)

Wholesale portfolio (continued)

- a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions thereby adjusting the PD from a seven-year historical average to a PD reflective of the macro-economic environment at the reporting date; and
- an adjustment to the regulatory PD to convert it from a PD over 12 months to a PD over the lifetime of an exposure to be able to assess significant increases in credit risk and estimate lifetime provisions for stage 2.
- **LGD estimates depend on the key drivers of recovery** such as collateral value seniority of claim and costs involved as part of the recovery process. LGD models are based on internal and external loss data and the judgement of credit experts. The main adjustments to LGD comprise a macroeconomic adjustment that changes the long-run LGD to reflect a given macroeconomic scenario as well as the exclusion of forecast recoveries expected beyond the point of write-off. Lifetime projections of LGD take into account the expected balance outstanding on a loan at the time of default as well as the value of associated collateral at that point in time.
- EAD models aim to replicate the expected utilisation of a customer's facility should a default occur. EADs are assigned for each facility using models incorporating internal and external default data as well as the experience of credit experts in relation to particular products or customer Groups.

Definition of a significant increase in credit risk

The Group uses various quantitative qualitative and backstop measures as indicators of a significant increase in credit risk. The thresholds applied for each portfolio will be reviewed on a regular basis to ensure they remain appropriate. Where evidence of a significant increase in credit risk is not yet available at an individual instrument level instruments that share similar risk characteristics are assessed on a collective basis.

Key drivers of a significant increase in credit risk include:

- Where the weighted average (PD) for an individual exposure or Group of exposures as at the reporting date evidences a material deterioration in credit quality relative to that determined on initial recognition;
- Adverse changes in payment status and where accounts are more than 30 days in arrears at reporting date. In certain portfolios a more conservative arrears rule is applied where this is found to be indicative of increased credit risk (e.g. 1 day in arrears);
- Accounts in the Retail portfolio which meet the portfolio's impairment high risk criteria; and
- The Group's watch list framework applied to the Wholesale portfolio which is used to identify customers facing financial difficulties or where there are grounds for concern regarding their financial health.

Definition of credit impaired

Assets classified within stage 3 are considered to be credit impaired when an exposure is in default. Important to the Group's definition of default is the treatment of exposures which are classified as within forbearance. Forbearance is a concession granted to a counterparty for reasons of financial difficulty that would not otherwise be considered by the Group. The definition of forbearance is not limited to measures that give rise to an economic loss (that is a reduction in the counterparty's financial obligation).

Default within Wholesale and Retail is aligned with the regulatory definition and therefore assets are classified as defaulted when either:

- The Group considers that the obligor is unlikely to pay its credit obligations without recourse by the Group to actions such as realising security. Elements to be taken as indications of unlikeliness to pay include the following:
- The Group consents to a distressed restructuring / forbearance of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness of principal interest or fees;
- The customer is under debt review business rescue or similar protection;
- Advice is received of customer insolvency or death; or
- The obligor is past due 90 days or more on any credit obligation to the Group.

In addition within the Retail portfolios:

- All forms of forbearance are treated as in default regardless of whether the restructure has led to a diminished financial obligation or not; and
- The Group requires an exposure to reflect at least 12 consecutive months of performance in order to be considered to have been cured from Stage 3. This probation period applies to all exposures including those that may have been classified as defaulted for reasons other than forbearance and debt review (e.g. owing to the fact that they become more than 90 days past due).

Summary of accounting policies (continued)

for the year ended 31 December 2021

3. Judgements and estimates (continued)

Expected credit losses (ECL) of financial assets (continued)

Wholesale portfolio (continued)

Determination of the lifetime of a credit exposure

The determination of initial recognition and asset duration (lifetime) are critical judgements in determining quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the statement of financial position. The PD recorded at this time provides the baseline used for subsequent determination of a significant increase in credit risk.

When determining the period over which the entity is expected to be exposed to credit risk but for which the ECL would not be mitigated by the entity's normal credit risk management actions the Group considers factors such as historical information and experience about:

- the period over which the entity was exposed to credit risk on similar financial instruments;
- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased such as the reduction or removal of undrawn limits.

  For asset duration the approaches which are applied (in line with IFRS 9 requirements) are:
- Term lending: the contractual maturity date reduced for behavioural trends where appropriate (such as expected settlement and amortisation); and
- Revolving facilities: for Retail portfolios asset duration is based on behavioural life and this is normally greater than contractual life. For wholesale portfolios a sufficiently long period to cover expected life modelled and an attrition rate is applied to cater for early settlement.

Incorporation of forward-looking information into the IFRS 9 modelling

The Group's IFRS 9 impairment models consume macroeconomic information to enable the models to provide an output that is based on forward looking information. The macro-economic variables and forecast scenarios are sourced from one of the world's largest research companies and are reviewed and approved in accordance with the Group's macroeconomic governance framework. This review includes the testing of forecast estimates the appropriateness of variables and probability weightings as well as the incorporation of these forecasts into the ECL allowance. Updates post Covid -19 on the forward-looking information has been disclosed in note 4.

The Group has adopted the use of three economic scenarios: a base scenario a mild upside scenario and a mild downside scenario.

Base scenario

- Global growth is forecast to continue on the steady path but less synchronized and balanced among advanced economies than in previous years.

  Sub-Saharan Africa's economy continues to face significant uncertainties and downside risk. Global uncertainties including US trade and monetary policies capital outflows domestic political risks fiscal vulnerabilities volatile weather conditions and weak policy implementation continue to weigh on the outlook.

  Mild upside scenario: Stronger near-term growth
- The global economy grows faster than expected as global trade and political tensions subside. This boosts global business confidence trade and investment.
- A stronger global economy and higher commodity prices help support growth in African commodity exports and fixed investments. The level of output remains above the baseline scenario.

  Mild downside scenario: Moderate recession
- Global output contracts over the first year of the forecast as economies experience a synchronised contraction in economic activity.
- Sub-Saharan Africa's markets would be affected through low commodity prices and currencies. Falling exports drive currencies weaker and inflation higher.

  Updates to estimates and judgements on the base and mild scenarios as a result of COVID-19 have been outline in Note 4.

Share-based payments

As explained in section 2.9 the Group's equity share based payments schemes are linked to the shares of its holding company Absa Group Limited. The initial fair value of awards is determined at grant date and is measured after taking into account all terms and conditions of the share incentive scheme excluding non-market vesting conditions. In the case of certain schemes options are granted to employees with a zero-strike price. In this case the Group may consider Absa Group Limited share price on the grant date to be the best indication of the grant date fair value. Where the fair value of share awards relating to share-based payments is not based on a zero-strike price it is determined using option pricing models. The inputs to the option pricing models are derived from observable market data where possible but where observable market data is not available judgement is required to establish fair values. Significant inputs into this pricing model include the risk-free discount rate share price volatility as well as an expectation of future dividends.

Summary of accounting policies (continued)

for the year ended 31 December 2021

3. Judgements and estimates (continued)

Share-based payments (continued)

The cumulative expense recognised at each reporting date will reflect the extent to which the vesting period has expired as well as the Group's best estimate of the number of equity instruments that will ultimately vest. A key assumption applied is staff turnover and expected forfeitures. Management calibrates this assumption based on historical data. Note 50 include details of the Group's share awards.

Basis for determining fair values of investments

The 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. Fair values should be first calculated with reference to observable inputs where these are available in the market. Only where these are unavailable should fair value techniques be applied which employ less observable inputs. Unobservable inputs may only be used where observable inputs or less observable inputs are unavailable. IFRS 13 Fair Value Measurement does not mandate the use of a particular valuation technique but rather sets out a principle requiring an entity to determine a valuation technique that is appropriate in the circumstances for which sufficient data is available and for which the use of relevant observable inputs can be maximised. Where management is required to place greater reliance on unobservable inputs the fair values may be more sensitive to assumption changes and different valuation methodologies that may be applied. For this reason there is a direct correlation between the extent of disclosures required by IFRS 13 and the degree to which data applied in the valuation is unobservable.

The fair values of quoted investments in active markets are based on current bid prices (level 1). If the market for a financial asset is not active the Group establishes fair value by using valuation techniques (level 2 and level 3). 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.

Debt securities and treasury and other eligible bills

These instruments are valued based on quoted market prices from an exchange dealer broker industry Group or pricing service where available. Where unavailable fair value is determined by reference to quoted market prices for similar instruments or in the case of certain mortgage-backed securities valuation techniques using inputs derived from observable market data and where relevant assumptions in respect of unobservable inputs.

Derivatives

Derivative contracts can be exchange-traded or traded Over The Counter ("OTC"). OTC derivative contracts include forward swap and option contracts related to interest rates bonds foreign currencies credit spreads equity prices and commodity prices or indices on these instruments.

Fair values of derivatives are obtained from quoted market prices dealer price quotations discounted cash flow and pricing models. Bid-offer valuation adjustments for assets and liabilities where the Group is not a market maker mid-prices are adjusted to bid and offer prices respectively unless the relevant mid-prices are reflective of the appropriate exit price as a practical expedient given the nature of the underlying instruments. Bid-offer adjustments reflect expected close out strategy and for derivatives the fact that they are managed on a portfolio basis.

The methodology for determining the bid-offer adjustment for a derivative portfolio will generally involve netting between long and short positions and the bucketing of risk by strike and term in accordance with the hedging strategy. Bid-offer levels are derived from market sources such as broker data. For those assets and liabilities where the Group is a market maker and has the ability to transact at or better than mid-price (which is the case for certain equity bond and vanilla derivative markets) the mid-price is used since the bid-offer spread does not represent the transaction cost.

Summary of accounting policies (continued)

for the year ended 31 December 2021

3. Judgements and estimates (continued)

Derivatives (continued)

Measurement of assets and liabilities at Level 2

The following table presents information about the valuation techniques and significant observable inputs used in measuring assets and liabilities categorised as Level 2 in the fair value hierarchy:

Category of asset	Valuation techniques applied	significant observable inputs
Loans and advances to banks	Future cash flows are discounted using market-related interest rates adjusted for credit inputs over the contractual period of the instruments (that is discounted cash flow)	Interest rates and/or money market curves as well as credit spreads
Trading and hedging portfolio assets and liabilities		
Debt instruments Derivative assets	Discounted cash flow models	Underlying price of market instruments and/or interest rates
Foreign exchange derivatives	Discounted cash flow techniques and/or option pricing models, such as the Black Scholes model	Interest rate curves, repurchase agreements, money market curves and/ or volatilities.
Interest rate derivatives	Discounted cash flow and/or option pricing models	Interest rate curves, repurchase agreement curves, money market curves and/or volatility

Measurement of assets and liabilities at Level 3

The following table presents information about the valuation techniques and significant unobservable inputs used in measuring assets and liabilities categorised as Level 3 in the fair value hierarchy:

Category of asset	Valuation techniques applied	Significant unobservable inputs
Loans and advances to banks	Discounted cash flow and/ or dividend yield models	Credit spreads
Investment securities and investments linked to investment contracts	Discounted cash flow models, third-party valuations, earnings multiples and/ or income capitilisation valuations.	Risk adjusted yield curves future earnings, marketability discounts and/ or comparator multiples
Trading and hedging portfolio assets and liabilities		
Debt instruments Derivative assets	Discounted cash flow models	Credit spreads
Foreign exchange derivatives	Discounted cash flow techniques and/or option pricing models, such as the Black Scholes model	African basis curves (greater than 1 year).
Interest rate derivatives	Discounted cash flow and/or option pricing models	Real yield curves (greater than 1 year), repurchase agreement curves (greater than 1 year), funding spread.

Basis for provision for commission refund

Commission earned from the principal in respect of credit insurance policies secured are refundable in the case of early settlements or cancellation of policies by the Group's customers. Management employs judgements in coming up with estimates of the proportion of the customers who will submit a claim for such refunds and the corresponding fees that may fall in this category. The insurance model gives an approximate % to be deferred of commission received. It calculates on a month-on-month basis the average rate of clawbacks which is then averaged out every year to get a yearly average. The yearly average is then applied to the subsequent year figure of commission received to get an amount to defer.

This is done in order to maintain the balance between income realised and amount given as claw backs in order not to overstate nor understate either of the two. Clawbacks captured on monthly basis. This also gives the year in which the commission relates to and also give the probability of payments. The calculation is based on an insurance deferral model. Which indicates a weighted average of 34.5%. The credit life commission received on monthly basis (34.5%) is the deferral amount disclosed on the financials.

Notes to the annual financial statements

for the year ended 31 December 2021

4. Impact of COVID-19

The impact of the COVID-19 pandemic on the Group's use of estimates and judgements as well as on the financial risks to which the Group is exposed has resulted in additional comprehensive disclosures being provided below to highlight the effect of the pandemic on the consolidated financial statements.

- Updates to estimates and judgements made in applying IFRS due to COVID-19; and
- COVID-19 credit risk disclosures.

4.1 Updates to estimates and judgements made in applying IFRS due to COVID-19

The coronavirus pandemic has had a devastating impact on the global economy as a whole. As the outbreak continues to progress and evolve it is challenging at this juncture to predict the full extent and duration of its business and economic impact. This high degree of uncertainty introduced by the unexpected development of the pandemic has forced many organisations to reassess assumptions and existing methods of estimation as well as judgements used in the calculation of certain balances and transactions.

4.2 Updates to estimates and judgements made in applying IFRS due to COVID-19

The coronavirus pandemic has had a devastating impact on the global economy as a whole. As the outbreak continues to progress and evolve it is challenging at this juncture to predict the full extent and duration of its business and economic impact. This high degree of uncertainty introduced by the unexpected development of the pandemic has forced many organisations to reassess assumptions and existing methods of estimation as well as judgements used in the calculation of certain balances and transactions.

4.3 COVID-19 Payment relief

The most significant impact on the Group's use of estimates and judgements due to the advent of the COVID-19 crisis relates to credit risk and specifically the quantification of expected credit losses (ECL) of loans and advances to customers. The ECL estimation must reflect an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible macroeconomic outcomes. IFRS 9 models use three parameters - probability of default loss given defaults and exposure at default - in ECL allowance calculations. Significant judgement and estimates are applied when quantifying the ECL of loans and advances and even more so now as credit models are not calibrated for events such as the COVID-19 crisis. Given the deteriorating macroeconomic environment specific increases in probability of default and loss given defaults were made to appropriately capture the COVID-19 environment.

The determination of the Group's ECLs remains a significant area of judgement and estimation even more so due to the COVID-19 crisis. Management adjustments were therefore required in addition to the model outputs to provide a more appropriate assessment of risk. These additional management adjustments have required greater governance across the Group and were robustly challenged and reviewed by the Group Credit Impairment Committee. A revised approach to the estimation of probabilities of default identification of significant increase in credit risk (stage 2 impairment) forward looking scenarios and the impact on estimated ECLs was employed. Further complexity was added by the payment relief provided to eligible customers.

The table below provides a breakdown of the total ECL recognised at 31 December 2021 to reflect the impairment charge calculated using the Group's approved models together with the management adjustments raised to incorporate the effects of COVID-19.

	Consolidated and Company			
	31 Dec 2021			31 Dec 2020
	Impairment losses pre-management adjustments P'000	Management adjustment P'000	Impairment losses P'000	Impairment losses P'000
Retail and Business Banking	(111 543)	(6 065)	(117 608)	(243 105)
Corporate and Investment Banking	(9 233)	25 260	16 027	(42 517)
Total	**(120 776)**	**19 195**	**(101 581)**	**(285 622)**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

4. Impact of COVID-19 (continued)

4.3 COVID-19 Payment relief (continued)

	Consolidated and Company			
	31 Dec 2020			31 Dec 2019
	Impairment losses pre-management adjustments P'000	Management adjustment P'000	Impairment losses P'000	Impairment losses P'000
Retail and Business Banking	(185 749)	(57 356)	(243 105)	(106 311)
Corporate and Investment Banking	(21 015)	(21 502)	(42 517)	46 555
Total	**(206 764)**	**(78 858)**	**(285 622)**	**(59 756)**

The Group implemented extensive payment relief programmes across its segments from April 2021 for eligible customers impacted by COVID-19. The programme allows customers who have been financially impacted by the pandemic and need short-term financial relief (3 to 6 months) to defer their monthly instalments to assist with cash flow needs.

Retail customers in good standing could opt-in for payment relief which means that customers had the opportunity to either continue paying to reduce instalments as agreed with the Group or to defer payments for a specified period. Support to corporate and business banking clients was structured based on their unique requirements and operations.

The status of payment arrears is a significant input into the credit models. Deferred or reduced payments could therefore not be taken into account in models to estimate expected credit losses.

For customers that did not meet the payment relief eligibility criteria the Group's existing credit policies continue to be applied. Therefore restructures performed for credit reasons were treated as a continuation of the original loan and defaulted exposures which include exposures restructured to the extent that economic value is lost (for instance when interest rates are reduced or interest is not accrued during the payment relief period) continue to be classified as default / Stage 3.

The gross carrying value of loans and advances to customers that were granted payment relief as at 30 December 2021 is as follows

	Consolidated and Company			
December 2021 (unaudited)	Gross loans and advances to customers P'000	Payment relief gross carrying amount P'000	Percentage of portfolio %	Up to date %
Tourism and hotels	418 524	381 003	91.03	8.97
Commercial real estate	782 364	7 219	0.92	99.08
Construction	96 149	-	-	100
Agriculture forestry fishing	449 737	-	-	100
Transport and storage	20 262	-	-	100
Mining and quarrying	224 399	-	-	100
Manufacturing	838 594	-	-	100
Community social and personal services	446 399	30 867	6.91	93.09
Trade restaurants and bars	786 373	-	-	100
Residential property	2 254 187	13 436	0.60	99.4
Personal loans	7 523 540	-	-	-
Finance companies	701 768	-	-	-
Credit card loans	451 329	-	-	-
Public sector financial intermediaries	240 509	-	-	-
Motor vehicle	154 411	-	-	-
Public non-financial corporations	125 916	-	-	-
Other	78 095	-	-	-
Loans and advances to customers	**15 592 556**	**432 525**	**2.77**	**97.23**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

4. Impact of COVID-19 (continued)

4.3 COVID-19 Payment relief (continued)

The gross carrying value of loans and advances to customers that were granted payment relief as at 31 December 2020 is as follows:

	Consolidated and Company			
December 2020 (Unaudited)	Gross loans and advances to customers P'000	Payment relief gross carrying amount P'000	Percentage of portfolio %	Up to date %
Tourism and hotels	423 335	379 071	89.54	10.46
Commercial real estate	599 002	330 992	55.26	44.74
Construction	61 008	6 356	10.42	89.58
Agriculture, forestry, fishing	464 460	78 699	16.94	83.06
Transport and storage	42 524	1 353	3.18	96.82
Mining and quarrying	317 524	232 592	73.25	26.75
Manufacturing	781 588	448 176	57.34	42.66
Community, social and personal services	475 778	77 873	16.37	83.63
Trade, restaurants and bars	616 670	3 101	0.50	99.50
Residential property	2 219 261	57 423	2.59	97.41
Personal loans	6 804 403	-	-	-
Finance companies	638 411	-	-	-
Credit card loans	447 439	-	-	-
Public sector financial intermediaries	425 313	-	-	-
Motor vehicle	141 948	-	-	-
Public non-financial corporations	61 483	-	-	-
Other	37 963	-	-	-
Loans and advances to customers	**14 558 110**	**1 615 636**	**11.10**	**88.90**

4.4 Incorporation of forward-looking information into the IFRS 9 modelling

The Group's impairment models consume macroeconomic information to enable the models to provide an output that is based on forward-looking information.

The Group revisited and updated the macroeconomic information utilised at 31 December 2021 taking note of a wide range of possible scenarios and macroeconomic outcomes as well as the consequences around the uncertainty duration and likelihood of future outbreaks that COVID-19 will have on the social and economic conditions of society.

The global shocks experienced in the market have led to a highly uncertain and unprecedented environment. To address such uncertainty the ranges between the baseline and the alternative (upside and downside) macroeconomic scenarios are significantly larger when compared to those presented at 31 December 2021.

As at 31 December 2021 the Group believes that the probability of the baseline scenario presented below is more likely to occur as opposed to the alternative scenarios. The weightings are Baseline 40% Downside 30% and Upside 30%.

The following table shows the key forecast assumptions for the economic scenarios as at 31 December 2021:

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

4. Impact of COVID-19 (continued)

4.5. Incorporation of forward-looking information into the IFRS 9 modelling

	Consolidated and Company											
December 2021	**Baseline**				**Upside**				**Downside**			
(%)	**2021**	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**	**2024**
Real GDP	8.3	4.9	4.0	3.8	9.8	6.6	5.6	5.3	7.2	3.1	3.0	1.9
CPI	6.5	5.0	3.7	3.8	4.0	2.0	2.4	2.4	7.0	6.5	5.2	5.4
Policy rate	3.75	3.98	4.38	4.94	3.73	3.65	3.81	4.19	3.77	4.38	4.96	5.33

The following table shows the key forecast assumptions for the economic scenarios as at 31 December 2019:

	Consolidated and Company											
December 2020	**Baseline**				**Upside**				**Downside**			
(%)	**2021**	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**	**2024**	**2021**	**2022**	**2023**	**2024**
Real GDP	9.7	5.0	4.2	4.2	5.3	5.1	4.5	4.3	8.9	4.8	4.0	3.7
CPI	3.7	4.1	2.9	2.1	3.2	3.3	3.6	3.8	5.7	4.9	4.3	3.9
Policy rate	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	6.0	6.0	6.0	6.0

4.6 Impact of COVID-19 on PDs and LGDs

Existing models are not calibrated for stress scenarios such as the COVID-19 pandemic and the estimation of PDs and LGDs have therefore been amended as detailed below:

- Retail PDs and LGDs were adjusted for current and forward-looking information on a portfolio basis. The resultant management adjustment was calculated by applying a scaling factor to each product's modelled PDs and LGDs. The scaling factor was in turn stressed for impacted industry exposures and tested using sophisticated analytical tools and appropriate sense checks.
- The PDs and LGDs of the Group's Wholesale exposures were determined individually per obligor and subsequently stressed collectively per industry and for forward looking information.
- PD and LGD scaling factors will be reassessed as the impact of COVID-19 pandemic becomes known and the level of customer distress becomes evident.

4.7 Impact of COVID-19 on SICR (significant increase in credit risk):

The impact of COVID-19 on PDs and LGDs above as well as the provision of payment relief were considered in order to determine whether a SICR event which would result in a shift in the exposure from Stage 1 (12-month expected losses) to Stage 2 (full lifetime expected losses) has taken place. As payment arrears are a significant input into the Retail credit models deferred or reduced payments could not be considered in determining whether a SICR has occurred. All available information was considered including whether a client is experiencing a short-term liquidity constraint the respective industry and the anticipated arrears in a COVID-19 environment. This methodology is in compliance with the Bank of Botswana circular- "Circular to banks on the guidance on the regulatory treatment of IFRS 9 in the context of Covid 19" (Ref1/20 Issue Date: April 1 2021) and those issued by the South African Prudential Authority to ensure that the Group's approach was appropriate.

The table below provides a breakdown of the total ECL recognised at 31 December 2021 to reflect the impairment charge calculated using the Group's approved models and the management adjustments raised to incorporate the effects of COVID-19.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

4. Impact of COVID-19 (continued)

4.8 Impact of COVID-19 on SICR (significant increase in credit risk)

	Consolidated and Company		
	2021 P'000	2020 P'000	change YTD
Retail and Business Banking	(99 247)	(220 718)	(55)
Corporate and Investment Banking	19 772	(42 517)	(147)
Total	**(79 475)**	**(263 235)**	**(70)**
Gross loans and advances to customers:			
Stage 1	13 723 769	12 447 442	10
Stage 2	1 206 296	1 086 899	11
Stage 3	662 491	1 023 770	(35)
Gross loans and advances to customers	**15 592 556**	**14 558 111**	**7**
Less: Expected credit losses			
Stage 1	(132 180)	(141 396)	(7)
Stage 2	(169 395)	(165 340)	2
Stage 3	(366 660)	(347 065)	6
Allowance for impairment	**(668 235)**	**(653 801)**	**2**
Net loans and advances to customers	**14 924 321**	**13 904 310**	**7**

4.9 Sensitivity of expected credit losses

The table below reflects the impact of assigning a probability weighting of macroeconomic scenarios at a rate of Baseline 40 Downside 30 and Upside 30 on the stage 1 and stage 2 loans and advances to customers.

	Consolidated and Company			
	2021 P'000	change	2020 P'000	change
ECL allowance on stage 1 and stage 2 loans and advances to customers	301 575		306 736	
Baseline	120 630	150	122 694	150
Upside	90 473	233	92 021	233
Downside	90 473	233	92 021	233

5. Effective interest income

	Consolidated and Company	
	2021 P'000	2020 P'000
Financial assets at fair value through OCI	53 030	43 311
Loans to related parties (note 51)	3 275	9 701
Loans and advances to banks	2 758	3 434
Loans and advances to customers	1 311 708	1 286 217
Total interest income	**1 370 771**	**1 342 663**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

	Consolidated		Company	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
6. Effective interest expense				
Deposits from banks	(9 720)	(7 920)	(9 720)	(7 920)
Customer deposits	(240 732)	(200 534)	(240 732)	(200 534)
Debt securities in issue	(13 572)	(13 367)	(13 572)	(13 367)
Subordinated debt	(23 857)	(24 536)	(23 857)	(24 536)
Interest on lease liabilities	(6 151)	(4 381)	(6 151)	(4 381)
Loans from related parties (note 51)	(28 335)	(36 922)	(28 335)	(36 922)
Total interest expense	**(322 367)**	**(287 660)**	**(322 367)**	**(287 660)**

The comparative disclosure of effective interest expense has been changed to align with the current year presentation for interest from subordinated debt.

	Consolidated		Company	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
7. Net fee and commission income				
Fee and commission income at a point in time				
Insurance commissions	55 717	49 048	(1 674)	1 452
Interchange fees	198 085	200 565	198 085	200 565
Withdrawal and application banking fees	83 479	59 827	83 479	59 827
	337 281	**309 440**	**279 890**	**261 844**
Fee and commission income over time				
Maintenance charges	101 363	93 068	101 363	93 068
Service fees	99 092	87 046	99 092	87 046
	200 455	**180 114**	**200 455**	**180 114**
Fee and commission income	**537 736**	**489 554**	**480 345**	**441 958**
Foreign exchange losses	631	(1 011)	631	(1 011)
Fee and commission income	**538 367**	**488 543**	**480 976**	**440 947**
Fee and commission expense				
Inter-bank transaction fees	(106 196)	(109 999)	(105 128)	(109 999)
Fee and commission expense	**(106 196)**	**(109 999)**	**(105 128)**	**(109 999)**
Net fee and commission income	**432 171**	**378 544**	**375 848**	**330 948**

	Consolidated and Company	
	2021 P'000	2020 P'000
8. Net trading income		
Trading income exchange gain	46 052	30 241
Net movement from financial assets measured at fair value	234	(413)
Treasury sales activities	102 200	87 243
Market making activities	20 300	23 970
Exchange gains and losses	(4 273)	(2 411)
Net trading income	**164 513**	**138 630**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

	Consolidated		Company	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
9. Other income				
Gain on disposal of property and equipment	298	48	298	48
Rental income (Note 9.1)	3 815	3 364	3 815	3 364
Management fee income*	-	-	28 186	31 227
Total other income	**4 113**	**3 412**	**32 299**	**34 639**

*Other income includes management fee income received from the Bank's subsidiary Absa Insurance Services (Proprietary) Limited.

	Consolidated and Company	
	2021 P'000	2020 P'000
9.1 Rental income		
Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows:		
Within 1 year	3 589	3 604
After 1 year but less than 5 years	14 357	14 416
More than 5 years	7 179	7 208
Total rental income	**25 125**	**25 228**

	Consolidated and Company	
	2021 P'000	2020 P'000
10. Expected credit losses		
Stage 3 expected losses	(78 414)	(133 146)
Stage 2 expected losses	(103 761)	(102 893)
Stage 1 expected losses	80 594	(49 583)
Expected losses raised during the reporting period	**(101 581)**	**(285 622)**
Recoveries of loans and advances to customers previously written off	22 106	22 387
Statement of comprehensive income charge	**(79 475)**	**(263 235)**

	Consolidated and Company	
	2021 P'000	2020 P'000
11. Staff costs		
Salaries and current services costs*	(317 039)	(350 681)
Training costs	(4 247)	(3 450)
Staff medical costs	(21 781)	(22 233)
Leave pay	(990)	(753)
Allowances	(35 069)	(43 616)
Staff welfare	(23 814)	(15 963)
Pension cost - defined contribution plan contributions	(40 007)	(40 700)
Cash-settled share based payments	(382)	26
Equity-settled share based payments	(2 637)	(2 203)
Total staff costs	**(445 966)**	**(479 573)**
Average number of employees during period	**1 069**	**1 101**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

	Consolidated		Company	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
12. Infrastructure costs				
Property maintenance costs	(12 935)	(16 198)	(12 935)	(16 198)
Equipment maintenance costs	(19 774)	(20 925)	(19 774)	(20 925)
Depreciation of property plant and equipment	(43 110)	(38 366)	(43 110)	(38 366)
Right of use depreciation	(30 090)	(23 376)	(30 090)	(23 376)
Operating lease rentals	(3 409)	(6 395)	(3 409)	(6 395)
Amortisation of intangible assets	(1 538)	(652)	(1 538)	(652)
Straight line lease expenses on short-term leases and low value assets	(2 943)	(3 017)	(2 943)	(3 017)
Software licensing and other information technology	(28 819)	(19 997)	(28 819)	(19 997)
Total infrastructure costs	**(142 618)**	**(128 926)**	**(142 618)**	**(128 926)**
13. Administrative and general expenses				
Auditors' remuneration:				
Audit related services	(4 700)	(4 700)	(4 700)	(4 700)
	(4 700)	**(4 700)**	**(4 700)**	**(4 700)**
Consultancy legal and professional fees	(50 447)	(47 038)	(50 447)	(47 038)
Marketing advertising and sponsorship	(11 834)	(28 213)	(11 834)	(28 213)
Travel and accommodation	(1 760)	(2 815)	(1 760)	(2 815)
Cash transport	(19 093)	(18 574)	(19 093)	(18 574)
Directors' fees	(2 115)	(2 626)	(2 115)	(2 626)
Donations	(1 064)	(2 181)	(1 064)	(2 181)
Stationery and postage	(15 226)	(20 510)	(15 226)	(20 510)
Telephone	(14 671)	(16 476)	(14 671)	(16 476)
	(116 210)	**(138 433)**	**(116 210)**	**(138 433)**
Included as part of the administrative and general are expenses incurred with related parties				
Administrative and management fees charged	(94 020)	(84 303)	(94 290)	(84 554)
Transitional service costs - recharges by related parties	(22 416)	(10 223)	(22 416)	(10 223)
Transitional service costs – related party balances	-	(24 598)	-	(24 598)
Recoveries	(1 501)	(7 362)	(1 501)	(7 362)
Total related party expenses (note 51)	**(117 937)**	**(126 486)**	**(118 207)**	**(126 737)**
Transitional service costs – other non-related party	(2 381)	(30 263)	(2 381)	(30 263)
Other costs - general non-related party	(80 607)	(40 030)	(80 607)	(40 030)
	(200 925)	**(196 779)**	**(201 195)**	**(197 030)**
Total administrative and general expenses	**(321 835)**	**(339 912)**	**(322 105)**	**(340 163)**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

	Consolidated		Company	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
14. Taxation expense				
Current tax				
Normal tax - current year	(152 461)	(99 820)	(147 399)	(96 247)
Prior year over/ under provision	1 356	(5 016)	1 356	(807)
	(151 105)	**(104 836)**	**(146 043)**	**(97 054)**
Deferred tax				
Movement in deferred tax asset	(3 021)	17 021	(4 855)	19 532
Prior year under provision	(2 589)	20 618	(2 673)	20 618
	(5 610)	**37 639**	**(7 528)**	**40 150**
Total income tax recognised in the current year	**(156 715)**	**(67 197)**	**(153 571)**	**(56 904)**

14.1 Income tax recognised in profit or loss

The tax on the Group's and company's profit before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to the profits of the consolidated entities and the company as follows:

	Consolidated		Company	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Reconciliation between operating profit and tax expense				
Profit before tax for the year	659 307	363 943	630 900	347 323
Income tax expense calculated at 22% (2020: 22%)	145 048	80 067	138 798	76 411
Tax on non-deductible expenses	482	3 291	482	3 291
Effect of deferred tax not recognised	9 952	(1 257)	12 974	(2 987)
Prior year (over)/under provision-current tax	(1 356)	5 016	(1 356)	807
Prior year under/(over) provision-deferred tax	2 589	(19 920)	2 673	(20 618)
Income tax expense recognised in profit or loss	**156 715**	**67 197**	**153 571**	**56 904**
Effective tax rate	**23.8%**	**18.5%**	**24.3%**	**16.4%**

14.2 Reconciliation or breakdown of nondeductible expenses

Brand and name change	-	15 868	-	15 868
Donations	2 192	(910)	2 192	(910)
Total non-deductible differences	2 192	14 958	2 192	14 958
Tax on non-deductible expenses at 22% (note 14.1)	**482**	**3 291**	**482**	**3 291**

15. Earnings per share

	2021 Thebe	2020 Thebe
Basic earnings per share	58.98	34.82
	Number of shares	Number of shares
Issued shares at the beginning of the year	852 161	852 161
Weighted average number of ordinary shares	**852 161**	**852 161**

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year. There were no potentially dilutive shares at 31 December 2021 (31 December 2020 Nil).

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

	Consolidated and Company	
	2021 P'000	2020 P'000
16. Balances at central bank		
Current account	165 530	104 881
Statutory reserve	150 000	210 986
Repurchase agreement	199 971	459 923
Gross balances at central bank	**515 501**	**775 790**
Expected credit losses	-	(3)
Carrying value	**515 501**	**775 787**

The minimum statutory reserve with the Bank of Botswana is calculated at 2.5% (2021:2.5%) of the average local currency customer deposits. The statutory reserve is not available for use in the day-to-day operations of the Bank and is non-interest bearing. The Group holds a reverse repo with the Central Bank as an overnight lending placement for liquidity purposes. The balance is interest earning and the carrying value of the balance approximates the fair value.

	Consolidated and Company	
	2021 P'000	2020 P'000
17. Trading portfolio assets		
Debt securities	84 361	212 332
Trading portfolio assets	**84 361**	**212 332**
Maturity analysis		
Between 1-3 years	-	612
Between 4- 5 years	83 435	137 374
Between 6-10 years	493	35 826
Over 11 years	-	39 020
Total	**83 928**	**212 832**
Fair value adjustment	433	(500)
Trading portfolio assets	**84 361**	**212 332**

Consolidated and Company	Notional Contract Amount Assets P'000	Notional Contract Amount Liabilities P'000	Assets P'000	Liabilities P'000
18. Derivative financial instruments				
2021				
Foreign exchange derivatives				
Forward foreign exchange	536 256	534 129	5 514	3 387
Currency swap	3 166 643	3 182 992	19 216	39 078
Over the counter options bought and sold	3 252	686	3 251	686
Foreign exchange derivatives	**3 706 151**	**3 717 807**	**27 981**	**43 151**
Total derivatives	**3 706 151**	**3 717 807**	**27 981**	**43 151**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

Consolidated and Company	Notional Contract Amount Assets P'000	Notional Contract Amount Liabilities P'000	Assets P'000	Liabilities P'000
18. Derivative financial instruments (continued)				
2020				
Foreign exchange derivatives				
Forward foreign exchange	1 272 187	1 253 982	18 205	28 612
Currency swap	449 956	417 045	29 277	12 763
Over the counter options bought and sold	1 897	948	948	1 021
Foreign exchange derivatives	**1 724 040**	**1 671 975**	**48 430**	**42 396**
Total derivatives	**1 724 040**	**1 671 975**	**48 430**	**42 396**

	Consolidated and Company	
	2021 P'000	2020 P'000
19. Financial assets at fair value through other comprehensive income		
Bank of Botswana certificates		
Less than 1 month	299 989	749 914
1-3 months	399 816	219 917
3-12 months	531 090	229 064
Total	**1 230 895**	**1 198 895**
Treasury bonds		
1- 5 years	622 763	746 061
Over 6 years	115 588	97 416
Total	**738 351**	**843 477**
Debt securities		
Over 5 years	80	80
Total	**80**	**80**
Total gross amount financial assets at FV through OCI	**1 969 326**	**2 042 452**
Expected credit losses	(918)	(227)
Total carrying amount financial assets at FV through OCI	**1 968 408**	**2 042 225**

Financial assets at fair value through other comprehensive income (OCI) include Bank of Botswana Certificates Treasury Bills and Government bonds. Bank of Botswana certificates amounting to P430 million (2021: P400 million) have been pledged as collateral for the use of the secured intra-day trading facilities with Bank of Botswana.

The Group holds debt securities relating to debentures in private schools and sport clubs.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

	Consolidated and Company	
	2021 P'000	2020 P'000
20. Loans and advances to banks		
Current accounts	701 588	767 081
Fixed term	482 112	243 594
	1 183 700	**1 010 675**
Expected credit losses	(100)	(142)
Total carrying amount of loans and advances to banks	**1 183 600**	**1 010 533**

The fixed term placements and current account balances are accounts held with other banks both local and foreign banks. The carrying amount of the balances approximates their fair value.

	Consolidated and Company	
	2021 P'000	2020 P'000
21. Loans and advances to customers		
Mortgages	2 254 187	2 219 261
Personal and term loans	4 831 136	4 443 061
Credit cards	451 329	447 439
Finance leases (note 26)	555 458	436 804
Overdrafts	967 117	757 332
Foreign currency loans	1 372 737	1 604 581
Scheme loans	5 160 592	4 649 633
Gross loans and advances to customers	**15 592 556**	**14 558 111**
Less: Expected credit losses		
Stage 3	(366 660)	(347 065)
Stage 2	(169 395)	(165 340)
Stage 1	(132 180)	(141 396)
Allowance for impairment	**(668 235)**	**(653 801)**
Net loans and advances to customers	**14 924 321**	**13 904 310**
21. Loans and advances to customers-sector analysis		
Private individual	10 413 846	9 647 635
Other financial institutions	989 993	1 063 799
Parastatals	125 916	61 483
Business	4 062 801	3 785 194
Total loans	**15 592 556**	**14 558 111**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

22. Credit risk reconciliation- expected loss allowance

Consolidated and Company	Balances at the beginning of the reporting year P'000	Asset moved / Allowance transferred to stage 1 P'000	Asset moved / Allowance transferred to stage 2 P'000	Asset moved / Allowance transferred to stage 3 P'000	Current period provision P'000	Amounts written off P'000	Total P'000
2021							
Financial assets at fair value through OCI							
Stage 1	227	-	-	-	691	-	918
Total expected credit losses	**227**	**-**	**-**	**-**	**691**	**-**	**918**
Balances with central bank							
Stage 1	3	-	-	-	(3)	-	-
Total expected credit losses	**3**	**-**	**-**	**-**	**(3)**	**-**	**-**
Loans and advances to banks							
Stage 1	142	-	-	-	(42)	-	100
Total expected credit losses	**142**	**-**	**-**	**-**	**(42)**	**-**	**100**
Loans and advances to customers							
Stage 1	141 396	77 615	(7 019)	(2 941)	(76 871)	-	132 180
Stage 2	165 340	(71 384)	7 770	(37 632)	105 301	-	169 395
Stage 3	347 065	(6 231)	(751)	40 573	78 100	(92 096)	366 660
Total expected credit losses	**653 801**	**-**	**-**	**-**	**106 530**	**(92 096)**	**668 235**
Provisions for undrawn facilities and guarantees							
Stage 1	9 343	-	-	-	(2 857)	-	6 486
Stage 2	2 883	-	-	-	(2 111)	-	772
Stage 3	372	-	-	-	(372)	-	-
Total expected credit losses	**12 598**	**-**	**-**	**-**	**(5 340)**	**-**	**7 258**
Loans to Absa Group companies							
Stage 1	**252**	**-**	**-**	**-**	**(252)**	**-**	**-**
Total expected credit losses	**252**	**-**	**-**	**-**	**(252)**	**-**	**-**

Movement in stages on loans and advances to customers relates to customer balances that would have defaulted during the period and therefore default in payment leading to stage movement in some cases customers that previously defaulted would have been up to date with their instalment payments.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

22. Credit risk reconciliation- expected loss allowance (continued)

Consolidated and Company	Balances at the beginning of the reporting year P'000	Asset moved / Allowance transferred to stage 1 P'000	Asset moved / Allowance transferred to stage 2 P'000	Asset moved / Allowance transferred to stage 3 P'000	Current period provision P'000	Amounts written off P'000	Total P'000
2020							
Financial assets at fair value through OCI							
Stage 1	73	-	-	-	154	-	227
Total expected credit losses	**73**	**-**	**-**	**-**	**154**	**-**	**227**
Balances with central bank							
Stage 1	3	1	(1)	-	-	-	3
Stage 2	1	(1)	-	-	-	-	-
Total expected credit losses	**4**	**-**	**(1)**	**-**	**-**	**-**	**3**
Loans and advances to banks							
Stage 1	145	-	-	-	(3)	-	142
Total expected credit losses	**145**	**-**	**-**	**-**	**(3)**	**-**	**142**
Loans and advances to customers							
Stage 1	93 217	15 744	(10 551)	(1 532)	44 518	-	141 396
Stage 2	93 789	(15 331)	13 589	(27 115)	100 408	-	165 340
Stage 3	330 924	(413)	(3 028)	28 647	132 896	(141 951)	347 065
Total expected credit losses	**517 930**	**-**	**-**	**-**	**277 822**	**(141 951)**	**653 801**
Provisions for undrawn facilities and guarantees							
Stage 1	5 040	-	-	-	4 303	-	9 343
Stage 2	-	-	-	-	2 883	-	2 883
Stage 3	-	-	-	-	372	-	372
Total expected credit losses	**5 040**	**-**	**-**	**-**	**7 558**	**-**	**12 598**
Loans to Absa Group companies							
Stage 1	-	-	-	-	252	-	252
Total expected credit losses	**-**	**-**	**-**	**-**	**252**	**-**	**252**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

22. Credit risk reconciliation- Gross loans

	Stage 1		Stage 2		Stage 3				
Consolidated and Company	Gross Carrying amount P'000	ECL P'000	Gross Carrying amount P'000	ECL P'000	Gross Carrying amount P'000	ECL P'000	Total Gross Carrying amount P'000	Total ECL P'000	Net Carrying amount P'000
2021									
Balance at January 2021	**12 513 413**	**(200 424)**	**1 475 019**	**(105 862)**	**569 679**	**(347 515)**	**14 558 111**	**(653 801)**	**13 904 310**
New assets originated	4 820 208	(41 637)	734 939	(52 577)	10 224	(6 993)	5 565 371	(101 207)	5 464 164
Payments and assets derecognised	(4 059 543)	109 880	(553 941)	(10 956)	82 558	(12 151)	(4 530 926)	86 773	(4 444 153)
Balance at 31 December 2021	**13 274 078**	**(132 181)**	**1 656 017**	**(169 395)**	**662 461**	**(366 659)**	**15 592 556**	**(668 235)**	**14 924 321**
2020									
Balance at January 2020	**12 287 495**	**(155 134)**	**1 249 101**	**(60 571)**	**343 761**	**(302 225)**	**13 880 357**	**(517 930)**	**13 362 427**
New assets originated	4 933 167	(132 525)	847 898	(11 689)	123 183	(29 638)	5 904 248	(173 852)	5 730 396
Payments and assets derecognised	(4 707 249)	87 235	(621 980)	(33 602)	102 735	(15 652)	(5 226 494)	37 981	(5 118 513)
Balance at 31 December 2020	**12 513 413**	**(200 424)**	**1 475 019**	**(105 862)**	**569 679**	**(347 515)**	**14 558 111**	**(653 801)**	**13 904 310**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

23. Property, plant and equipment

Consolidated and Company	Land and buildings P'000	Assets under construction P'000	Motor vehicles P'000	Computers and equipment P'000	Furniture and fittings P'000	Right of use assets P'000	Total P'000
Cost - 2021							
Balance at beginning of the year	290 718	13 770	9 889	157 426	95 036	126 072	692 911
Transfer from assets under construction/PPE	12 598	(12 610)	-	(1 082)	-	-	(1 094)
Additions	3 650	-	1 269	9 915	8 461	46 217	69 512
Disposals	(20)	(1 160)	(1 198)	(18)	-	(3 858)	(6 254)
Balance at end of the year	**306 946**	**-**	**9 960**	**166 241**	**103 497**	**168 431**	**755 075**
Accumulated depreciation - 2021							
Balance at beginning of the year	(207 071)	-	(5 404)	(134 234)	(51 143)	(42 976)	(440 828)
Depreciation	(16 472)	-	(1 464)	(12 900)	(12 274)	-	(43 110)
Right of use asset depreciation	-	-	-	-	-	(30 090)	(30 090)
Disposals	20	-	1 198	18	-	3 858	5 094
Balance at end of the year	**(223 523)**	**-**	**(5 670)**	**(147 116)**	**(63 417)**	**(69 208)**	**(508 934)**
Carrying amount at end of year	**83 423**	**-**	**4 290**	**19 125**	**40 080**	**99 224**	**246 141**
Cost or valuation - 2020							
Balance at beginning of the year	294 052	20 088	12 877	148 750	55 815	81 033	612 615
Transfer from assets under construction	11 499	(17 156)	-	55	5 602	-	-
Additions	15 357	10 838	1 046	8 621	33 640	-	69 502
Right of use assets	-	-	-	-	-	46 688	46 688
Disposals	(30 190)	-	(4 034)	-	(21)	(1 649)	(35 894)
Balance at end of the year	**290 718**	**13 770**	**9 889**	**157 426**	**95 036**	**126 072**	**692 911**
Accumulated depreciation - 2020							
Balance at beginning of the year	(223 415)	-	(8 241)	(120 293)	(41 782)	(21 249)	(414 980)
Depreciation	(13 846)	-	(1 197)	(13 941)	(9 382)	-	(38 366)
Right of use asset depreciation	-	-	-	-	-	(23 376)	(23 376)
Disposals	30 190	-	4 034	-	21	1 649	35 894
Balance at end of the year	**(207 071)**	**-**	**(5 404)**	**(134 234)**	**(51 143)**	**(42 976)**	**(440 828)**
Carrying amount at end of year	**83 647**	**13 770**	**4 485**	**23 192**	**43 893**	**83 096**	**252 083**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

24. Intangible assets

Consolidated and Company	software 2021 P'000	software 2020 P'000
Cost		
Balance at beginning of the year	25 600	23 048
Acquisitions	1 094	2 552
Balance at end of the year	**26 694**	**25 600**
Accumulated amortisation		
Balance at beginning of the year	(22 883)	(22 231)
Amortisation charge (note 12)	(1 538)	(652)
Balance at end of the year	**(24 421)**	**(22 883)**
Carrying amount at end of year	**2 273**	**2 717**

25. Other receivables

	Consolidated 2021 P'000	Company 2021 P'000	Consolidated and Company 2020 P'000
Other receivables	9 185	9 185	28 645
Settlement accounts	16 533	16 533	6 085
Clearing accounts	37 167	37 167	57 336
Card transactions	10 868	10 037	18 004
Other receivables	**73 753**	**72 922**	**110 070**
Non-financial			
Prepayments	8 635	8 635	5 057
Staff related receivables	38 957	38 957	37 648
	47 592	47 592	42 705
Other receivables	**121 345**	**120 514**	**152 775**
Maturity analysis			
Less than 1 year	82 398	81 567	115 127
Between 1-5 years	38 947	38 947	37 648
	121 345	**120 514**	**152 775**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

		Consolidated and Company	
		2021 P'000	2020 P'000
26.	**Cash**		
	Local currency (Pula)	603 328	624 029
	Foreign currency	37 552	21 755
	Cash	**640 880**	**645 784**
26.1	**Foreign currency**		
	USD	15 206	4 723
	ZAR	18 923	15 004
	GBP	1 252	1 187
	EURO	1 970	523
	Other	201	318
	Total	**37 552**	**21 755**
27.	**Deposits from banks**		
	Fixed deposits accounts	593 612	309 405
	Current accounts	200 118	244 218
	Deposits from banks	**793 730**	**553 623**

The fixed terms deposits are short term deposits due to local bank with an average maturity period of 1- 3 months. The carrying amount of both fixed and current approximates its fair value.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

	Consolidated and Company	
	2021 P'000	2020 P'000
28. Customer deposits		
Cheque account deposits	4 314 825	3 654 768
Savings and transmission accounts	6 507 908	7 466 139
Fixed deposits accounts	5 576 820	4 782 240
Customer deposits	**16 399 553**	**15 903 147**
Interest bearing deposits	12 084 728	12 248 378
Non- interest-bearing deposits	4 314 825	3 654 769
	16 399 553	**15 903 147**
Maturity analysis		
On demand	10 823 831	11 149 298
Maturing within one year	4 975 339	4 490 944
Maturing after one year	600 383	262 905
	16 399 553	**15 903 147**
Category analysis of customer deposits		
Pula	2 634 440	2 543 141
Foreign currency	1 680 385	1 111 627
Current account	**4 314 825**	**3 654 768**
Pula	5 470 604	6 179 581
Foreign currency	1 038 402	1 286 558
Savings account	**6 509 006**	**7 466 139**
Pula	5 267 943	4 007 336
Foreign currency	307 779	774 904
Term deposits	**5 575 722**	**4 782 240**
	16 399 553	**15 903 147**
Sector analysis of customer deposits		
Private individuals	4 864 551	4 744 141
Other financial institutions	4 147 637	3 595 037
Parastatals	691 656	575 074
Business	5 606 504	5 743 180
Local Government	1 011 322	1 239 824
Central Government	77 883	5 891
	16 399 553	**15 903 147**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

29. Retirement benefit plans

29.1 Defined benefit plans

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Consolidated and Company	
	Valuation at 2021	2020
Discount rate	8.00%	4.50%
Change in pensions	2.50%	2.50%
Expected return on plant assets	4.50%	4.50%

	2021 P'000	2020 P'000
Defined benefits plans:		
Interest on obligation	(5 411)	(5 798)
Interest income on assets	5 411	5 798
Interest cost on irrecoverable surplus	-	-
Amounts recognised in profit or loss	**-**	**-**
Actuarial gain financial assumptions:		
Assumption adjustment on liabilities	(2 292)	(5 675)
Experience adjustment on liabilities	(31 151)	(2 398)
Return on plan assets	33 443	8 073
Change in irrecoverable surplus other than interest	-	-
Amounts recognised in other comprehensive	**-**	**-**

In the past the Bank operated a defined benefit pension plan for its employees (""the Fund""). The Bank has since discontinued this Fund and currently there are no active employees within this Fund. All active employees have joined on a defined contribution basis only. The Board of Trustees of the Fund have obtained relevant regulatory approvals and have wound up the defined benefit Fund by converting the deferred members within this Fund to transfer relevant member credits to their new employers' pension plans or purchase annuities from other service providers in the market. This process was concluded by 31 May 2015.

There were no contractual agreements in place for the transaction regarding the pensioners as at 31 December 2015 and as such during 2016 there was an agreement signed between Botswana Life (the insurer) and the Fund and the agreement has been treated as qualifying plan asset in terms of the requirements of IAS 19 as it was the Group's view that since pensioners have not explicitly acknowledged the transfer of liability in the event of insurer failure the pensioner could still come back to the Fund / Bank and require to be paid a pension.

The fair value of Insurance Policy is aligned to the defined benefit obligation and any change in fair value of this plan asset was considered to arise from remeasurement and accounted within other comprehensive income. The amount included in the statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

	Consolidated and Company	
	2021 P'000	2020 P'000
Present value of funded defined benefit obligation	(87 830)	(125 036)
Fair value of plan assets	87 830	125 036
Deficit	-	-
Restrictions on asset recognised	-	-
Net liability arising from defined benefit obligation	**-**	**-**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

29. Retirement benefit plans (continued)

29.1 Defined benefit plans (continued)

In line with paragraph 115 of IAS19 we have set the value of the insurance asset equal to the value of the pensioner liabilities (based on revised current assumptions).

Movements in the present value of the defined benefit obligation in the current year were as follows:

	Consolidated and Company	
	2021 P'000	2020 P'000
Opening defined benefit obligation	(125 037)	(120 630)
Interest expense	(5 411)	(5 798)
Actuarial gains - financial assumption	33 443	(8 073)
Benefits paid	9 175	9 464
Closing defined benefit obligation	**(87 830)**	**(125 037)**
Movements in the present value of the plan assets in the current year were as follows:		
Opening fair value of plan assets	125 037	120 630
Interest income	5 411	5 798
Actuarial gains- financial assumption	(33 443)	8 073
Benefits paid	(9 175)	(9 464)
Closing fair value of plan assets	**87 830**	**125 037**
Movements in irrecoverable surplus in the prior year were as follows:		
Opening irrecoverable surplus	-	-
Interest Cost on (Irrecoverable Surplus)	-	-
Change in (Irrecoverable Surplus) in excess of interest	-	-
Closing irrecoverable surplus	**-**	**-**

29.2 Sensitivity analysis

The liability values are sensitive to the assumptions used. The impact on the results due to changes in the main assumptions are shown in the table below:

Consolidated and Company	DR-1%	DR-1%	DR+0.5%	Age rating -1
2021				
Pensioner liability	**87 830**	**96 700**	**86 731**	**92 464**
2020				
Pensioner liability	**125 036**	**137 909**	**119 362**	**129 701**

DR – Discount Rate

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

30. Deferred tax assets

	Consolidated		Company	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Deferred tax balances				
The net deferred tax asset at the end of the year is as follows:				
Deferred tax assets	**107 787**	**110 635**	**105 321**	**110 087**

30.1 Deferred tax assets and liabilities are attributable to the following:

Consolidated	Balance at 1 January P'000	Recognised in profit or loss P'000	Recognised in OCI P'000	Balance at 31 December P'000
2021				
Property plant and equipment	8 214	1 452	-	9 666
Trading portfolio assets	-	(3 362)	-	(3 362)
Receivables	(328)	(816)	-	(1 144)
Expected credit losses	95 584	(223)	-	95 361
Other financial liabilities	4 267	6 213	-	10 480
Financial assets at fair value through OCI	2 898	(8 874)	2 762	(3 214)
	110 635	**(5 610)**	**2 762**	**107 787**

Consolidated	Balance at 1 January P'000	Recognised in profit or loss P'000	Recognised in OCI P'000	Balance at 31 December P'000
2020				
Property plant and equipment	12 537	(4 323)	-	8 214
Receivables	1 605	(1 933)	-	(328)
Expected credit losses	73 819	21 765	-	95 584
Other financial liabilities	(16 328)	20 595	-	4 267
Financial assets at fair value through OCI	(2 057)	1 535	3 420	2 898
	69 576	**37 639**	**3 420**	**110 635**

Company	Balance at 1 January P'000	Recognised in profit or loss P'000	Recognised in OCI P'000	Balance at 31 December P'000
2021				
Property plant and equipment	8 214	1 452	-	9 666
Trading portfolio assets	-	(3 362)	-	(3 362)
Receivables	(328)	(816)	-	(1 144)
Expected credit losses	95 584	(223)	-	95 361
Other financial liabilities	3 719	4 295	-	8 014
Financial assets at fair value through OCI	2 898	(8 874)	2 762	(3 214)
	110 087	**(7 528)**	**2 762**	**105 321**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

30. Deferred tax assets (continued)

30.1 Deferred tax assets and liabilities are attributable to the following (continued):

Company	Balance at 1 January P'000	Recognised in profit or loss P'000	Recognised in OCI P'000	Balance at 31 December P'000
2020				
Property plant and equipment	12 537	(4 323)	-	8 214
Receivables	1 605	(1 933)	-	(328)
Expected credit losses	73 819	21 765	-	95 584
Other financial liabilities	(19 387)	23 106	-	3 719
Financial assets at fair value through OCI	(2 057)	1 535	3 420	2 898
	66 517	**40 150**	**3 420**	**110 087**

The deferred tax asset is recognised for all temporary differences on the basis that it is probable that taxable profits will be available against which this deductible temporary difference will be utilised in the foreseeable future with the exception of a component of deferred revenue and expenses where the probability of deduction in the foreseeable future is uncertain.

30.2 Reconciliation of deferred tax asset (expense movements)

Consolidated	2021 Recognised in profit or loss P'000	2021 Recognised in OCI P'000	2021 Total movement P'000	Recognised in profit or loss P'000	Recognised in OCI P'000	Total movement P'000
Property plant and equipment	1 452	-	1 452	(4 323)	-	(4 323)
Trading portfolio assets	(3 362)	-	(3 362)			
Receivables	(816)	-	(816)	(1 933)	-	(1 933)
Expected credit losses	(223)	-	(223)	21 765	-	21 765
Other financial liabilities	6 213	-	6 213	20 595	-	20 595
Financial assets at fair value through OCI	(8 874)	2 762	(6 112)	1 535	3 420	4 955
	(5 610)	**2 762**	**(2 848)**	**37 639**	**3 420**	**41 059**

Company	2021 Recognised in profit or loss P'000	2021 Recognised in OCI P'000	2021 Total movement P'000	Recognised in profit or loss P'000	Recognised in OCI P'000	Total movement P'000
Property plant and equipment	1 452	-	1 452	(4 323)	-	(4 323)
Receivables	(3 362)	-	(3 362)	(1 933)	-	(1 933)
Trading portfolio assets	(816)		(816)	-	-	-
Expected credit losses	(223)	-	(223)	21 765	-	21 765
Other financial liabilities	4 295	-	4 295	23 106	-	23 106
Financial assets at fair value through OCI	(8 874)	2 762	(6 112)	1 535	3 420	4 955
	(7 528)	**2 762**	**(4 766)**	**40 150**	**3 420**	**43 570**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

31. Provisions

Consolidated	Sundry provisions P'000	Fees refundable P'000	Litigation P'000	Commission refundable P'000	Provision for undrawn facilities and guarantees P'000	Total P'000
Balance at 1 January 2021	-	10 181	-	15 049	12 598	37 828
Provisions recognised during the year	-	-	3 962	9 628	(5 340)	8 250
Provisions paid during the year	-	-	(480)	(13 470)	-	(13 950)
Balance at 31 December 2021	**-**	**10 181**	**3 482**	**11 207**	**7 258**	**32 128**
Balance at 1 January 2020	5 361	10 181	-	14 830	5 040	35 412
Provisions made during the year	30	-	-	13 746	7 558	21 334
Provisions paid during the year	(5 391)	-	-	(13 527)	-	(18 918)
Balance at 31 December 2020	**-**	**10 181**	**-**	**15 049**	**12 598**	**37 828**

Company	Sundry provisions P'000	Fees refundable P'000	Litigation provisions P'000	Provision for undrawn facilities and guarantees P'000	Total P'000
Balance at 1 January 2021	-	10 181	-	12 598	22 779
Provisions recognised during the year	-	-	3 961	(5 340)	(1 379)
Provisions paid during the year	-	-	(480)	-	(480)
Balance at 31 December 2020	**-**	**10 181**	**3 481**	**7 258**	**20 920**
Balance at 1 January 2020	5 361	10 181	-	5 040	20 582
Provisions made during the year	30	-	-	7 558	7 588
Provisions paid during the year	(5 391)	-	-	-	(5 391)
Balance at 31 December 2020	**-**	**10 181**	**-**	**12 598**	**22 779**

Provisions have been raised on financial guarantees letters of credit and undrawn committed facilities which is in line with the requirements of IFRS 9 Refer to note 22 for the ECL movements of the provision for undrawn facilities and guarantees.

Sundry comprise of provision for operational losses.

Fees refundable relates to a provision raised as a result of Optional Issuer fees charged to customers in prior years. The bank will continue with its efforts to identify and refund this to the relevant customers until 2021 as per the Bank of Botswana directive to refund all customers affected. Any amount outstanding at that point will be treated as unclaimed funds accordingly and be remitted to Bank of Botswana.

Commission refundable relates to a provision for Absa Insurance Services (Pty) Ltd as a result of policy surrenders by customers should the loans be early settled.

Provision for undrawn facilities and guarantees arises from estimated credit losses on off balance sheet exposures as a result of the application of IFRS 9: Financial Instruments as well as expected credit losses on letters of credit qualifying as on balance sheet as per The Uniform Customs & Practice for Documentary Credits (UCP 600) rules.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

32. Other payables

	Consolidated		Company	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
Financial liabilities				
Trade payables	7 687	5 867	7 687	5 867
Lease liability	109 959	91 260	109 959	91 260
Accrued expenses	48 408	38 039	48 498	42 625
Card transactions	24 597	26 246	24 597	26 246
Settlement accounts	68 519	80 153	68 519	80 153
Other liabilities	6 164	12 946	6 164	12 946
Clearing accounts	52 004	55 940	52 004	55 940
	317 338	**310 451**	**317 428**	**315 037**
Non-financial liabilities				
Value added taxation	30 730	18 646	29 899	18 787
Withholding tax	26 368	16 545	26 368	16 545
Staff related accruals	34 541	29 997	34 541	29 997
Cash-settled share-based payments	532	219	532	219
	92 171	**65 407**	**91 340**	**65 548**
Total	**409 509**	**375 858**	**408 768**	**380 585**

Other liabilities comprise of other suspense account balances other than those listed above and include sundry bills payable and liability control account.

33. Lease liabilities

	Consolidated and Company	
	2021 P'000	2020 P'000
Leases as lessee		
Movement in lease liability		
Opening balance	91 260	67 712
New leases	26 441	5 360
Modifications	18 690	42 019
Interest expense	6 151	4 380
Payments	(32 583)	(28 211)
	109 959	**91 260**
Maturity analysis of lease liabilities		
Less than one year	1 755	26 663
Between one and five years	69 205	65 622
More than five years	40 654	8 884
	111 614	**101 169**

34. Debt securities in issue

	Consolidated and Company	
	2021 P'000	2020 P'000
Floating rate medium term notes	341 078	394 192
	341 078	**394 192**

Floating rate notes

In 2014 the Bank established a floating rate debt securities product placed with institutional investors. These comprise of various maturities and interest rates that are linked to market reference rates. In 2021 the Bank issued new notes with nominal value of P167 million (2020: P131 million) and redeemed notes with nominal a value P220 million (2020: P88 million).

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

34. Debt securities in issue (continued)

Consolidated and Company

			2021			
Issuance date	Principal (P '000)	Balance (P '000)	Interest Rate %	Interest basis	Redemption date	Stock code
14/11/2018	97 410	98 051	5.00%	Floating	14/11/2023	Listed
09/05/2019	2 000	2 015	5.00%	Floating	10/05/2024	Unlisted
03/06/2019	3 000	3 012	5.00%	Floating	03/06/2024	Unlisted
24/06/2019	1 500	1 502	4.75%	Floating	24/06/2024	Unlisted
28/06/2019	4 200	4 203	6.00%	Floating	28/06/2024	Unlisted
01/11/2019	6 000	6 050	5.00%	Floating	01/11/2024	Unlisted
27/01/2020	2 000	2 043	5.00%	Floating	27/01/2025	Unlisted
29/01/2020	1 000	1 021	5.00%	Floating	29/01/2025	Unlisted
05/02/2020	5 000	5 102	5.00%	Floating	05/02/2025	Unlisted
02/03/2020	2 500	2 541	5.00%	Floating	03/03/2025	Unlisted
02/04/2020	3 000	3 037	5.00%	Floating	02/04/2025	Unlisted
08/04/2020	3 500	3 541	5.50%	Floating	08/04/2025	Unlisted
04/06/2020	10 000	10 035	5.00%	Floating	04/06/2025	Unlisted
09/09/2020	30 000	30 454	4.85%	Floating	09/03/2022	Unlisted
22/03/2021	70 000	71 088	5.35%	Floating	21/09/2022	Unlisted
20/05/2021	8 500	8 544	4.75%	Floating	20/05/2022	Unlisted
28/06/2021	4 000	4 003	6.00%	Floating	28/06/2022	Unlisted
21/07/2021	19 000	19 179	4.78%	Floating	21/07/2022	Unlisted
27/07/2021	5 000	5 043	4.78%	Floating	27/07/2022	Unlisted
05/08/2021	8 000	8 059	4.75%	Floating	05/08/2022	Unlisted
12/08/2021	18 000	18 148	6.00%	Floating	12/08/2022	Unlisted
17/08/2021	7 000	7 043	5.00%	Floating	17/08/2022	Unlisted
03/09/2021	4 200	4 217	5.00%	Floating	05/09/2022	Unlisted
07/09/2021	4 000	4 014	5.00%	Floating	07/09/2022	Unlisted
27/09/2021	6 000	6 004	6.25%	Floating	27/09/2022	Unlisted
21/12/2021	13 100	13 129	7.35%	Floating	17/12/2024	Unlisted
	337 910	**341 078**				

There were no defaults on the above debt securities during the year.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

34. Debt securities in issue (continued)

Consolidated and Company

Issuance date	Principal (P '000)	Balance (P '000)	2020 Interest Rate %	Interest basis	Redemption date	Stock code
15-Nov-18	97 410	98 051	5.00%	Floating	14-Nov-23	Listed
15-Aug-18	78 701	79 127	4.30%	Floating	16-Aug-21	Unlisted
16-Aug-18	60 000	60 344	4.55%	Floating	16-Aug-21	Unlisted
09-May-19	2 000	2 015	5.00%	Floating	10-May-24	Unlisted
23-May-19	7 500	7 536	4.00%	Floating	21-May-21	Unlisted
03-Jun-19	3 000	3 012	5.00%	Floating	03-Jun-24	Unlisted
25-Jun-19	1 500	1 502	4.75%	Floating	24-Jun-24	Unlisted
28-Jun-19	4 200	4 203	6.00%	Floating	28-Jun-24	Unlisted
01-Nov-19	6 000	6 049	5.00%	Floating	01-Nov-24	Unlisted
27-Jan-20	2 000	2 048	5.50%	Floating	27-Jan-25	Unlisted
29-Jan-20	1 000	1 027	5.50%	Floating	29-Jan-25	Unlisted
05-Feb-20	3 000	3 077	6.25%	Floating	05-Feb-25	Unlisted
05-Feb-20	2 000	2 051	6.25%	Floating	05-Feb-25	Unlisted
02-Mar-20	2 500	2 546	5.50%	Floating	03-Mar-25	Unlisted
02-Apr-20	3 000	3 041	5.50%	Floating	02-Apr-25	Unlisted
08-Apr-20	3 000	3 038	5.50%	Floating	08-Apr-25	Unlisted
08-Apr-20	500	506	4.75%	Floating	08-Apr-22	Unlisted
24-Apr-20	5 000	5 155	4.50%	Floating	23-Apr-21	Unlisted
30-Apr-20	16 000	16 110	4.00%	Floating	30-Apr-21	Unlisted
07-May-20	16 000	16 081	3.50%	Floating	07-May-21	Unlisted
05-Jun-20	7 000	7 027	5.00%	Floating	04-Jun-25	Unlisted
05-Jun-20	3 000	3 011	4.65%	Floating	05-Jun-23	Unlisted
27-Jul-20	5 000	5 038	4.25%	Floating	27-Jul-21	Unlisted
01-Sep-20	8 000	8 029	4.25%	Floating	01-Sep-21	Unlisted
09-Sep-20	30 000	30 501	5.35%	Floating	09-Mar-22	Unlisted
25-Sep-20	6 000	6 046	5.00%	Floating	27-Sep-21	Unlisted
19-Nov-20	18 000	18 021	4.30%	Floating	22-Jun-21	Unlisted
	391 311	**394 192**				

As at 31 December 2020 there were no defaults on the above debt securities.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

35. Subordinated debt

Consolidated and Company

	Initial call date	Interest rate	Maturity	2021 P'000	2020 P'000
Subordinated debt from Absa Group Limited entity	30/01/2015	4.58%	30/01/2025	254 836	254 671
Subordinated debt issued through medium term program	15/11/2018	6.00%	14/11/2028	103 399	103 400
Subordinated debt from Absa Group Limited entity	18/03/2020	2.91%	18/03/2029	235 208	216 405
				593 443	**574 476**

Interest rates:

Subordinated debt from Absa Group Limited entity	Interest rate at Absa Group Limited rate plus Bank of Botswana 182 Day Treasury Bill Rate (Variable)
Subordinated debt issued through medium term program	interest rate at 2.25% plus Botswana Bank Rate (Variable)
Subordinated debt from Absa Group Limited entity	interest rate at Absa Group Limited rate plus 3 month Libor (Variable)

There were no defaults on the above during the current or previous year.

36. Stated capital

The total authorised and issued 852 161 250 shares at no par value (2020: 852 161 250).

All issued shares are fully paid. There were no shares issued during the current year (2020: none). There were no changes to authorised share capital during the current year (2020: none).

No preference shares are currently in issue by the Group.

Every shareholder shall have one vote for every share held. All dividends shall be declared and paid to the members in proportion to the shares held by them respectively.

Issued share capital

	Consolidated and Company	
	2021 P'000	2020 P'000
852 161 250 (2020: 852 161 250) shares of stated capital	17 108	17 108
	17 108	**17 108**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

37. Reserves

All reserves are shown net of deferred tax where applicable.

Share capital reserve
The share capital reserve is a contingency reserve set aside by the Group.

General risk reserve
General risk reserve was created in accordance with previous requirement of the regulator Bank of Botswana to hold a general risk reserve limited to a maximum of 1.25% of the Bank's credit risk weighted assets. This requirement is no longer applicable as expected credit losses held under IFRS 9 requirements exceed this threshold and no transfer has been made in the current or previous year. The Group is awaiting confirmation from the regulator on whether to release the reserve. The Group treats the reserve as non-distributable reserve (NDR).

Included on the General risk reserve of the Group is the risk reserve that was created in accordance with the requirement of the regulator, Non-Bank Financial Institutions Regulatory Agency, to maintain a minimum capital target which shall be the higher of P30 000 or 4% of annual income or 25% of operating expenses.

Retained earnings
The retained earnings comprise of the cumulative total comprehensive income recognised from inception (reduced by any amounts transferred to as separate reserve) and reduced by dividends paid to date.

Fair value reserve
The fair value reserve comprises only the cumulative net change in the fair value of debt instruments measured at FVOCI until such time as they are derecognised. Upon derecognition of debt instruments measured at FVOCI the cumulative amount recognised in other comprehensive income is released to profit or loss. Since the cumulative net change in the fair value of equity instruments designated as at FVOCI is not recycled to profit or loss upon derecognition the Group recognises the cumulative net change in fair value of these instruments in retained earnings.

Share based payment reserve
The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. The standard requires that the expense be charged to the profit and loss component of the statement of comprehensive income while a credit needs to be raised against equity over the vesting period (i.e. the period between the allocation date and the date on which employees will become entitled to their options). When options are exercised the reserve related to the specific options is transferred to share capital and/or share premium. If the options lapse after vesting the related reserve is transferred to retained earnings. If the options lapse before vesting the related reserve is reversed through the profit and loss component of the statement of comprehensive income.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

	Consolidated		Company	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
38. Cash used in operations				
Profit for the period	502 592	296 746	477 329	290 419
Adjustments for:				
Income tax expense	156 715	67 197	153 571	56 904
Net interest income	(1 048 404)	(1 055 003)	(1 048 404)	(1 055 003)
Gain on disposal of property, plant and equipment	(298)	(48)	(298)	(48)
Net loss arising on foreign exchange gains and losses	(1 358)	(4 617)	(1 358)	(4 617)
Net loss/(gain) arising on financial assets measured at fair value through profit or loss	(5 515)	(413)	(5 515)	(413)
Expected credit losses	101 581	285 622	101 581	285 622
Depreciation	73 200	61 742	73 200	61 742
Amortisation	1 089	652	1 089	652
Cash used in operations before working capital changes	**(220 398)**	**(348 122)**	**(248 805)**	**(364 742)**
Changes in working capital				
Movement in other receivables	31 430	67 464	32 261	67 464
Movement in other payables	14 952	(205 102)	9 484	(202 991)
Movement in provisions	(360)	(5 143)	3 483	5 361
Movement in amounts owing to related parties	(74 928)	(44 560)	(74 928)	(44 560)
Total changes in working capital	**(28 906)**	**(187 341)**	**(29 700)**	**(174 726)**
Cash used in operations	**(249 304)**	**(535 463)**	**(278 505)**	**(539 468)**

	Consolidated		Company	
	2021 P'000	2020 P'000	2021 P'000	2020 P'000
39. Taxation				
Opening balance	5 762	(4 568)	5 110	(11 078)
Current year tax charge	(152 461)	(99 820)	(147 399)	(96 247)
Tax paid	123 820	115 166	117 965	113 242
Prior year under provision	1 356	(5 016)	1 356	(807)
	(21 523)	**5 762**	**(22 968)**	**5 110**
39.1 Reconciliation of tax paid				
Receipts during the year	-	(1 763)	-	(253)
Payments during the year	123 820	116 929	117 965	113 495
Total tax paid	**123 820**	**115 166**	**117 965**	**113 242**

	2021 P'000	2020 P'000
40. Proceeds on disposal of property, plant and equipment		
Disposal proceeds	298	48
	298	**48**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

		2021 P'000	2020 P'000
41.	**Dividends paid**		
	Prior year final year dividend paid during the current year	175 533	169 693
	Interim dividend paid	83 000	-
		258 533	**169 693**
	In the prior year a dividend of P213million was declared and from this Absa Group Limited waived P43.3million which was considered and treated as capital reinvestment.		
41.1	Total Dividends paid	258 533	213 040
	Capital reinvestment	-	(43 347)
	Total dividends	**258 533**	**169 693**
42.	**Interest paid**		
	Interest paid per profit and loss	(322 367)	(287 660)
	IFRS 16 interest expense	6 151	4 380
		(316 216)	**(283 280)**
43.	**Interest received**		
	Interest received per profit and loss	1 370 771	1 342 663
	Accrued interest	(39 687)	(54 862)
		1 331 084	**1 287 801**
44.	**Cash and cash equivalents**		
	Current account (note 16)	165 530	104 881
	Repurchase agreements (note 16)	199 971	459 924
	Cash (note 26)	640 880	645 784
	Loans and advances to banks (note 20)	1 183 700	1 010 675
	Bank of Botswana notes (note 19)	699 805	969 831
	Loans and advances from related parties*	1 555 386	1 401 021
		4 445 272	**4 592 116**

The statutory reserve is not available for use in the day-to-day operations of the Bank. Balances above consist of balances held on a short-term basis.

*The balance above only includes cash items from note 51 and excludes non-cash items.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

45. Financial instruments

45.1. Categories of financial instruments

Consolidated

2021	Fair value through profit/loss - Mandatory P'000	Fair value OCI - Debt instruments P'000	Amortised cost - Debt instruments P'000	Outside the scope of IFRS 9 P'000	Total assets and liabilities P'000
Assets as per Statement of Financial Position					
Cash	-	-	640 880	-	640 880
Cash and balances at central bank	-	-	515 501	-	515 501
Trading portfolio assets	84 361	-	-	-	84 361
Balances with related companies	-	-	1 698 453	-	1 698 453
Loans and advances to banks	-	-	1 183 600	-	1 183 600
Derivative financial instruments	27 981	-	-	-	27 981
Financial assets at fair value through OCI	-	1 968 408	-	-	1 968 408
Loans and advances to customers	-	-	14 924 321	-	14 924 321
Other assets	-	-	73 753	403 793	477 546
Total	**112 342**	**1 968 408**	**19 036 508**	**403 793**	**21 521 051**
Liabilities as per Statement of Financial Position					
Deposits from banks	-	-	793 730	-	793 730
Balances with related companies	-	-	317 530	-	317 530
Derivative financial instruments	43 151	-	-	-	43 151
Deposits due to customers	-	-	16 399 553	-	16 399 553
Debt securities in issue	-	-	341 078	-	341 078
Other liabilities	-	-	317 338	145 822	463 160
Subordinated debt	-	-	593 443	-	593 443
Total	**43 151**	**-**	**18 762 672**	**145 822**	**18 951 645**

2020	Fair value through profit/loss - Mandatory P'000	Fair value OCI - Debt instruments P'000	Amortised cost - Debt instruments P'000	Outside the scope of IFRS 9 P'000	Total assets and liabilities P'000
Assets as per Statement of Financial Position					
Cash	-	-	645 784	-	645 784
Cash and balances at central bank	-	-	775 787	-	775 787
Trading portfolio assets	212 332	-	-	-	212 332
Balances with related companies	-	-	1 404 496	-	1 404 496
Loans and advances to banks	-	-	1 010 533	-	1 010 533
Derivative financial instruments	48 430	-	-	-	48 430
Financial assets at fair value through OCI	-	2 042 225	-	-	2 042 225
Loans and advances to customers	-	-	13 904 310	-	13 904 310
Other assets	-	-	110 610	413 362	523 972
Total	**260 762**	**2 042 225**	**17 851 520**	**413 362**	**20 567 869**
Liabilities as per Statement of Financial Position					
Deposits from banks	-	-	553 623	-	553 623
Balances with related companies	-	-	350 958	-	350 958
Derivative financial instruments	42 396	-	-	-	42 396
Deposits due to customers	-	-	15 903 147	-	15 903 147
Debt securities in issue	-	-	394 192	-	394 192
Other liabilities	-	-	350 848	62 838	413 686
Subordinated debt	-	-	574 476	-	574 476
Total	**42 396**	**-**	**18 127 244**	**62 838**	**18 232 478**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

45. Financial instruments (continued)

45.1. Categories of financial instruments (continued)

Company

2021	Fair value through profit/loss - Mandatory P'000	Fair value OCI - Debt instruments P'000	Amortised cost - Debt instruments P'000	Outside the scope of IFRS 9 P'000	Total assets and liabilities P'000
Assets as per Statement of Financial Position					
Cash	-	-	640 880	-	640 880
Cash and balances at central bank	-	-	515 501	-	515 501
Trading portfolio assets	84 361	-	-	-	84 361
Balances with related companies	-	-	1 726 432	-	1 726 432
Loans and advances to banks	-	-	1 183 600	-	1 183 600
Derivative financial instruments	27 981	-	-	-	27 981
Financial assets at fair value through OCI	-	1 968 408	-	-	1 968 408
Loans and advances to customers	-	-	14 924 321	-	14 924 321
Other assets	-	-	72 922	401 327	474 249
Total	**112 342**	**1 968 408**	**19 063 656**	**401 327**	**21 545 733**
Liabilities as per Statement of Financial Position					
Deposits from banks			793 730		793 730
Balances with related companies	-	-	412 079	-	412 079
Derivative financial instruments	43 151	-	-	-	43 151
Deposits due to customers	-	-	16 399 553	-	16 399 553
Debt securities in issue	-	-	341 078	-	341 078
Other liabilities	-	-	317 428	135 228	452 656
Subordinated debt	-	-	593 443	-	593 443
Total	**43 151**	**-**	**18 857 311**	**135 228**	**19 035 690**

2020	Fair value through profit/loss - Mandatory P'000	Fair value OCI - Debt instruments P'000	Amortised cost - Debt instruments P'000	Outside the scope of IFRS 9 P'000	Total assets and liabilities P'000
Assets as per Statement of Financial Position					
Cash	-	-	645 784	-	645 784
Cash and balances at central bank	-	-	775 787	-	775 787
Trading portfolio assets	212 332	-	-	-	212 332
Balances with related companies	-	-	1 547 126	-	1 547 126
Loans and advances to banks	-	-	1 010 533	-	1 010 533
Derivative financial instruments	48 430	-	-	-	48 430
Financial assets at fair value through OCI	-	2 042 225	-	-	2 042 225
Loans and advances to customers	-	-	13 904 310	-	13 904 310
Other assets	-	-	110 610	412 162	522 772
Total	**260 762**	**2 042 225**	**17 994 150**	**412 162**	**20 709 299**
Liabilities as per Statement of Financial Position					
Deposits from banks	-	-	553 623	-	553 623
Balances with related companies	-	-	536 810	-	536 810
Derivative financial instruments	42 396	-	-	-	42 396
Deposits due to customers	-	-	15 903 147	-	15 903 147
Debt securities in issue	-	-	394 192	-	394 192
Other liabilities	-	-	350 848	52 516	403 364
Subordinated debt	-	-	574 476	-	574 476
Total	**42 396**	**-**	**18 313 096**	**52 516**	**18 408 008**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management

46.1 Capital risk management

The Group manages its capital at Group level considering both regulatory and economic capital. The Group's lead regulator Bank of Botswana sets and monitors capital requirements for the Group. The Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Group has adopted the standardised and basic indicator approaches to credit and operational risk management respectively. The Group calculates requirements for market risk in its trading and banking portfolios based upon the Group's value at risk (VaR) models.

Banking operations are categorised as either trading book or banking book and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position. The Group's policy is to maintain a strong capital base so as to ensure 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 has complied with all externally imposed capital requirements throughout the year in line with the Directive on the Revised International Convergence Of Capital Measurement and Capital Standards For Botswana) (Basel II) (issue date September 8 2015 and effective 1 January 2016).

Tier 1: comprising mainly shareholders' funds is the highest tier.
Tier 2: includes perpetual medium and long term subordinated debt general provisions for bad and doubtful debts as well as property and equipment revaluation reserves.

Both tiers can be used to meet trading and banking activity requirements although Tier 2 capital included in the risk asset ratio calculation may not exceed Tier 1 capital. The Bank of Botswana has set the individual minimum capital ratio requirements for banks in Botswana at 12.5% (2020: 15%) which is above the Basel Committee minimum guideline of 8%.

The Group has complied with all externally imposed capital requirements through the year.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.1 Capital risk management (continued)

Unaudited	Consolidated and Company 2021 P'000	2020 P'000
Tier 1 Capital		
Stated capital	8 522	8 522
Share premium	8 586	8 586
Share capital reserve	2 060	2 060
General risk reserve	133 842	118 347
Other reserves	(16 617)	(8 093)
Retained earnings	2 435 072	2 206 509
Proposed dividends	(236 000)	(175 533)
Less: Intangible assets	(2 273)	(2 717)
Total Tier 1 Capital	**2 333 192**	**2 157 681**
Tier 2 Capital		
Subordinated redeemable debt	487 570	518 749
Unencumbered general provisions	189 502	174 371
Total Tier 2 Capital	**677 072**	**693 120**
Total regulatory capital	**3 010 264**	**2 850 801**
Risk weighted assets		
Credit risk weighted assets	15 160 162	13 949 641
Market risk weighted assets	230 903	173 402
Operational risk weighted assets	1 602 644	1 528 640
Total risk weighted assets	**16 993 709**	**15 651 683**
Capital adequacy ratio	**17.71%**	**18.21%**

Tier 1 (or core) capital ratio (Basel Committee guide: minimum 4%) was 13.7% at year-end (2020: 14.9%).

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.2 Risk management processes

The Group's approach is to provide direction on:
- understanding the principal risks to achieving Group strategy;
- establishing risk appetite; and
- establishing and communicating the risk management framework.

The process is then broken down into five steps: identify, assess, control, report and manage/challenge. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.

Steps and Activities are:

Identify
- Establish the process for identifying and understanding business-level risks.

Assess
- Agree and implement measurement and reporting standards and methodologies.

Control
- Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements.
- Monitor the operation of the controls and adherence to risk direction and limits.
- Provide early warning of control or appetite breaches.
- Ensure that risk management practices and conditions are appropriate for the business environment

Report
- Interpret and report on risk exposures, concentrations and risk-taking outcomes.
- Interpret and report on sensitivities and Key Risk Indicators.
- Communicate with external parties.

Manage and challenge
- Review and challenge all aspects of the Bank's risk profile.
- Assess new risk-return opportunities.
- Advise on optimising the Bank's risk profile.
- Review and challenge risk management practices.

Market risk is the risk of a reduction in the Group's earnings or capital due to:

Traded market risk
The risk of the Group being impacted by changes in the level or volatility of market rates or prices. This includes changes in interest rates, inflation rates, credit spreads, property prices, commodity prices, equity and bond prices and foreign exchange levels.

Non-traded market risk
The risk of the Group being exposed to interest rate risk arising from loans, deposits and similar instruments held for longer term strategic purposes rather than for the purpose of profiting from changes in interest rates.

Market risk exposure arises from equity commodity investments (listed or unlisted), loans or deposits that are interest bearing, any assets and liabilities in foreign currencies, or any investments in tradable securities, indices, etc.

The Group's market risk management objectives include: the protection and enhancement of the statement of financial position and statement of comprehensive income and facilitating business growth within a controlled and transparent risk management framework.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.3 Market risk

Market risk measurement

The techniques used to measure and control market risk include:

- Daily value at risk (DVaR)
- Stress tests
- Stop loss

Daily value at risk (DVar)

DVar is an estimate of the potential loss which might arise from unfavourable market movements if the current positions were to be held unchanged for one business day. DVar is calculated using the historical simulation method with a historical sample of two years.

The Group uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 95%. This internal model is also used for measuring VaR over both a one-day and a 10-day holding period at a 99% confidence level (Stressed VaR). The Var model however has a limitation of assuming normal conditions. To complement it; tail metrics stress testing and other sensitivity measures are used.

Stress tests

Stress tests provide an indication of the potential size of the losses that could arise in extreme conditions. If the potential losses exceed the trigger limit the positions captured by the stress test are reviewed by Assets and Liabilities Committee (ALCO).

Stop loss

A stop loss policy has been instituted incorporating a 'management trigger level' at USD100, 000. If this trigger level is reached then all open positions must be closed immediately so as to protect the Group against any further exchange rate losses.

Analysis of trading market risk exposures

	Consolidated and Company		
	12 months to 31 December 2021		
	Average P'000	High P'000	Low P'000
Interest rate risk	74	93	65
Foreign currency risk	917	1 130	781
	991	**1 223**	**846**

	12 months to 31 December 2020		
	Average P'000	High P'000	Low P'000
Interest rate risk	64	117	35
Foreign currency risk	1 059	1 824	172
	1 123	**1 941**	**207**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.3 Market risk (continued)

	Consolidated and Company					
	2021			2020		
	Interest rates Average	Interest rates High	Interest rates Low	Interest rates Average	Interest rates High	Interest rates Low
Assets						
Loans and advances to banks:						
BWP	1.20%	3.00%	1.00%	1.00%	2.00%	0.55%
USD	0.05%	0.08%	0.00%	0.80%	1.60%	0.05%
ZAR	2.88%	3.25%	2.50%	0.00%	0.00%	0.00%
Bank of Botswana certificates						
7 day	1.07%	1.10%	1.04%	1.08%	1.46%	1.01%
91 day	-	-	-	1.25%	1.52%	1.04%
Loans and advances:						
Corporate	5.76%	9.75%	2.50%	5.76%	9.75%	2.50%
Retail	13.70%	24.25%	5.75%	11.44%	30.25%	2.25%
Staff	3.50%	3.75%	3.25%	3.53%	6.25%	3.25%
Balances with related parties						
USD	0.15%	0.28%	0.05%	2.43%	3.45%	1.35%
ZAR	3.14%	3.30%	3.05%	6.82%	7.48%	6.48%

	Consolidated and Company					
	2021			2020		
	Interest rates Average	Interest rates High	Interest rates Low	Interest rates Average	Interest rates High	Interest rates Low
Liabilities						
Deposits due to customers:						
Corporate	0.30%	4.35%	0.10%	0.30%	4.35%	0.10%
Retail	1.96%	3.25%	0.00%	1.07%	4.70%	0.00%
Staff	1.96%	3.25%	0.00%	1.15%	2.48%	0.00%
Deposits from banks:						
BWP	2.97%	5.00%	1.00%	1.00%	5.00%	0.80%
USD	0.09%	0.20%	0.00%	0.10%	1.00%	0.00%
Balances with related parties						
USD	2.86%	2.93%	2.93%	2.93%	2.93%	2.93%
ZAR	5.07%	5.36%	4.75%	5.11%	5.11%	5.11%
Medium term notes	5.50%	6.00%	4.56%	5.65%	7.00%	4.40%
Floating rate notes	4.90%	6.18%	4.04%	4.85%	6.25%	3.50%

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.4 Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

Additional foreign exchange exposure is taken through the trading book; in particular through FX forwards (including unmatured spot transactions) FX Swaps and other market making activities.

The Group manages foreign exchange exposures in line with ALCO and Absa Bank Botswana market risk guidelines. Typically all currencies other than the US dollar are fully matched with open positions being taken on the US dollar up to a maximum open position of US$25 million. The limit was adhered to throughout the year.

The Group conducts its foreign currency operations in accordance with guidelines periodically received from its regulator Bank of Botswana. The current intraday limit is set at US$50 million and the overnight limit is US$25 million. These limits were adhered to throughout the year.

Market risk regulatory capital calculations (Trading and Banking Books)

The Group is required to hold adequate capital to cover losses due to exposures to Market Risk. For day to day risk management the Bank uses internal models such as Daily Value at Risk (DVaR) Net interest income and Economic Value of Equity (EVE) sensitivity etc. However for regulatory capital calculations and as required by the Bank of Botswana the Bank uses the Standardised Measurement Method. This entails using the prescribed methods to calculate the capital charge for the market risk that the Bank is exposed to. The Internal Models Approach (use of DVaR Stressed Value at Risk SVaR) for regulatory capital calculations is not permitted under current Bank of Botswana regulatory guidelines.

The risks that form part of the Group's capital charge are as follows: the interest rate and equity risks pertaining to financial instruments in the trading book; and Foreign exchange risk and commodities risk in the trading and banking books. In particular; the General and Specific Interest rate risk the general and specific equity risks the FX risks (including banking book) and commodity risks. The Group uses the standardised maturity method for calculating its general interest rate risk with adjustments for basis and correlation effects. The measurement methods are in line with Basel 2 which became effective 1 January 2016.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.4 Foreign currency risk (continued)

	Consolidated						
2021	BWP P'000	USD P'000	ZAR P'000	GBP P'000	EUR P'000	Other P'000	Total P'000
Assets							
Cash	603 328	15 206	18 923	1 253	1 970	200	640 880
Balances at the Central Bank	515 501	-	-	-	-	-	515 501
Trading portfolio assets	84 361	-	-			-	84 361
Derivative financial instruments	27 981	-	-	-	-	-	27 981
Financial assets at fair value through OCI	1 968 408	-	-	-	-	-	1 968 408
Loans and advances to banks	224 200	619 213	27	117 790	217 976	4 394	1 183 600
Due from related companies	560	1 668 237	28 242	-	-	1 414	1 698 453
Loans and advances to customers	13 552 646	1 183 462	188 208	2	3	-	14 924 321
Other receivables	73 552	-	-	-	-	200	73 552
Total assets	**17 050 537**	**3 486 118**	**235 400**	**119 045**	**219 949**	**6 208**	**21 117 257**
Liabilities							
Deposits from banks	52 885	545 704	281	12 666	179 121	3 073	793 730
Due to related companies	7 374	-	310 156	-	-	-	317 530
Customer deposits	13 372 986	2 654 212	186 495	158 989	26 856	15	16 399 553
Derivative financial instruments	43 151	-	-	-	-	-	43 151
Other payables	317 338	-	-	-	-	-	317 338
Debt securities in issue	341 078	-	-	-	-	-	341 078
Subordinated debt	358 235	235 208	-	-	-	-	593 443
Total liabilities	**14 493 047**	**3 435 124**	**496 932**	**171 655**	**205 977**	**3 088**	**18 805 823**
Net position	**2 557 490**	**50 994**	**(261 532)**	**(52 610)**	**13 972**	**3 120**	**2 311 434**

2020	BWP P'000	USD P'000	ZAR P'000	GBP P'000	EUR P'000	Other P'000	Total P'000
Assets							
Cash	624 029	4 723	15 004	1 187	523	318	645 784
Balances at the Central Bank	775 787	-	-	-	-	-	775 787
Trading portfolio assets	212 332	-	-	-	-	-	212 332
Derivative financial instruments	48 430	-	-	-	-	-	48 430
Financial assets at fair value through OCI	1 877 178	165 047	-	-	-	-	2 042 225
Loans and advances to banks	243 540	189 510	66 631	239 218	268 612	3 022	1 010 533
Due from related companies	1 116	1 352 484	49 629	-	-	1 267	1 404 496
Loans and advances to customers	12 299 730	1 355 375	249 202	1	2	-	13 904 310
Other receivables	110 610	-	-	-	-	-	110 610
Total assets	**16 192 752**	**3 067 139**	**380 466**	**240 406**	**269 137**	**4 607**	**20 154 507**
Liabilities							
Deposits from banks	53 571	404 587	281	11 741	80 595	2 848	553 623
Due to related companies	13 536	-	336 866	-	-	556	350 958
Customer deposits	12 846 578	2 564 164	155 602	279 103	57 686	14	15 903 147
Derivative financial instruments	42 396	-	-	-	-	-	42 396
Other payables	350 848	-	-	-	-	-	350 848
Debt securities in issue	394 192	-	-	-	-	-	394 192
Subordinated debt	358 317	216 159	-	-	-	-	574 476
Total liabilities	**14 059 438**	**3 184 910**	**492 749**	**290 844**	**138 281**	**3 418**	**18 169 640**
Net position	**2 133 314**	**(117 771)**	**(112 283)**	**(50 438)**	**130 856**	**1 189**	**1 984 867**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.4 Foreign currency risk (continued)

	Company						
2021	BWP P'000	USD P'000	ZAR P'000	GBP P'000	EUR P'000	Other P'000	Total P'000
Assets							
Cash	603 328	15 206	18 923	1 253	1 970	200	640 880
Balances at the Central Bank	515 501	-	-	-	-	-	515 501
Trading portfolio assets	84 361	-	-			-	84 361
Derivative financial instruments	27 981	-	-	-	-	-	27 981
Financial assets at fair value through OCI	1 968 408	-	-	-	-	-	1 968 408
Loans and advances to banks	224 200	619 213	27	117 790	217 976	4 394	1 183 600
Due from related companies	560	1 695 296	29 162	-	-	1 414	1 726 432
Loans and advances to customers	13 552 646	1 183 462	188 208	2	3	-	14 924 321
Other receivables	72 722	-	-	-	-	200	72 922
Total assets	**17 049 707**	**3 513 177**	**236 320**	**119 045**	**219 949**	**6 208**	**21 144 406**
Liabilities							
Deposits from banks	52 885	545 704	281	12 666	179 121	3 073	793 730
Due to related companies	7 374	-	310 156	-	-	-	317 530
Customer deposits	13 372 986	2 654 212	186 495	158 989	26 856	15	16 399 553
Derivative financial instruments	43 151	-	-	-	-	-	43 151
Other payables	317 338	-	-	-	-	-	317 338
Debt securities in issue	341 078	-	-	-	-	-	341 078
Subordinated debt	358 235	235 208	-	-	-	-	593 443
Total liabilities	**14 493 047**	**3 435 124**	**496 932**	**171 655**	**205 977**	**3 088**	**18 805 823**
Net position	**2 555 660**	**78 053**	**(260 612)**	**(52 610)**	**13 972**	**3 120**	**2 338 583**

2020	BWP P'000	USD P'000	ZAR P'000	GBP P'000	EUR P'000	Other P'000	Total P'000
Assets							
Cash	624 029	4 723	15 004	1 187	523	318	645 784
Balances at the Central Bank	775 787	-	-	-	-	-	775 787
Trading portfolio	212 332	-	-	-	-	-	212 332
Derivative financial instruments	48 430	-	-	-	-	-	48 430
Financial assets at fair value through OCI	1 877 178	165 047	-	-	-	-	2 042 225
Loans and advances to banks	243 540	189 510	66 631	239 218	268 612	3 022	1 010 533
Due from related companies	1 116	1 495 114	49 629			1 267	1 547 126
Loans and advances to customers	12 299 730	1 355 375	249 202	1	2	-	13 904 310
Other receivables	110 610	-	-	-	-	-	110 610
Total assets	**16 192 752**	**3 209 769**	**380 466**	**240 406**	**269 137**	**4 607**	**20 297 137**
Liabilities							
Deposits from banks	53 571	404 587	281	11 741	80 595	2 848	553 623
Due to related companies	13 536	-	522 718	-	-	556	536 810
Customer deposits	12 846 578	2 564 164	155 602	279 103	57 686	14	15 903 147
Derivative financial instruments	42 396	-	-	-	-	-	42 396
Other payables	350 848	-	-	-	-	-	350 848
Debt securities in issue	394 192	-	-	-	-	-	394 192
Subordinated debt	358 317	216 159	-	-	-	-	574 476
Total liabilities	**14 059 438**	**3 184 910**	**678 601**	**290 844**	**138 281**	**3 418**	**18 355 492**
Net position	**2 133 314**	**24 859**	**(298 135)**	**(50 438)**	**130 856**	**1 189**	**1 941 645**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.4 Foreign currency risk (continued)

Sensitivity of currency

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

	Consolidated and Company	
	2021 P'000	2020 P'000
5% movement in US Dollar/BWP exchange rate (P'000)	2 550	(5 913)
As a percentage of total shareholders' equity	0.10%	-0.25%
5% movement in ZAR/BWP exchange rate (P'000)	(13 077)	(5 783)
As a percentage of total shareholders' equity	-0.51%	-0.25%
5% movement in GBP/BWP exchange rate (P'000)	(2 631)	(2 527)
As a percentage of total shareholders' equity	-0.10%	-0.11%
5% movement in EUR/BWP exchange rate (P'000)	699	6 475
As a percentage of total shareholders' equity	0.03%	0.28%

Sensitivity analysis

A reasonably possible strengthening of the US dollar ZAR GBP EUR against all other countries as at 31 December 2021 would have affected the measured of financial instruments denominated in foreign currency and affected equity and profit or loss by amounts shown above. This analysis assumes that all other variables in particular interest rates remain constant and ignores any impact of forecast sales and purchase.

46.5 Interest rate risk

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 instrument 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 interest rate exposure. The Assets and Liabilities Committee (ALCO) is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. The table below shows the repricing profile of the Bank's non-trading portfolios:

	Consolidated						
2021	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
Assets							
Cash	-	-	-	-	-	640 880	640 880
Balances at central banks	199 971	-	-	-	-	315 530	515 501
Trading portfolio assets	-	-	-	77 208	7 153	-	84 361
Derivative financial instruments	27 981	-	-	-	-	-	27 981
Fair value through OCI Investments	175 620	703 338	535 000	554 450	-	-	1 968 408
Loans and advances to banks	1 183 600	-	-	-	-	-	1 183 600
Due from related parties	1 087 506	469 959	140 988	-	-	-	1 698 453
Loans and advances to customers	15 160 773	37 522	168 539	225 161	561	(668 235)	14 924 321
Other receivables	-	-	-	-	-	73 753	73 753
	17 835 451	**1 210 819**	**844 527**	**856 819**	**7 714**	**361 928**	**21 117 258**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.5 Interest rate risk (continued)

	Consolidated						
2021	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
Liabilities							
Deposits from Banks	793 730	- -		-	-	-	793 730
Due to related parties	-	-	-	317 530	-	-	317 530
Customer accounts	8 131 766	533 879	784 137	2 634 832	114	4 314 825	16 399 553
Derivative financial instruments	43 151	-	-	-	-	-	43 151
Debt securities in issue	-	307 878	33 200	-	-	-	341 078
Subordinated debt	-	593 443	-	-	-	-	593 443
Other payables	-	-	-	-	-	317 338	317 338
	8 968 647	**1 435 200**	**817 337**	**2 952 362**	**114**	**4 632 163**	**18 805 823**
Interest rate sensitivity gap	**8 866 804**	**(224 381)**	**27 190**	**(2 095 543)**	**7 600**	**(4 270 235)**	**2 311 435**

	Consolidated						
2020	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
Assets							
Cash	-	-	-	-	-	645 784	645 784
Balances at central banks	459 924	-	-	-	-	315 863	775 787
Trading portfolio assets	-	-	-	137 985	74 347	-	212 332
Derivative financial instruments	48 430	-	-	-	-	-	48 430
Fair value through OCI Investments	749 969	384 964	229 064	581 013	97 215	-	2 042 225
Loans and advances to banks	1 010 533	-	-	-	-	-	1 010 533
Due from related parties	1 079 142	324 262	1 092	-	-	-	1 404 496
Loans and advances to customers	14 107 871	40 473	177 386	231 466	915	(653 801)	13 904 310
Other receivables	-	-	-	-	-	110 610	110 610
	17 455 869	**749 699**	**407 542**	**950 464**	**172 477**	**418 456**	**20 154 507**
Liabilities							
Deposits from Banks	481 993	-	71 630	-	-	-	553 623
Due to related parties	110 789	-	-	240 169	-	-	350 958
Customer accounts	8 481 660	1 401 865	2 123 269	246 478	-	3 649 875	15 903 147
Derivative financial instruments	42 396	-	-	-	-	-	42 396
Debt securities in issue	8 000	340 492	45 700	-	-	-	394 192
Subordinated debt	-	574 476	-	-	-	-	574 476
Other payables	-	-	-	-	-	350 848	350 848
	9 124 838	**2 316 833**	**2 240 599**	**486 647**	**-**	**4 000 723**	**18 169 640**
Interest rate sensitivity gap	**8 331 031**	**(1 567 134)**	**(1 833 057)**	**463 817**	**172 477**	**(3 582 267)**	**1 984 867**

The above table has been updated to only include financial liabilities.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.5 Interest rate risk (continued)

	Company						
2021	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
Assets							
Cash	-	-	-	-	-	640 880	640 880
Balances at central banks	199 971	-	-	-	-	315 530	515 501
Trading portfolio assets	-	-	-	77 208	7 153	-	84 361
Derivative financial instruments	27 981	-	-	-	-	-	27 981
Fair value through OCI Investments	175 620	703 338	535 000	554 450	-	-	1 968 408
Loans and advances to banks	1 183 600	-	-	-	-	-	1 183 600
Due from related parties	1 115 485	469 959	140 988	-	-	-	1 726 432
Loans and advances to customers	15 160 773	37 522	168 539	225 161	561	(668 235)	14 924 321
Other receivables	-	-	-	-	-	72 922	72 922
	17 863 430	**1 210 819**	**844 527**	**856 819**	**7 714**	**361 097**	**21 144 406**

	Company						
2021	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
Liabilities							
Deposits from Banks	793 730	- -		-	-	-	793 730
Due to related parties	-	-	-	412 079	-	-	412 079
Customer accounts	8 131 766	533 879	784 137	2 634 832	114	4 314 825	16 399 553
Derivative financial instruments	43 151	-	-	-	-	-	43 151
Debt securities in issue	-	307 878	33 200	-	-	-	341 078
Subordinated debt	-	593 443	-	-	-	-	593 443
Other payables	-	-	-	-	-	317 428	317 428
	8 968 647	**1 435 200**	**817 337**	**3 046 911**	**114**	**4 632 253**	**18 900 462**
Interest rate sensitivity gap	**8 894 783**	**(224 381)**	**27 190**	**(2 190 092)**	**7 600**	**(4 271 156)**	**2 243 944**

	Company						
2020	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
Assets							
Cash	-	-	-	-	-	645 784	645 784
Balances at central banks	459 924	-	-	-	-	315 863	775 787
Trading portfolio assets	-	-	-	137 985	74 347	-	212 332
Derivative financial instruments	48 430	-	-	-	-	-	48 430
Fair value through OCI Investments	749 969	384 964	229 064	581 013	97 215	-	2 042 225
Loans and advances to banks	1 010 533	-	-	-	-	-	1 010 533
Due from related parties	1 221 772	324 262	1 092	-	-	-	1 547 126
Loans and advances to customers	14 107 871	40 473	177 386	231 466	915	(653 801)	13 904 310
Other receivables	-	-	-	-	-	110 610	110 610
	17 598 499	**749 699**	**407 542**	**950 464**	**172 477**	**418 456**	**20 297 137**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.5 Interest rate risk (continued)

	Company						
2020	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000	Total P'000
Liabilities							
Deposits from Banks	481 993	-	71 630	-	-	-	553 623
Due to related parties	296 641	-	-	240 169	-	-	536 810
Customer accounts	8 481 660	1 401 865	2 123 269	246 478	-	3 649 875	15 903 147
Derivative financial instruments	42 396	-	-	-	-	-	42 396
Debt securities in issue	8 000	340 492	45 700	-	-	-	394 192
Subordinated debt	-	574 476	-	-	-	-	574 476
Other payables	-	-	-	-	-	350 848	350 848
	9 310 690	**2 316 833**	**2 240 599**	**486 647**	**-**	**4 000 723**	**18 355 492**
Interest rate sensitivity gap	**8 287 809**	**(1 567 134)**	**(1 833 057)**	**463 817**	**172 477**	**(3 582 267)**	**1 941 645**

46.6 Other price risks

Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes personnel technology and infrastructure and from external factors other than credit market and liquidity risks. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address Operational risk is delegated to senior management within each Business unit. This responsibility is supported by implementation of the localised operational risk standards for the management of risk in the following areas:

- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- compliance with regulatory and other legal requirements
- reporting of operational losses and proposed remedial action

Compliance with the operational risk standards is supported by a programme of periodic conformance and internal audit reviews undertaken by assurance providers. The results of reviews are tracked for resolution by management and the respective governance forums.

46.7 Credit risk

The Group's approach is to provide direction on:

- understanding the principal risks to achieving Group strategy;
- establishing risk appetite; and
- establishing and communicating the risk management framework.

The process is then broken down into five steps: identify, assess, control, report and manage/challenge. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.7 Credit risk (continued)

Steps and activities are:

Identify
- Establish the process for identifying and understanding business-level risks.

Assess
- Agree and implement measurement and reporting standards and methodologies.

Control
- Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements.
- Monitor the operation of the controls and adherence to risk direction and limits.
- Provide early warning of control or appetite breaches.
- Ensure that risk management practices and conditions are appropriate for the business environment

Report
- Interpret and report on risk exposures, concentrations and risk-taking outcomes.
- Interpret and report on sensitivities and Key Risk Indicators.
- Communicate with external parties.

Manage and challenge
- Review and challenge all aspects of the Group's risk profile.
- Assess new risk-return opportunities.
- Advise on optimising the Group's risk profile.
- Review and challenge risk management practices.

46.7.1. Maximum credit risk exposure

	Consolidated			
2021	Gross Maximum Exposure P'000	12 months expected credit losses - stage 1 P'000	Lifetime expected credit losses - stage 2 P'000	Credit impaired - stage 3 P'000
Balances at central banks	515 501	515 501	-	-
Loans and advances to banks	1 183 700	1 183 700	-	-
Financial assets at fair value through OCI	1 969 326	1 969 326	-	-
Loans and advances to customers	15 592 556	13 723 769	1 206 296	662 491
Due from related parties	1 698 453	1 698 453	-	-
Total gross maximum exposure to credit risk (excluding derivatives)	**20 959 536**	**19 090 749**	**1 206 296**	**662 491**
Expected credit losses	(676 511)	(139 684)	(170 167)	(366 660)
Total net exposure to credit risk as disclosed on the statement of financial position	**20 283 025**	**18 951 065**	**1 036 129**	**295 831**
Assets not subject to IFRS 9 ECL requirements	834 233	-	-	-
Total financial assets	**21 117 258**	**18 951 065**	**1 036 129**	**295 831**
Gross off balance sheet exposures	2 975 145	2 975 145	-	-
Expected credit losses and provision	(7 258)	(7 258)	-	-
Net off balance sheet exposures	**2 967 887**	**2 967 887**	**-**	**-**

The write-off amount for the year is P92 096 thousand (2020: 55 764 thousand) refer to note 22.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)
46.7 Credit risk (continued)
46.7.1. Maximum credit risk exposure (continued)

2020	Gross Maximum Exposure P'000	Consolidated 12 months expected credit losses - stage 1 P'000	Lifetime expected credit losses - stage 2 P'000	Credit impaired - stage 3 P'000
Balances at central banks	775 791	775 791	-	-
Loans and advances to Banks	1 010 676	1 010 676	-	-
Financial assets at fair value through OCI	2 042 452	2 042 452	-	-
Loans and advances to Customers	14 558 110	12 447 441	1 086 899	1 023 770
Due from related parties	1 404 747	1 404 747	-	-
Total gross maximum exposure to credit risk (excluding derivatives)	**19 791 776**	**17 681 107**	**1 086 899**	**1 023 770**
Expected credit losses	(654 425)	(141 942)	(165 339)	(347 144)
Total net exposure to credit risk as disclosed on the statement of financial position	**19 137 351**	**17 539 165**	**921 560**	**676 626**
Assets not subject to IFRS 9 ECL requirements	1 017 156	-	-	-
Total financial assets	**20 154 507**	**17 539 165**	**921 560**	**676 626**
Gross off balance sheet exposures	2 438 677	2 333 002	77 119	28 556
Expected credit losses and provision	(12 598)	(9 343)	(2 883)	(372)
Net off balance sheet exposures	**2 426 079**	**2 323 659**	**74 236**	**28 184**

The write-off amount for the year is P92 096 thousand (2020: 55 764 thousand) refer to note 22.

2021	Gross Maximum Exposure P'000	Company 12 months expected credit losses - stage 1 P'000	Lifetime expected credit losses - stage 2 P'000	Credit impaired - stage 3 P'000
Balances at central banks	515 501	515 501	-	-
Loans and advances to banks	1 183 700	1 183 700	-	-
Financial assets at fair value through OCI	1 969 326	1 969 326	-	-
Loans and advances to customers	15 592 556	13 723 769	1 206 296	662 491
Due from related parties	1 726 432	1 726 432	-	-
Total gross maximum exposure to credit risk (excluding derivatives)	**20 987 515**	**19 118 728**	**1 206 296**	**662 491**
Expected credit losses	(676 511)	(139 684)	(170 169)	(366 660)
Total net exposure to credit risk as disclosed on the statement of financial position	**20 311 004**	**18 979 044**	**1 036 127**	**295 831**
Assets not subject to IFRS 9 ECL requirements	833 402	-	-	-
Total financial assets	**21 144 406**	**18 979 044**	**1 036 127**	**295 831**
Gross off balance sheet exposures	2 975 145	2 975 145	-	-
Expected credit losses and provision	(7 258)	(7 258)	-	-
Net off balance sheet exposures	**2 967 887**	**2 967 887**	**-**	**-**

The following significant changes in the gross carrying amount of loans and advances to customers during the period contributed to changes in the loss allowance:

- The Group did not originate any credit impaired assets during the current reporting period.
- The total write-offs recognised during the current period related predominantly to exposures in the Retail portfolios.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)
46.7 Credit risk (continued)
46.7.1. Maximum credit risk exposure (continued)

2020	Gross Maximum Exposure P'000	Company 12 months expected credit losses - stage 1 P'000	Lifetime expected credit losses - stage 2 P'000	Credit impaired - stage 3 P'000
Balances at central banks	775 791	775 791	-	-
Loans and advances to banks	1 010 676	1 010 676	-	-
Financial assets at fair value through OCI	2 042 452	2 042 452	-	-
Loans and advances to customers	14 558 110	12 447 441	1 086 899	1 023 770
Due from related parties	1 547 378	1 547 378	-	-
Total gross maximum exposure to credit risk (excluding derivatives)	**19 934 407**	**17 823 738**	**1 086 899**	**1 023 770**
Expected credit losses	(654 425)	(141 942)	(165 339)	(347 144)
Total net exposure to credit risk as disclosed on the statement of financial position	**19 279 982**	**17 681 796**	**921 560**	**676 626**
Assets not subject to IFRS 9 ECL requirements	1 017 155	-	-	-
Total financial assets	**20 297 137**	**17 681 796**	**921 560**	**676 626**
Gross off balance sheet exposures	2 438 677	2 333 002	77 119	28 556
Expected credit losses and provision	(12 598)	(9 343)	(2 883)	(372)
Net off balance sheet exposures	**2 426 079**	**2 323 659**	**74 236**	**28 184**

The following significant changes in the gross carrying amount of loans and advances to customers during the period contributed to changes in the loss allowance:

- The Group did not originate any credit impaired assets during the current reporting period.
- The total write-offs recognised during the current period related predominantly to exposures in the Retail portfolios.

46.7.2. Enforcement of collateral

Carrying value of assets held by the Bank at the reporting date as a result of the enforcement of collateral is as follows:

	Consolidated and Company 2021 P'000	2020 P'000
Asset financing- movable property	1 008	1 008
Residential property	16 500	12 531
Balance at the end of the reporting period	**17 508**	**13 539**
Forced sale value of repossessed assets	**17 271**	**18 295**

The policy for financial assets that are written off but still subject to enforcement activity is disclosed under note 2.16.2.

Growth

The loans and advances to customers experienced growth of 7% year-on-year (2020:4%). The growth was mainly driven by expansionary appetite to supported targeted growth on unsecured lending through the scheme platform followed by secured mortgages.

Portfolio Performance

The quality of the retail portfolio improved evidenced by a continued reduction in coverage. The growth in impairment charge in comparison to the previous year is driven mainly by the significant growth of the portfolio and MEV adjustments outline in Note 4. The current normalised year impairment performance has been stable and improving. This was achieved through use of data analytics to enhance collection and lending strategies to navigate against threats of general distress in market caused by economic downturn.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)
46.7 Credit risk (continued)
46.7.3 Loans and advances to customers credit mitigation

	Consolidated					
Analysis of credit risk exposure mitigation and collateral	Gross maximum exposure (excluding impairment) P'000	Guarantees credit insurance and credit derivatives P'000	Physical collateral P'000	Cash collateral P'000	Other P'000	Net unsecured exposure P'000
2021						
On-statement of financial position exposure						
Balances at central bank	515 501	-	-	-	-	515 501
Financial assets at fair value OCI	1 969 326	-	-	-	-	1 969 326
Trading portfolio assets	84 361	-	-	-	-	84 361
Due from related parties	1 698 453	-	-	-	-	1 698 453
Loans and advances to banks	1 183 700	-	-	-	-	1 183 700
Derivative financial assets	27 981	-	-	-	-	27 981
Loans and advances to customers	15 592 556	841 917	2 809 645	344 205	93 619	11 503 170
Other receivables	73 753	-	-	-	-	73 753
Total exposures subject to credit risk	**21 145 631**	**841 917**	**2 809 645**	**344 205**	**93 619**	**17 056 245**
2020						
On-statement of financial position exposure						
On-statement of financial position exposure						
Balances at central bank	775 787	-	-	-	-	775 787
Financial assets at fair value OCI	2 042 452	-	-	-	-	2 042 452
Trading portfolio assets	212 332	-	-	-	-	212 332
Due from related parties	1 404 747	-	-	-	-	1 404 747
Loans and advances to banks	1 010 675	-	-	-	-	1 010 675
Derivative financial assets	48 430	-	-	-	-	48 430
Loans and advances to customers	14 558 110	1 098 880	3 170 677	21 700	265 047	10 001 806
Other receivables	110 610	-	-	-	-	110 610
Total exposures subject to credit risk	**20 163 143**	**1 098 880**	**3 170 677**	**21 700**	**265 047**	**15 606 839**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)
46.7 Credit risk (continued)
46.7.3 Loans and advances to customers credit mitigation (continued)

	Company					
Analysis of credit risk exposure mitigation and collateral	Gross maximum exposure (excluding impairment) P'000	Guarantees credit insurance and credit derivatives P'000	Physical collateral P'000	Cash collateral P'000	Other P'000	Net unsecured exposure P'000
2021						
On-statement of financial position exposure						
Balances at central bank	515 501	-	-	-	-	515 501
Financial assets at fair value OCI	1 969 326	-	-	-	-	1 969 326
Trading portfolio assets	84 361	-	-	-	-	84 361
Due from related parties	1 726 432	-	-	-	-	1 726 432
Loans and advances to banks	1 183 700	-	-	-	-	1 183 700
Derivative financial assets	27 981	-	-	-	-	27 981
Loans and advances to customers	15 592 556	841 917	2 809 645	344 205	93 619	11 503 170
Other receivables	72 922	-	-	-	-	72 922
Total exposures subject to credit risk	**21 172 779**	**841 917**	**2 809 645**	**344 205**	**93 619**	**17 083 393**
2020						
On-statement of financial position exposure						
Balances at central bank	775 787	-	-	-	-	775 787
Financial assets at fair value OCI	2 042 452	-	-	-	-	2 042 452
Trading portfolio assets	212 332	-	-	-	-	212 332
Due from related parties	1 547 378	-	-	-	-	1 547 378
Loans and advances to banks	1 010 675	-	-	-	-	1 010 675
Derivative financial assets	48 430	-	-	-	-	48 430
Loans and advances to customers	14 558 110	1 098 880	3 170 677	21 700	265 047	10 001 806
Other receivables	110 610	-	-	-	-	110 610
Total exposures subject to credit risk	**20 305 774**	**1 098 880**	**3 170 677**	**21 700**	**265 047**	**15 749 470**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)
46.7 Credit risk (continued)

46.7.4 Credit exposure by industry

Consolidated	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000
2021			
Private individuals	10 416 530	-	-
Mining companies	224 399	-	-
Parastatals	125 916	-	-
Private sector	3 835 718	-	-
Financial institutions	989 993	1 183 700	1 698 453
Gross exposure	**15 592 556**	**1 183 700**	**1 698 453**
Expected credit losses	(668 235)	(100)	-
Net exposure	**14 924 321**	**1 183 600**	**1 698 453**
2020			
Private individuals	9 647 635	-	-
Mining companies	317 524	-	-
Parastatals	61 483	-	-
Private sector	3 467 670	-	-
Financial institutions	1 063 799	1 010 675	1 404 748
Gross exposure	**14 558 111**	**1 010 675**	**1 404 748**
Expected credit losses	(653 801)	(142)	(252)
Net exposure	**13 904 310**	**1 010 533**	**1 404 496**

Company	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000
2021			
Private individuals	10 416 530	-	-
Mining companies	224 399	-	-
Parastatals	125 916	-	-
Private sector	3 835 718	-	-
Financial institutions	989 993	1 183 700	1 726 432
Gross exposure	**15 592 556**	**1 183 700**	**1 726 432**
Expected credit losses	(668 235)	(100)	-
Net exposure	**14 924 321**	**1 183 600**	**1 726 432**
2020			
Private individuals	9 647 635	-	-
Mining companies	317 524	-	-
Parastatals	61 483	-	-
Private sector	3 467 670	-	-
Financial institutions	1 063 799	1 010 675	1 547 378
Gross exposure	**14 558 111**	**1 010 675**	**1 547 378**
Expected credit losses	(653 801)	(142)	(252)
Net exposure	**13 904 310**	**1 010 533**	**1 547 126**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

Derivative financial instruments P'000	Balances at central bank P'000	Financial assets at fair value through OCI P'000	Trading portfolio assets P'000	Other receivables P'000	Total P'000
-	-	-	-	-	10 416 530
-	-	-	-	-	224 399
-	-	-	-	-	125 916
-	-	-	-	-	3 835 718
27 981	515 501	1 969 326	84 361	73 753	6 543 068
27 981	**515 501**	**1 969 326**	**84 361**	**73 753**	**21 145 631**
-	-	(918)	-	-	(669 253)
27 981	**515 501**	**1 968 408**	**84 361**	**73 753**	**20 476 378**
-	-	-	-	-	9 647 635
-	-	-	-	-	317 524
-	-	-	-	-	61 483
-	-	-	-	-	3 467 670
48 430	775 790	2 042 452	212 332	110 610	6 668 836
48 430	**775 790**	**2 042 452**	**212 332**	**110 610**	**20 163 148**
-	(3)	(227)	-	-	(654 425)
48 430	**775 787**	**2 042 225**	**212 332**	**110 610**	**19 508 723**

Derivative financial instruments P'000	Balances at central bank P'000	Financial assets at fair value through OCI P'000	Trading portfolio assets P'000	Other receivables P'000	Total P'000
-	-	-	-	-	10 416 530
-	-	-	-	-	224 399
-	-	-	-	-	125 916
-	-	-	-	-	3 835 718
27 981	515 501	1 969 326	84 361	73 753	6 571 047
27 981	**515 501**	**1 969 326**	**84 361**	**73 753**	**21 173 610**
-	-	(918)	-	-	(669 253)
27 981	**515 501**	**1 968 408**	**84 361**	**73 753**	**20 504 357**
-	-	-	-	-	9 647 635
-	-	-	-	-	317 524
-	-	-	-	-	61 483
-	-	-	-	-	3 467 670
48 430	775 790	2 042 452	212 332	110 610	6 811 466
48 430	**775 790**	**2 042 452**	**212 332**	**110 610**	**20 305 778**
-	(3)	(227)	-	-	(654 425)
48 430	**775 787**	**2 042 225**	**212 332**	**110 610**	**19 651 353**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)
46.7 Credit risk (continued)

46.7.5 Credit exposure by area

Consolidated	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000
2021			
Botswana	15 592 556	431 880	-
South Africa	-	27	1 698 453
SADC	-	-	-
UK	-	144 974	-
Europe	-	220 135	-
Other	-	2 336	-
USA	-	384 348	-
Gross exposure	**15 592 556**	**1 183 700**	**1 698 453**
Expected credit losses	**(668 235)**	**(100)**	**-**
Net Exposure	**14 924 321**	**1 183 600**	**1 698 453**
2020			
Botswana	14 558 111	243 547	-
South Africa	-	66 765	1 404 748
SADC	-	49	-
UK	-	239 218	-
Europe	-	269 971	-
Other	-	1 615	-
USA	-	189 510	-
Gross Exposure	**14 558 111**	**1 010 675**	**1 404 748**
Expected credit losses	**(653 801)**	**(142)**	**(252)**
Net Exposure	**13 904 310**	**1 010 533**	**1 404 496**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

Derivative financial instruments P'000	Balances at central bank P'000	Financial assets at fair value through OCI P'000	Trading portfolio assets P'000	Other receivables P'000	Total P'000
27 981	515 501	1 969 326	84 361	73 753	18 695 358
-	-	-	-	-	1 698 480
-	-	-	-	-	-
-	-	-	-	-	144 974
-	-	-	-	-	220 135
-	-	-	-	-	2 336
-	-	-	-	-	384 348
27 981	**515 501**	**1 969 326**	**84 361**	**73 753**	**21 145 631**
-	**-**	**(918)**	**-**	**-**	**(669 253)**
27 981	**515 501**	**1 968 408**	**84 361**	**73 753**	**20 476 378**

48 430	775 790	2 042 452	212 332	110 610	17 991 272
-	-	-	-	-	1 471 513
-	-	-	-	-	49
-	-	-	-	-	239 218
-	-	-	-	-	269 971
-	-	-	-	-	1 615
-	-	-	-	-	189 510
48 430	**775 790**	**2 042 452**	**212 332**	**110 610**	**20 163 148**
-	**(3)**	**(227)**	**-**	**-**	**(654 425)**
48 430	**775 787**	**2 042 225**	**212 332**	**110 610**	**19 508 723**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)
46.7 Credit risk (continued)
46.7.5 Credit exposure by area (continued)

Company	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000
2021			
Botswana	15 592 556	431 880	-
South Africa	-	27	1 726 432
SADC	-	-	-
UK	-	144 974	-
Europe	-	220 135	-
Other	-	2 336	-
USA	-	384 348	-
Gross Exposure	**15 592 556**	**1 183 700**	**1 726 432**
Expected credit losses	**(668 235)**	**(100)**	**-**
Net Exposure	**14 924 321**	**1 183 600**	**1 726 432**
2020			
Botswana	14 558 111	243 547	-
South Africa	-	66 765	1 547 378
SADC	-	49	-
UK	-	239 218	-
Europe	-	269 971	-
Other	-	1 615	-
USA	-	189 510	-
Gross Exposure	**14 558 111**	**1 010 675**	**1 547 378**
Expected credit losses	**(653 801)**	**(142)**	**(252)**
Net Exposure	**13 904 310**	**1 010 533**	**1 547 126**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

Derivative financial instruments P'000	Balances at central bank P'000	Financial assets at fair value through OCI P'000	Trading portfolio assets P'000	Other receivables P'000	Total P'000
27 981	515 501	1 969 326	84 361	72 922	18 694 527
-	-	-	-	-	1 726 459
-	-	-	-	-	-
-	-	-	-	-	144 974
-	-	-	-	-	220 135
-	-	-	-	-	2 336
-	-	-	-	-	384 348
27 981	**515 501**	**1 969 326**	**84 361**	**72 922**	**21 172 779**
-	**-**	**(918)**	**-**	**-**	**(669 253)**
27 981	**515 501**	**1 968 408**	**84 361**	**72 922**	**20 503 526**
48 430	775 790	2 042 452	212 332	110 610	17 991 272
-	-	-	-	-	1 614 143
-	-	-	-	-	49
-	-	-	-	-	239 218
-	-	-	-	-	269 971
-	-	-	-	-	1 615
-	-	-	-	-	189 510
48 430	**775 790**	**2 042 452**	**212 332**	**110 610**	**20 305 778**
-	**(3)**	**(227)**	**-**	**-**	**(654 425)**
48 430	**775 787**	**2 042 225**	**212 332**	**110 610**	**19 651 353**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)
46.7 Credit risk (continued)

46.7.6 Off – Balance sheet industrial analysis

	Consolidated and Company Commitments not on the statement of financial position	
	P'000 2021	P'000 2020
Private individuals	398 295	376 308
Mining companies	92 397	208 850
Parastatals	50 814	31 455
Private sector	1 974 717	1 809 738
Financial institutions	458 922	24 924
Gross Exposure	**2 975 145**	**2 451 275**
Expected credit losses	(7 258)	(12 598)
Net exposure	**2 967 887**	**2 438 677**

46.8 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors which has established an appropriate liquidity risk management framework for the management of the Group's short medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and by matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Consolidated	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2021								
Assets								
Cash	640 880	-	-	-	-	640 880	-	640 880
Balances at central banks	515 503	-	-	-	-	515 503	(2)	515 501
Trading portfolio assets	-	-	-	77 208	7 153	84 361	-	84 361
Fair value through OCI Investments	1 387 237	49 983	531 188	-	-	1 968 408	-	1 968 408
Loans and advances to banks	1 183 603	-	-	-	-	1 183 603	(3)	1 183 600
Due from related parties	1 115 609	469 959	113 009	-	-	1 698 577	(124)	1 698 453
Loans and advances to customers	1 111 872	1 419 263	-	5 411 253	7 025 719	14 968 107	(43 786)	14 924 321
Other assets	-	-	73 753	-	-	73 753	-	73 753
Total assets	**5 954 704**	**1 939 205**	**717 950**	**5 488 461**	**7 032 872**	**21 133 192**	**(43 915)**	**21 089 277**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.8 Liquidity risk (continued)

Consolidated	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2021								
Liabilities								
Due to related parties	-	-	-	317 983	-	317 983	(453)	317 530
Customer accounts	13 103 148	1 701 557	2 277 061	592 895	-	17 674 661	(1 275 108)	16 399 553
Debt Securities in issue	-	30 000	154 200	159 580	-	343 780	(2 702)	341 078
Subordinated debt	-	-	-	490 853	108 052	598 905	(5 462)	593 443
Deposits form Banks	670 246	100 000	23 498	-	-	793 744	(14)	793 730
Other payables	317 338	-	-	-	-	317 338	-	317 338
Total liabilities	**14 090 732**	**1 831 557**	**2 454 759**	**1 561 311**	**108 052**	**20 016 411**	**(1 283 739)**	**18 762 672**
Off balance sheet	2 975 145	-	-	-	-	2 975 145	-	2 975 145
Total liabilities exposure	**17 065 877**	**1 831 557**	**2 454 759**	**1 561 311**	**108 052**	**22 991 556**	**(1 283 739)**	**21 707 817**
Liquidity gap (excluding derivatives)	**(11 111 173)**	**107 648**	**(1 736 809)**	**3 927 150**	**6 924 820**	**(1 858 364)**	**1 239 824**	**(618 540)**

Consolidated	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2020								
Assets								
Cash	645 784	-	-	-	-	645 784	-	645 784
Balances at central banks	775 790	-	-	-	-	775 790	(3)	775 787
Trading portfolio assets	-	-	-	137 486	74 846	212 332	-	212 332
Fair Value through OCI Investments	749 914	219 917	229 064	-	843 330	2 042 225	-	2 042 225
Loans and advances to banks	766 940	243 594	-	-	-	1 010 534	(1)	1 010 533
Due from related parties	1 221 923	324 262	1 092	-	-	1 547 277	(151)	1 547 126
Loans and advances to customers	1 329 565	494 704	698 497	4 887 878	6 543 337	13 953 981	(49 671)	13 904 310
Other assets	-	-	110 610	-	-	110 610	-	110 610
	5 489 916	**1 282 477**	**1 039 263**	**5 025 364**	**7 461 513**	**20 298 533**	**(49 826)**	**20 248 707**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.8 Liquidity risk (continued)

Consolidated	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2020								
Liabilities								
Due to related parties	351 411	-	-	-	-	351 411	(453)	350 958
Customer accounts	12 760 727	1 402 513	2 706 258	308 757	-	17 178 255	(1 275 108)	15 903 147
Debt Securities in issue	-	-	417	1 264	395 213	396 894	(2 702)	394 192
Subordinated debt	-	-	-	-	579 938	579 938	(5 462)	574 476
Deposits form Banks	244 218	309 419	-	-	-	553 637	(14)	553 623
Other payables	350 848	-	-	-	-	350 848	-	350 848
Total liabilities	**13 707 204**	**1 711 932**	**2 706 675**	**310 021**	**975 151**	**19 410 983**	**(1 283 739)**	**18 127 244**
Off balance sheet	2 438 677	-	-	-	-	2 438 677	-	2 438 677
Total liabilities exposure	**16 145 881**	**1 711 932**	**2 706 675**	**310 021**	**975 151**	**21 849 660**	**(1 283 739)**	**20 565 921**
Liquidity gap (excluding derivatives)	**(10 798 595)**	**(429 455)**	**(1 667 412)**	**4 715 343**	**6 486 362**	**(1 693 757)**	**1 233 913**	**(459 844)**

Company	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2021								
Assets								
Cash	640 880	-	-	-	-	640 880	-	640 880
Balances at central banks	515 503	-	-	-	-	515 503	(2)	515 501
Trading portfolio assets	-	-	-	77 208	7 153	84 361	-	84 361
Fair Value through OCI Investments	1 387 237	49 983	531 188	-	-	1 968 408	-	1 968 408
Loans and advances to banks	1 183 603	-	-	-	-	1 183 603	(3)	1 183 600
Due from related parties	1 115 485	469 959	141 112	-	-	1 726 556	(124)	1 726 432
Loans and advances to customers	1 108 336	1 419 263	-	5 411 253	7 029 255	14 968 107	(43 786)	14 924 321
Other assets	-	-	72 922	-	-	72 922	-	72 922
	5 951 044	**1 939 205**	**745 222**	**5 488 461**	**7 036 408**	**21 160 340**	**(43 915)**	**21 116 425**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.8 Liquidity risk (continued)

Company	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2021								
Liabilities								
Due to related parties	-	-	-	412 532	-	412 532	(453)	412 079
Customer accounts	11 828 040	1 701 557	2 277 061	1 868 003	-	17 674 661	(1 275 108)	16 399 553
Debt Securities in issue	-	-	-	2 702	341 078	343 780	(2 702)	341 078
Subordinated debt	-	-	-	-	598 905	598 905	(5 462)	593 443
Deposits from banks	667 124	100 000	26 620	-	-	793 744	(14)	793 730
Other payables	317 428	-	-	-	-	317 428	-	317 428
Total liabilities	**12 812 592**	**1 801 557**	**2 303 681**	**2 283 237**	**939 983**	**20 141 050**	**(1 283 739)**	**18 857 311**
Off balance sheet	2 975 145	-	-	-	-	2 975 145	-	2 975 145
Total liabilities exposure	**15 787 737**	**1 801 557**	**2 303 681**	**2 283 237**	**939 983**	**23 116 195**	**(1 283 739)**	**21 832 456**
Liquidity gap (excluding derivatives)	**(9 836 693)**	**137 648**	**(1 558 459)**	**3 205 224**	**6 096 425**	**(1 955 855)**	**1 239 824**	**(716 031)**

Company	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2020								
Assets								
Cash	645 784	-	-	-	-	645 784	-	645 784
Balances at central banks	775 790	-	-	-	-	775 790	(3)	775 787
Trading portfolio assets	-	-	-	137 486	74 846	212 332	-	212 332
Fair Value through OCI Investments	749 914	219 917	229 064	-	843 330	2 042 225	-	2 042 225
Loans and advances to banks	766 940	243 594	-	-	-	1 010 534	(1)	1 010 533
Due from related parties	1 221 923	324 262	1 092	-	-	1 547 277	(151)	1 547 126
Loans and advances to customers	1 329 565	494 704	698 497	4 887 878	6 543 337	13 953 981	(49 671)	13 904 310
Other assets	-	-	110 610	-	-	110 610	-	110 610
	5 489 916	**1 282 477**	**1 039 263**	**5 025 364**	**7 461 513**	**20 298 533**	**(49 826)**	**20 248 707**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)
46.8 Liquidity risk (continued)

Company	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2020								
Liabilities								
Due to related parties	537 263	-	-	-	-	537 263	(453)	536 810
Customer accounts	12 760 727	1 402 513	2 706 258	308 757	-	17 178 255	(1 275 108)	15 903 147
Debt Securities in issue	-	-	417	1 264	395 213	396 894	(2 702)	394 192
Subordinated debt	-	-	-	-	579 938	579 938	(5 462)	574 476
Deposits from banks	244 218	309 419	-	-	-	553 637	(14)	553 623
Other payables	350 848	-	-	-	-	350 848	-	350 848
Total liabilities	**13 893 056**	**1 711 932**	**2 706 675**	**310 021**	**975 151**	**19 596 835**	**(1 283 739)**	**18 313 096**
Off balance sheet	2 438 677	-	-	-	-	2 438 677	-	2 438 677
Total liabilities exposure	**16 331 733**	**1 711 932**	**2 706 675**	**310 021**	**975 151**	**22 035 512**	**(1 283 739)**	**20 751 773**
Liquidity gap (excluding derivatives)	**(10 841 817)**	**(429 455)**	**(1 667 412)**	**4 715 343**	**6 486 362**	**(1 736 979)**	**1 233 913**	**(503 066)**

The following table details the Group's liquidity analysis for its derivative instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period.

	Consolidated and Company	
	Less than 1 year P'000	Total P'000
2021		
Gross settled:		
Derivative financial assets	3 304 675	3 304 675
Derivative financial liabilities	4 251 250	4 251 250
2020		
Gross settled:		
Derivative financial assets	1 724 040	1 724 040
Derivative financial liabilities	1 671 975	1 671 975

Stress liquidity risk

Stress liquidity risk management refers to the management of liquidity risk during times of unexpected outflows arising from bank specific or systemic stress events. Treasury regularly performs liquidity scenario analyses and stress tests to assess the adequacy of the Group's stress funding sources liquidity buffers and contingency funding strategies in the event of such a stressed scenario. Scenario analysis and stress testing encompasses a range of realistic adverse events which while remote could have a material impact on the liquidity of the Bank's operations.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

46. Risk management (continued)

46.8 Liquidity risk (continued)

Stress liquidity risk (continued)

Through scenario analysis and stress testing, the Bank aims to manage and mitigate liquidity risk by:
- determining, evaluating and testing the impact of adverse liquidity scenarios;
- identifying appropriate rapid and effective responses to a crisis; and
- setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk.

The Bank's overall objective is to ensure that during a liquidity stress event the Group's stress funding sources and liquidity buffers exceed the estimated stress funding requirements for a period of at least 30 days. Stress testing and scenario analysis are used to evaluate the efficiency of identified sources of stress funding along a continuum of risk scenarios and to formulate and test contingency plans. A detailed contingent funding and liquidity plan has been designed to protect depositors creditors and shareholders during adverse liquidity conditions. The plan includes early warning indicators and sets out the crisis response strategy addressing sources of stress funding strategies for crisis avoidance/minimisation and the internal and external communication strategy. Liquidity simulation exercises are conducted regularly to test the robustness of the plan and to ensure that key stakeholders remain up to date on liquidity matters.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. To monitor the percentage of long-term assets maturing after 1 year as a percentage of total liabilities a medium-term mismatch ratio for both foreign currency and local currency is performed individually. 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. A similar but not identical calculation is used to measure the Group's compliance with the liquidity limit established by the Group's lead regulator the Bank of Botswana. Primary reserve held is 2.5% of net local currency deposits and liquid asset ratio is 10% of net local currency deposits.

	Consolidated and Company	
	2021	2020
At 31 December		
Foreign currency	(6)%	14%
Local currency	35%	37%
Average for the period		
Foreign currency	(6)%	12%
Local currency	38%	36%
Maximum for the period		
Foreign currency	(4)%	14%
Local currency	41%	45%
Minimum for the period		
Foreign currency	(9)%	3%
Local currency	34%	30%

47. Fair value of financial instruments not held at fair value

All of the below financial assets and financial liabilities have carrying amounts that approximate their fair values except for debt securities in issue and subordinated debt.

The disclosed fair value of these financial assets and financial liabilities measured at amortised cost approximate their carrying value for the following reasons:

- The loans and advances carrying amount approximates fair value by use of expected cash flows and the frequent repricing of instruments
- The deposits, debt securities in issue and borrowed funds fair value of amortised cost deposits repayable on demand is considered to the equal to their carrying value
- Other financial assets liabilities are short-term in nature or have interest rates that reprice frequently

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

47. Fair value of financial instruments not held at fair value (continued)

Consolidated	2021 Carrying amount P'000	2021 Fair value P'000	2020 Carrying amount P'000	2020 Fair value P'000
Financial Assets				
Cash	640 880	640 880	645 784	645 784
Balances at central bank	515 501	515 501	775 787	775 783
Due from related companies	1 698 453	1 698 453	1 404 496	1 351 115
Loans and advances to banks	1 183 600	1 183 600	1 010 533	1 194 256
Loans and advances to customers	14 924 321	14 924 321	13 904 310	13 904 310
Other receivables	73 753	73 753	110 610	110 610
Total	**19 036 508**	**19 036 508**	**17 851 520**	**17 981 858**
Financial liabilities				
Deposits from banks	793 730	793 730	553 623	532 754
Due from related companies	317 530	317 530	350 958	333 029
Deposits due to customers	16 399 553	16 399 553	15 903 147	15 907 479
Debt securities in issue	341 078	458 473	394 192	394 192
Other payables	317 338	317 338	350 848	350 848
Subordinated debt	593 443	593 443	574 476	574 476
Total	**18 762 672**	**18 880 067**	**18 127 244**	**18 092 778**

Company	2021 Carrying amount P'000	2021 Fair value P'000	2020 Carrying amount P'000	2020 Fair value P'000
Financial Assets				
Cash	640 880	640 880	645 784	645 784
Balances at central bank	515 501	515 501	775 787	775 787
Due from related companies	1 726 432	1 726 432	1 547 126	1 493 745
Loans and advances to banks	1 183 600	1 183 600	1 010 533	1 010 533
Loans and advances to customers	14 924 321	14 924 321	13 904 310	13 904 310
Other receivables	72 922	72 922	110 610	110 610
Total	**19 063 656**	**19 063 656**	**17 994 150**	**17 940 769**
Financial liabilities				
Deposits from banks	793 730	793 730	553 623	553 623
Due from related companies	412 079	412 079	536 810	518 881
Deposits due to customers	16 399 553	16 399 553	15 903 147	15 903 147
Debt securities in issue	341 078	458 473	394 192	394 192
Other payables	317 428	317 428	350 848	350 848
Subordinated debt	593 443	511 971	574 476	574 476
Total	**18 857 311**	**18 893 234**	**18 313 096**	**18 295 167**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

47. Fair value of financial instruments not held at fair value (continued)

47.1. Fair value hierarchy

The following table provides an analysis of the Group's financial assets and financial liabilities that are not measured at fair value subsequent to initial recognition, Grouped into Levels 1 to 3 based on the degree to which the instrument's fair value is observable. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are defined below.

Level 1

Items valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis

Level 2

Items valued using inputs other than quoted prices as described above for Level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/corroborated by observable market data.

Level 3

Items valued using significant inputs that are not only based on observable market data. These include inputs based on an entity's own assumptions and assumptions applied by other market participants in pricing similar assets.

The following table presents information about the valuation techniques and significant unobservable inputs used in measuring assets and liabilities categorised as Level 3 in the fair value hierarchy:

Consolidated

Category of asset/liability	Valuation techniques applied	Significant unobservable inputs	2021	2020
			Range of unobservable inputs applied	
Loans and advances to banks and customers	Discounted cash flow and/or yield for debt instruments	Credit spreads	1.4% to 3.7%	0.513% to 3.235%
Investment securities and investments linked to investment contracts	Discounted cash flow models third-party valuations earnings multiples and/or income capitalisation valuations	Risk adjusted yield curves future earnings marketability discounts and/or competitor multiples	8.5%	Discount rate of 7.75% to 8%
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	0.04% - 4.55%	0.5-12.8%%
Derivative assets	-	-	-	-
Deposits due to customers	Discounted cash flow models	Absa Group Limited's funding spreads (greater than 5 years)	1.15% - 1.6%	1.13% to 1.7%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	1.15% - 1.6%	1.13% to 1.7%

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

47. Fair value of financial instruments not held at fair value (continued)

47.1. Fair value hierarchy (continued)

Consolidated	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2021				
Financial assets				
Cash	640 880	-	-	640 880
Balances at central bank	515 501	-	-	515 501
Balances with related parties	-	1 698 453	-	1 698 453
Loans and advances to banks	-	1 183 600	-	1 183 600
Loans and advances to customers	-	973 625	13 950 696	14 924 321
	1 156 381	**3 855 678**	**13 950 696**	**18 962 755**
Financial liabilities				
Deposits from banks	-	793 730	-	793 730
Balances with related parties	-	317 530	-	317 530
Deposits due to customers	-	16 399 553	-	16 399 553
Debt securities in issue	-	341 078	-	341 078
Subordinated debt	-	593 443	-	593 443
	-	**18 445 334**	**-**	**18 445 334**

Consolidated	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2020				
Financial assets				
Cash	645 784	-	-	645 784
Balances at central bank	775 787	-	-	775 787
Balances with related parties	-	1 404 496	-	1 404 496
Loans and advances to banks	-	1 010 533	-	1 010 533
Loans and advances to customers	-	973 625	12 930 685	13 904 310
	1 421 571	**3 388 654**	**12 930 685**	**17 740 910**
Financial liabilities				
Deposits from banks	-	553 623	-	553 623
Balances with related parties	-	350 958	-	350 958
Deposits due to customers	-	15 903 147	-	15 903 147
Debt securities in issue	-	394 192	-	394 192
Subordinated debt	-	574 476	-	574 476
	-	**17 776 396**	**-**	**17 776 396**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

47. Fair value of financial instruments not held at fair value (continued)

47.1. Fair value hierarchy (continued)

Company	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2021				
Financial assets				
Cash	640 880	-	-	640 880
Balances at central bank	515 501	-	-	515 501
Balances with related parties	-	1 726 432	-	1 726 432
Loans and advances to banks	-	1 183 600	-	1 183 600
Loans and advances to customers	-	973 625	13 950 696	14 924 321
	1 156 381	**3 883 657**	**13 950 696**	**18 990 734**
Financial liabilities				
Deposits from banks	-	793 730	-	793 730
Balances with related parties	-	412 079	-	412 079
Deposits due to customers	-	16 399 553	-	16 399 553
Debt securities in issue	-	341 078	-	341 078
Subordinated debt	-	593 443	-	593 443
	-	**18 539 883**	**-**	**18 539 883**

Company	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2020				
Financial assets				
Cash	645 784	-	-	645 784
Balances at central bank	775 787	-	-	775 787
Balances with related parties	-	1 404 496	142 630	1 547 126
Loans and advances to banks	-	1 010 533	-	1 010 533
Loans and advances to customers	-	973 625	12 930 685	13 904 310
	1 421 571	**3 388 654**	**13 073 315**	**17 883 540**
Financial liabilities				
Deposits from banks	-	553 623	-	553 623
Balances with related parties	-	337 422	199 388	536 810
Deposits due to customers	-	15 903 147	-	15 903 147
Debt securities in issue	-	394 192	-	394 192
Subordinated debt	-	574 476	-	574 476
	-	**17 762 860**	**199 388**	**17 962 248**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

48. Financial instruments measured at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value Grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Consolidated and Company	Level 1 P'000	Level 2 P'000	Total P'000
2021			
Recurring fair value measurements			
Financial assets			
Derivative financial instruments	-	27 981	27 981
Trading portfolio assets	-	84 361	84 361
	-	**112 342**	**112 342**
Fair value through other comprehensive income			
Treasury bills and other eligible bills	1 230 895	-	1 230 895
Treasury bonds	738 431	-	738 431
	1 969 326	**-**	**1 969 326**
Financial liabilities			
Fair value through profit or loss			
Derivative financial instruments	-	43 151	43 151
	-	**43 151**	**43 151**

Consolidated and Company	Level 1 P'000	Level 2 P'000	Total P'000
2020			
Financial assets			
Derivative financial instruments	-	48 430	48 430
Trading portfolio assets	-	212 332	212 332
	-	**260 762**	**260 762**
Fair value through other comprehensive income			
Treasury bills and other eligible bills	1 199 029	-	1 199 029
Treasury bonds	843 423	-	843 423
	2 042 452	**-**	**2 042 452**
Financial liabilities			
Fair value through profit or loss - Held for trading			
Derivative financial instruments	-	42 396	42 396
	-	**42 396**	**42 396**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

48. Financial instruments measured at fair value (continued)

Sensitivity analysis of valuations using unobservable inputs

As part of the Group's risk management processes we perform a sensitivity analysis on the significant unobservable parameters in order to determine the impact of reasonably possible alternative assumptions on the valuation of level 3 financial assets and liabilities. The assets and liabilities that impact this sensitivity analysis most are those with more illiquid and/or structured portfolios. The alternatives assumptions are applied independently and do not take account of any cross correlation between assumptions that would reduce the overall effect on the valuations.

The following tables reflects the reasonable possible variances applied to significant parameters utilized in our valuations:

Significant unobservable parameter	Positive/ (negative) variance applied to parameters
Credit spreads	100/(100) bps
Volatilities	10/(10) %
Basis curves	100/(100) bps
Yield curves and repo curves	100/(100) bps
parameters Future earnings and marketability discounts	15/(15) %
Funding spreads	100/(100) bps

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

49. Segmental reporting

The Group comprises the following main business segments:

- Corporate and Investment Banking **(CIB)**
- Retail, Business Banking and Other **(RBB)**

The Group has identified its reportable segments based on a combination of products and services offered to customers and clients and in the manner in which the Group's businesses are managed and reported to the CODM.

The following summary describes the operations in each of the Group's reportable segments:

CIB: This segment offers corporate and investment banking solutions. The business models centre on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and Government clients. Corporate and Markets have been aggregated into CIB.

RBB: This segment provides a comprehensive range of commercial banking products and services to medium, small businesses and retail customers. Retail, Business Banking, Head Office and Treasury have been aggregated into the RBB segment. Absa Insurance Services (Pty) Ltd is included in this segment.

Retail Banking: offers various products and services to customers through the following divisions:
- Home Loans: offers residential property-related finance solutions to customers.
- Vehicle and Asset Finance (VAF): offers customised vehicle and asset finance products and services through vehicle dealers as well as directly to retail and business customers.
- Card: provides credit cards and merchant acquiring. It includes financial services, which offers credit cards.
- Personal Loans: offers unsecured instalment loans
- Transactional and Deposits: offers a range of transactional banking, savings and investment products, customer loyalty programme and services.
- Other: head office costs, which are non-banking costs.

Other reconciling items
Barclays PLC separation costs: In the prior year, Barclays PLC separation costs were disclosed separately to differentiate between the normal business activities and the impact of separation. The Barclays PLC separation costs in prior year were P83.9 million for both Consolidated and Company financials. Since separation was concluded, the Group did not have any further exposure in 2021.

Segment results
The measurement of segment results is in line with the basis of information presented to the chief operating decision maker (CODM) for internal management reporting purposes.

Assets excluding loans and advances to customers, financial instruments, trading portfolio assets and derivative instruments and liabilities excluding deposits due to customers, derivative financial instruments and debt securities in issue are not identifiable to any one of the reportable segments and can be used interchangeably between segments. As a result, these are not reviewed by the chief operating decision maker. Therefore, segmental disclosure relating to these has not been provided.

All transactions between segments are carried out in the normal course of business. Our management reporting systems report our inter-segment service as a cost reduction and do not recognise them as internal revenue. Inter-segment service mainly represent utilisation of manpower resource of one segment by another on a project-by-project basis. Inter-segment services are charged based on an internal cost rate including certain indirect and direct overhead costs, but without profit margin.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

49. Segmental reporting (continued)

49.1 Statement of financial position

Consolidated	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Other P'000	Total P'000
2021				
Assets				
Derivative financial instruments	-	27 981	-	27 981
Fair value through OCI	1 968 408	-	-	1 968 408
Loans and advances to customers	11 057 642	3 866 679	-	14 924 321
Trading portfolio assets	-	84 361	-	84 361
Other assets	-	-	4 515 980	4 515 980
Total	**13 026 050**	**3 979 021**	**4 515 980**	**21 521 051**
Liabilities				
Customer accounts	10 113 522	6 286 031	-	16 399 553
Derivative financial instruments	-	43 151	-	43 151
Debt securities in issue	341 078	-	-	341 078
Subordinated debt	593 443	-	-	593 443
Other liabilities	-	-	1 574 420	1 574 420
Total	**11 048 043**	**6 329 182**	**1 574 420**	**18 951 645**
2020				
Assets				
Derivative financial instruments	-	48 430	-	48 430
Fair value through OCI	2 042 225	-	-	2 042 225
Loans and advances to customers	10 098 810	3 805 500	-	13 904 310
Trading portfolio assets	-	212 332	-	212 332
Other assets	-	-	4 360 572	4 360 572
Total	**12 141 035**	**4 066 262**	**4 360 572**	**20 567 869**
Liabilities				
Customer accounts	9 079 250	6 823 897	-	15 903 147
Derivative financial instruments	-	42 396	-	42 396
Debt securities in issue	394 192	-	-	394 192
Subordinated debt	574 476	-	-	574 476
Other liabilities	-	-	1 318 267	1 318 267
Total	**10 047 918**	**6 866 293**	**1 318 267**	**18 232 478**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

49. Segmental reporting (continued)

49.1 Statement of financial position (continued)

Company	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Other P'000	Total P'000
2021				
Assets				
Derivative financial instruments	-	27 981	-	27 981
Fair value through OCI	1 968 408	-	-	1 968 408
Loans and advances to customers	11 057 645	3 866 676	-	14 924 321
Trading portfolio assets	-	84 361	-	84 361
Other assets	-	-	4 541 493	4 541 493
Total	**13 026 053**	**3 979 018**	**4 541 493**	**21 546 564**
Liabilities				
Customer accounts	10 131 521	6 268 031	-	16 399 552
Derivative financial instruments	-	43 151	-	43 151
Debt securities in issue	341 078	-	-	341 078
Subordinated debt	593 443	-	-	593 443
Other liabilities	-	-	1 658 185	1 658 185
Total	**11 066 042**	**6 311 182**	**1 658 185**	**19 035 409**
2020				
Assets				
Derivative financial instruments	-	48 430	-	48 430
Fair value through OCI	2 042 225	-	-	2 042 225
Loans and advances to customers	10 098 810	3 805 500	-	13 904 310
Trading portfolio assets	-	212 332	-	212 332
Other assets	-	-	4 360 572	4 360 572
Total	**12 141 035**	**4 066 262**	**4 360 572**	**20 567 869**
Liabilities				
Customer accounts	9 079 250	6 823 897	-	15 903 147
Derivative financial instruments	-	42 396	-	42 396
Debt securities in issue	394 192	-	-	394 192
Subordinated debt	574 476	-	-	574 476
Other liabilities	-	-	1 493 797	1 493 797
Total	**10 047 918**	**6 866 293**	**1 493 797**	**18 408 008**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

49. Segmental reporting (continued)

49.2 Statement of comprehensive income

Consolidated	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Other P'000	Total P'000
2021				
Net interest income	800 681	247 723	-	1 048 404
Net fee and commission income	390 432	41 739	-	432 171
Net trading income and other income	38 596	130 030	-	168 626
Total income	**1 229 709**	**419 492**	**-**	**1 649 201**
Expected credit losses	(99 247)	19 772	-	(79 475)
Net operating income	**1 130 462**	**439 264**	**-**	**1 569 726**
Operating expenses	(641 304)	(194 377)	-	(835 681)
Depreciation of PPE and right of use asset	(72 477)	(723)	-	(73 200)
Amortisation of intangible assets	(1 538)	-	-	(1 538)
Total expenses	**(715 319)**	**(195 100)**	**-**	**(910 419)**
Profit before tax	**415 143**	**244 164**	**-**	**659 307**
Taxation	(102 999)	(53 716)	-	(156 715)
Profit for the year	**312 144**	**190 448**	**-**	**502 592**
2020				
Net interest income	801 054	253 949	-	1 055 003
Net fee and commission income	337 889	40 655	-	378 544
Net trading income and other income	28 405	113 637	-	142 042
Total income	**1 167 348**	**408 241**	**-**	**1 575 589**
Expected credit losses	(220 718)	(42 517)	-	(263 235)
Net operating income	**946 630**	**365 724**	**-**	**1 312 354**
Operating expenses	(666 538)	(135 556)	(83 923)	(886 017)
Depreciation of PPE and right of use asset	(60 842)	(900)	-	(61 742)
Amortisation of intangible assets	(652)	-	-	(652)
Total expenses	**(728 032)**	**(136 456)**	**(83 923)**	**(948 411)**
Profit before tax	**218 598**	**229 268**	**(83 923)**	**363 943**
Taxation	(60 278)	(25 382)	18 463	(67 197)
Profit for the year	**158 320**	**203 886**	**(65 460)**	**296 746**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

49. Segmental reporting (continued)

49.2 Statement of comprehensive income (continued)

Company	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Barclays PLC Transactional Costs P'000	Total P'000
2021				
Net interest income	800 681	247 723	-	1 048 404
Net fee and commission income	334 109	41 739	-	375 848
Net trading income and other income	66 782	130 030	-	196 812
Total income	**1 201 572**	**419 492**	**-**	**1 621 064**
Expected credit losses	(99 247)	19 772	-	(79 475)
Net operating income	**1 102 325**	**439 264**	**-**	**1 541 589**
Operating expenses	(641 574)	(194 377)	-	(835 951)
Depreciation of PPE and right of use asset	(72 477)	(723)	-	(73 200)
Amortisation of intangible assets	(1 538)	-	-	(1 538)
Total expenses	**(715 589)**	**(195 100)**	**-**	**(910 689)**
Profit before tax	**386 736**	**244 164**	**-**	**630 900**
Taxation	(99 855)	(53 716)	-	(153 571)
Profit for the year	**286 881**	**190 448**	**-**	**477 329**

Company	Retail and Business Banking P'000	Corporate and Investment Banking P'000	Barclays PLC Transactional Costs P'000	Total P'000
2020				
Net interest income	801 054	253 949	-	1 055 003
Net fee and commission income	290 293	40 655	-	330 948
Net trading income and other income	28 405	144 864	-	173 269
Total income	**1 119 752**	**439 468**	**-**	**1 559 220**
Expected credit losses	(220 718)	(42 517)	-	(263 235)
Net operating income	**899 034**	**396 951**	**-**	**1 295 985**
Operating expenses	(635 562)	(166 783)	(83 923)	(886 268)
Depreciation of PPE and right of use asset	(60 842)	(900)	-	(61 742)
Amortisation of intangible assets	(652)	-	-	(652)
Total expenses	**(697 056)**	**(167 683)**	**(83 923)**	**(948 662)**
Profit before tax	**201 978**	**229 268**	**(83 923)**	**347 323**
Taxation	(49 985)	(25 382)	18 463	(56 904)
Profit for the year	**151 993**	**203 886**	**(65 460)**	**290 419**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

50. Share-based payments

Description of the share-based payment arrangements

The following share-based payment arrangements were in existence during the current and prior years:

50.1 Share options expense recognised during the year

			Consolidated and Company	
			2021 P'000	2020 P'000
Employee expenses				
Equity-settled share based payments	(2 637)	(2 203)	(2 203)	(175)
Cash-settled share based payments	(382)	(26)	(26)	(1 355)
Total expense recognised as employee costs	**(3 019)**	**(2 229)**	**(2 229)**	**(1 530)**

Share based reserves comprise of the Incentive Share Plan Scheme (Incentive Shares). Incentive Shares are granted to participants in the form of a provisional allocation of Absa Group shares which vest upon achieving continued service after three years. Participants do not pay to receive an award or to receive a release of shares.

Absa Group Limited Share Incentive Plan Retention Buyout Award (previously Joiners Share Value Plan - JSVP)

The Share Value Plan ("SVP") is a share-based payment arrangement. The SVP awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest in equal tranches after one two and three years with each tranche subject to its own independent non-market-related performance condition. The amount that is paid to the participants is equal to the market value of a number of Absa Group Limited ordinary shares as determined on the vesting date to the extent that the non-market-related conditions attached to the awards are met. If the Group fails to meet the minimum performance criteria the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the period.

Absa Group Limited Share Incentive Plan Deferred Award (previously Share Value Plan - SVP)

The Share Value Retention Plan ("SVP Cliff") is a share-based payment arrangement. The SVP Cliff awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years subject to its own independent non-market related performance condition. The amount that is paid to the participants is equal to the market value of a number of Absa Group Limited's ordinary shares as determined on the vesting date to the extent that the non-market related conditions attached to the awards are met. If the Group fails to meet the minimum performance criteria the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the vesting period.

Absa Group Limited Share Incentive Plan Performance Award (previously Long-Term Incentive Plan - LTIP)

Qualifying participants of the Share Incentive Plan Performance Award (SIPP) will be entitled to Absa Group Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Absa Group Limited ordinary shares. The Bank retains the obligation to settle in cash certain SIPP awards that are prohibited from being equity-settled. The award will be issued by the employing entity or subsidiary in the Bank. In order for the participant to be entitled to these awards the participant needs to render three years or five years (depending on the grant received) of service and the requisite performance conditions need to be met. Dividends accumulate and are reinvested over the vesting period.

Notes to the annual financial statements (continued)

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50. Share-based payments (continued)

50.1 Share options expense recognised during the year (continued)

Consolidated and Company	Opening balance	Granted	Forfeited	Exercised	Closing balance P'000
2021					
Equity Settled					
Long term incentive plan (LTIP)	131 965	50 689	(11 479)	-	171 175
Joiners share value plan (JSVP)	-	-	-	-	-
Share value plan (SVP)	3 660	-	-	(1 337)	2 323
Share value plan cliff (SVP)		19 302			19 302
2020					
Equity Settled					
Long term incentive plan (LTIP)	104 885	58 480	(17 445)	(13 955)	131 965
Joiners share value plan (JSVP)	3 634	-	(2 009)	(1 625)	-
Share value plan (SVP)	1 729	2 338	-	(407)	3 660

Consolidated and Company	Weighted average share price at the exercise date		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period	
	2021	2020	2021	2020	2021	2020
Equity Settled						
Long term incentive plan (LTIP)	-	145	1	3	135	-
Joiners Share Value Plan (JSVP)	-	177	-	1	-	177
Share value plan (SVP)	95	171	1	2	-	167
Share value plan cliff (SVP)			3		153	

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

51. Related parties

Absa Group Limited ("AGL") owns 67.82% of the ordinary shares of Absa Bank Botswana Limited and is the ultimate holding company. The rest are widely held on the Botswana Stock Exchange.

Subsidiaries

The Bank has two wholly owned subsidiaries Absa Insurance Services (Pty) Limited which is an insurance sales agent and Absa Botswana Securities (Pty) Limited which has not commenced operations at reporting date.

Consolidated	Admin and management fees received P'000	Admin and management fees paid P'000	Interest received P'000	Interest paid P'000	Dividends paid P'000	Recoveries paid P'000	Transitional service costs P'000
2020							
Shareholders							
Absa Group Limited	-	(94 020)	-	-	(175 533)	(3 175)	(22 416)
	-	**(94 020)**	**-**	**-**	**(175 533)**	**(3 175)**	**(22 416)**
Other							
Absa Bank Limited	-	-	3 275	(28 335)	-	1 303	-
Other Absa Group Limited subsidiaries	-	-	-	-	-	371	-
Total	**-**	**-**	**3 275**	**(28 335)**	**-**	**1 674**	**-**
2020							
Shareholders							
Absa Group Limited	-	(84 303)	-	-	(101 144)	(7 362)	(34 821)
Total	**-**	**(84 303)**	**-**	**-**	**(101 144)**	**(7 362)**	**(34 821)**
Other							
Absa Bank Limited	-		9 701	(34 767)	-	(2 511)	-
Other Absa Group Limited subsidiaries	-	-	-	(2 155)	-	(1 189)	-
	-	**-**	**9 701**	**(36 922)**	**-**	**(3 700)**	**-**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

51. Related parties (continued)

Company	Admin and management fees received P'000	Admin and management fees paid P'000	Interest received P'000	Interest paid P'000	Dividends paid P'000	Recoveries paid P'000	Transitional service costs P'000
2021							
Shareholders							
Absa Group Limited	-	(94 290)	-	-	(175 533)	(3 175)	(22 416)
	-	**(94 290)**	**-**	**-**	**(175 533)**	**(3 175)**	**(22 416)**
Other							
Absa Bank Limited	-	-	3 275	(28 335)	-	1 303	-
Other Absa Group Limited subsidiaries	28 186	-	-	-	-	371	-
	28 186	**-**	**3 275**	**(28 335)**	**-**	**1 674**	**-**
2020							
Shareholders							
Absa Group Limited	-	(84 544)	-	-	(101 144)	(7 362)	(34 821)
	-	**(84 544)**	**-**	**-**	**(101 144)**	**(7 362)**	**(34 821)**
Other							
Absa Bank Limited	-		9 701	(34 767)	-	(2 511)	-
Other Absa Group Limited subsidiaries	-		-	(2 155)	-	(1 189)	-
	-	**-**	**9 701**	**(36 922)**	**-**	**(3 700)**	**-**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

51. Related parties (continued)

Consolidated	Current amounts receivable P'000	Loans to Related parties P'000	Total due from related parties P'000	Current amounts payable P'000	Deposits from Related parties P'000	Total due to Related parties P'000	Loans from Related parties -Subordinated Debt P'000
2021							
Shareholder							
Absa Group Limited	1 077	-	1 077	156 872	-	156 872	490 044
	1 077	**-**	**1 077**	**156 872**	**-**	**156 872**	**490 044**
Other related parties							
Absa Bank Limited	27 860	1 668 433	1 696 293	2 482	155 208	157 690	-
Other Absa Group Limited subsidiaries	1 083	-	1 083	2 968	-	2 968	-
	28 943	**1 668 433**	**1 697 376**	**5 450**	**155 208**	**160 658**	**-**
Total	**30 020**	**1 668 433**	**1 698 453**	**162 322**	**155 208**	**317 530**	**490 044**
2020							
Shareholders							
Absa Group Limited	1 373	-	1 373	66 731	-	66 731	471 077
	1 373	**-**	**1 373**	**66 731**	**-**	**66 731**	**471 077**
Other related parties							
Absa Bank Limited	-	1 401 642	1 401 642	8 809	261 328	270 137	-
Other Absa Group Limited subsidiaries	1 261	220	1 481	13 536	554	14 090	-
	1 261	**1 401 862**	**1 403 123**	**22 345**	**261 882**	**284 227**	**-**
Total	**2 634**	**1 401 862**	**1 404 496**	**89 076**	**261 882**	**350 958**	**471 077**

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

51. Related parties (continued)

Company	Current amounts receivable P'000	Loans to Related parties P'000	Total due from related parties P'000	Current amounts payable P'000	Deposits from Related parties P'000	Total due to Related parties P'000	Loans from Related parties -Subordinated Debt P'000
2021							
Shareholder							
Absa Group Limited	1 077	-	1 077	156 872	-	156 872	490 044
	1 077	**-**	**1 077**	**156 872**	**-**	**156 872**	**490 044**
Other related parties							
Absa Bank Limited	27 860	1 668 433	1 696 293	2 482	155 208	157 690	-
Other Absa Group Limited subsidiaries	982	-	982	2 967	-	2 967	-
Absa Insurance Services (Subsidiary)	28 080	-	28 080	94 550	-	94 550	-
	56 922	**1 668 433**	**1 725 355**	**99 999**	**155 208**	**255 207**	**-**
Total	**57 999**	**1 668 433**	**1 726 432**	**256 871**	**155 208**	**412 079**	**490 044**
2020							
Shareholders							
Absa Group Limited	1 373	-	1 373	66 731	-	66 731	471 077
	1 373	**-**	**1 373**	**66 731**	**-**	**66 731**	**471 077**
Other related parties							
Absa Bank Limited	-	1 401 642	1 401 642	8 809	261 328	270 137	-
Other Absa Group Limited subsidiaries	1 481	-	1 481	-	554	554	-
Absa Insurance Services Limited (Subsidiary)	-	142 630	142 630	-	199 388	199 388	-
	1 481	**1 544 272**	**1 545 753**	**8 809**	**461 270**	**470 079**	**-**
Total	**2 854**	**1 544 272**	**1 547 126**	**75 540**	**461 270**	**536 810**	**471 077**

Transactions with key management personnel

IAS 24 Related Party Disclosures ("IAS 24") requires the identification of key management personnel who are individuals responsible for planning directing and controlling the activities of the entity including directors. Key management personnel are defined as executive and non-executive directors and members of the Executive Committee ("Exco"). A number of banking transactions are entered into with key management personnel in the normal course of business under terms that are no more favorable than those arranged with other employees. These include loans deposits and foreign currency transactions.

Loans include mortgages asset finance transactions overdrafts and other credit facilities. Loans to key management personnel are provided on the same terms and conditions as loans to employees of the Group including interest rates and collateral requirements. No loans to key management personnel or entities controlled by key management personnel were written off as irrecoverable. These loans have been assessed for ECL provisions under IFRS 9.

The Group provides and utilises services of its holding company and other Group entities providing and receiving loans overdrafts interest and non-interest-bearing deposits and current accounts to these entities as well as other services.

The recharges and other costs are unsecured interest free and are repayable on demand. Current accounts fixed deposits loans and deposits held with the Group are at normal commercial terms.

The current amounts payable and receivable relate to management fees receivable and payable from related parties. The loans to and from related parties relate to current accounts and short-term fixed deposit accounts. These balances form part of the cash on hand on the Statement of cash flows. There were no impairment provisions that related to balances and transactions with related parties.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

51. Related parties (continued)

Consolidated and Company	Remuneration P'000	Pension contributions P'000	Share-based payments P'000	Interest received P'000	Interest paid P'000	Total P'000
2021						
Directors compensation						
Non-executive directors	(2 113)	-	-	-	-	(2 113)
Executive directors	(6 241)	(644)	(185)	102	-	(6 968)
	(8 354)	**(644)**	**(185)**	**102**	**-**	**(9 081)**
Key management compensation						
Key management	(19 607)	(1 585)	-	53	(51)	(21 190)
	(27 961)	**(2 229)**	**(185)**	**155**	**(51)**	**(30 271)**
2020						
Directors compensation						
Non-executive directors	(2 626)	-	-	1	-	(2 625)
Executive directors	(8 384)	(576)	(488)	102	-	(9 826)
	(11 490)	**(576)**	**(488)**	**103**	**-**	**(12 451)**
Key management compensation						
Key management	(20 117)	(1 209)	(223)	53	(51)	(21 547)
	(31 607)	**(1 785)**	**(711)**	**156**	**(51)**	**(33 998)**

Consolidated and Company	2021 P'000	2020 P'000
Amounts owed by related parties		
Non-executive directors	445	-
Executive directors	5 285	5 101
	5 730	**5 101**
Key management compensation		
Key management	9 390	10 615
	9 390	**10 615**

The Group issues loans to staff at rates less than market value mortgages are issues to staff at Prime less 2% personal loans at Prime less and 2% and car loans at Prime less 2%. These loans are included the staff fair value model and disclosed in loans and advances to customers on the balance sheet.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

52. Capital commitments and contingencies

	Consolidated and Company	
	2021 P'000	2020 P'000
Capital commitments		
Commitments in respect of capital expenditure:		
Authorised and contracted for	27 347	2 780
Authorised but not yet contracted for	-	32 420
	27 347	**35 200**
Contingent liabilities		
Undrawn commitments to customers	2 644 870	2 209 233
Letters of credit	19 489	31 999
Guarantees	310 786	210 043
Gross contingent liabilities	**2 975 145**	**2 451 275**
Expected credit losses	(7 258)	(12 598)
	2 967 887	**2 438 677**

Undrawn commitments to customers are commitments to lend funds to customers subject to certain conditions. Such commitments are generally made for a fixed period. The Group may withdraw from its contractual obligation for the undrawn portion of the agreed facility. Short term commitments are those which have an original maturity of less than a year and may be unconditionally cancelled at any time.

Letters of credit commit the Group to make payments to third parties to facilitate trade. These are short term self-liquidating contingent liabilities arising from the movement of goods.

During the current year the Group revised the interpretation of ICC Uniform Customs and Practice for Documentary Credits Rules ("UCP 600") which resulted in items that previously classified as off-balance sheet to qualify for on balance sheet items. In 2021 LC's valued at Nil were recognised on balance sheet under other liabilities. (2020; P1 462 000)

Performance and bid bonds are transaction-related contingencies where the Bank guarantees a transaction or performance. They generally attract a 50% risk weighting unless the nature of the counterparty allows otherwise.

53. Investments in subsidiaries

Absa Insurance Services (Proprietary) Limited and Absa Securities Botswana (Proprietary) Limited are wholly owned by Absa Bank Botswana Limited. The investment in Absa Insurance Services (Proprietary) Limited comprises 30 000 ordinary shares of no par value at P100. The investment in Absa Securities Botswana (Proprietary) Limited comprises 1000 ordinary shares of no par value at P100.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

54. New accounting pronouncements

Adoption of new and revised Standards

During the current year the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRS-IC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2021. Apart from the detail included below the adoption of these new and revised standards and interpretations has not resulted in material changes to the Group's accounting policies.

The Group adopted the following standards interpretations and amended standards during the year:

Interest Rate Benchmark Reform	Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9 IAS 39 IFRS 7 IFRS 4 and IFRS 16. The impact of this standard was not material.
Definition of Material	Definition of Material – Amendments to IAS 1 and IAS 8
COVID-19-Related Rent Concessions	COVID-19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16

54.1 Interest rate benchmark reform

Background

The Group structures and executes a variety of transactions including debt issuances lending activities as well as structured and derivative transactions.

The Group has insignificant exposure to EUR, USD and JPY LIBOR.
Fair value hedges are used by the Group to protect against changes in fair value of financial instruments due to movements in interest rates and are therefore affected by interest rate benchmark reform. The financial instruments hedged for interest rate risk include fixed rate investment securities fixed rate loans and advances fixed debt securities or borrowed funds. The hedging instruments typically utilized are interest rate swaps or cross currency swaps which reference a floating rate namely ZAR, USD, EUR, or JPY, LIBOR.

Cash flow hedges are used by the Group to protect against the potential cash flow variability arising from exposure to interest rate and foreign currency risk and are therefore also affected by interest rate benchmark reform. The financial instruments designated as hedged items include variable rate loans and advances and the hedging instruments typically utilized are interest rate swaps or cross currency swaps which reference a floating rate namely ZAR, EUR, GBP, USD or JPY LIBOR.

In addition the Group has derivative and non-derivative financial instruments linked to IBORs that are not in hedge accounting relationships. The GBP EUR and JPY LIBOR rates and the one-week and two-month USD LIBOR rates were discontinued at 31 December 2021. The remaining USD LIBOR rates is expected to be discontinued post 30 June 2023.
The Group's exposure to IBORs subject to change at 31 December 2021 is not significant compared to those expected to be changed post June 2023

The Group's IBOR transition steering committee which comprises a series of business and function workstreams with oversight and coordination provided by a central project team is currently managing the transition. Workstreams actively participate in industry-wide working Groups to remain informed of the latest developments and to ensure consistency with the approaches of other market participants.

The main risks to which the Group is exposed as result of IBOR reform are operational as detailed below:

Conduct risk: The transition to alternative benchmark rates could result in the risk of market or customer misconduct which may lead to customer complaints regulatory sanctions or reputational impact. This includes the risk of misleading clients anti-competitive practices both during and after transition (such as collusion and information sharing) and risks arising from conflicts of interest.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

54. New accounting pronouncements (continued)

54.1 Interest rate benchmark reform (continued)

Pricing and Valuation considerations: International Securities and Derivatives Association ("ISDA") published the IBOR Fallbacks Supplement and ISDA 2020 IBOR Fallbacks Protocol on 23 October 2020. New fallbacks for derivatives linked to key IBORs came into effect on 25 January 2021 ensuring a viable safety net is in place in the event an IBOR becomes permanently unavailable while entities continue to have exposure to that rate. The supplement incorporates the fallbacks into all new non-cleared derivatives contracts from 25 January 2021 that reference the 2006 ISDA Definitions. Derivative participants can incorporate the fallback into legacy non-cleared derivatives contracts via use of an ISDA protocol or through bilateral negotiation. For cleared derivatives central counterparties (CCPs) have incorporated the ISDA IBOR fallbacks in their rule books for both new and legacy contracts.

Accounting: If transition to alternative benchmark rates for certain contracts is finalised in a manner that does not permit the application of the reliefs introduced in the Phase 2 amendments this could lead to discontinuation of hedge accounting relationships increased volatility in profit or loss if re-designated hedges are not fully effective and volatility in the profit or loss if non-derivative financial instruments are modified or derecognised. The Group is aiming to agree changes to contracts that would allow IFRS 9 reliefs to apply. In particular the Group is not seeking to novate derivatives or close out derivatives and enter into new on-market derivatives where derivatives have been designated in hedging relationships.

Litigation risk: If no agreement is reached to implement the interest rate benchmark reform on existing contracts (e.g. arising from differing interpretation of existing fallback terms) there is a risk of litigation and prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working proactively with all counterparties to minimise this risk from occurring.

Operational risk: Our Group's IT systems are undergoing upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time resulting in additional manual procedures which give rise to operational risks.

These risks are being managed through either the Group's IBOR Steering Committee or where more appropriate the relevant function best placed to monitor and/or mitigate risk

Carrying values of financial instruments impacted by benchmark reform and yet to transition

Consolidated and Company Instrument category	USD libor P'000	GBP libor P'000	EUR libor P'000	Other P'000	Total P'000
2021					
Assets					
Derivative assets	-	-	-	-	-
Non derivatives assets	432 959	-	-	-	432 959
Total assets	**432 959**	**-**	**-**	**-**	**432 959**
Liabilities					
Derivative liabilities	4 461				4 461
Non derivative liabilities	235 208				235 208
Total liabilities	**239 669**				**239 669**

Income Statement impact

As at 31 December 2021 Group did not have any income statement impact and is expected to have income statement impact with regards to the instruments carried above which will fluctuate based on the instruments carried as at reporting date.

Assets

The non-derivative assets exposures indicated above comprise of customer term loans which have an average rate period of 1 to 6 months.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

54. New accounting pronouncements (continued)

54.1 Interest rate benchmark reform (continued)

Liabilities

Derivative asset exposures indicated above have an average rate period of 6 months. The non-derivative liability noted above relates to sub debt that the Group has with ABSA bank South Africa.

If the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changes as a result of interest rate benchmark reform then the Group updates the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform if the following conditions are met; the change is necessary as a direct consequence of the reform; and the new basis for determining the contractual cash flows is economically equivalent to the previous basis i.e. the basis immediately before the change.

54.2 New and revised International Financial Reporting Standards issued not yet effective

At the date of authorisation of these financial statements the following standards and interpretations were in issue but not yet effective:

Standard	Effective date
Reference to the Conceptual Framework – Amendments to IFRS 3	01 Jan 2022
Property Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16	01 Jan 2022
Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37	01 Jan 2022
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	01 Jan 2022
AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities	01 Jan 2022
AIP IAS 41 Agriculture – Taxation in fair value measurements	01 Jan 2022
IFRS 17 Insurance Contracts	01 Jan 2023
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	01 Jan 2023
IAS 8 Accounting Policies Changes in Accounting Estimates and Errors: 1.1 Definition of material 1.2 Definition of accounting estimates	01 Jan 2023
Deferred tax related to assets arising from a single transaction- Amendments to IAS 12	01 Jan 2023

The Group is in the process of assessing the potential impact that the adoption of these standards and interpretations may have on its future financial performance or disclosures in the annual financial statements.

Notes to the annual financial statements (continued)

for the year ended 31 December 2021

55. Shareholders' information

Standard	2021 No. of Ordinary shares held	2021 % holding	Ranking
Absa Group Limited	577 964 146	67.82%	1
FNB Botswana Nominees RE: BIFM - BPOPF ACT MEM & DP EQ	81 360 160	9.55%	2
FNBB Nominees Re: Vunani Bpopf	36 977 808	4.34%	3
Motor Vehicle Accident Fund	18 736 440	2.20%	4
SCBN(Pty) Ltd Re: BPOPF Lea Portfolio Co Ag	14 718 582	1.73%	5
Stanbic Nominees Botswana Re BIFM PLEF	12 378 770	1.45%	6
Stanbic Nominees Botswana Re Bifm MLF	12 118 802	1.42%	7
Stanbic Nominees Botswana Re Ninety-One DPF (Local EQ)	8 814 180	1.03%	8
SCBN (Pty) Ltd Re: Bifm 028914400011 UB DC PF	7 136 860	0.84%	9
Stanbic Nominees Botswana Re Allan Gray Debswana PF	5 457 974	0.64%	10
SCBN (Pty) Ltd Re: IAM 030/30 Metropolitan Life BW Policy	4 262 319	0.50%	11
Stanbic Nominees Botswana Re BPOPF WT PRO PORT MCP	3 862 776	0.45%	12
Stanbic Nominees Botswana Re:nintey-One Bw Manged Fund	3 033 460	0.36%	13
SCBN(Pty) Ltd Re:Bifm WUC Staff Pension Fund	2 703 654	0.32%	14
STANBIC Nominees Botswana Re :Bifm BURS Employee PF	2 482 772	0.29%	15
FNBBN (Pty) Ltd Re:Ninety One BOBDCSPF	2 392 183	0.28%	16
SCBN (Pty) Ltd Re: VFM Managed Prudential Fund	1 969 450	0.23%	17
FNBBN (Pty) Ltd Re:kgori Capital Alexander Forbes RF	1 893 668	0.22%	18
SCBN (Pty) Ltd Re: AG 028922700004 AG UB DF CON PF	1 772 748	0.21%	19
FNB Botswana Nominees (Pty) Ltd Re:Bifm DPPF	1 735 288	0.20%	20
Others	50 389 212	5.92%	
Total Shareholding	**852 161 252**	**100**	

56. Events after the reporting date

A final dividend of P236 million was declared on the 22nd of March 2022 subject to regulatory approval.

Mr Thabo Kagiso Matthews was appointed as an Independent Non-Executive Director with effect from the 15th of March 2022 subject to final confirmation at the next annual general meeting.

Mr Saviour Mwepu Chibiya was appointed as a Non-Executive Director with effect from the 4th of April 2022, subject to final confirmation and the next annual general meeting

At the date of finalisation of the annual financial statements there were no material events that occurred subsequent to the statement of financial position date that require adjustment to in the financial statements.

Notice to shareholders

for the year ended 31 December 2021

Annual General Meeting of the Shareholders of Absa Bank Botswana Limited

Notice is hereby given that the 36th Annual General Meeting of shareholders of Absa Bank Botswana Limited shall be held by means of audio or audio and visual communication on Tuesday June 28 2022 at/or about 9am[i] in terms of Section 19.9 of the Constitution of the Company for the following purpose:[ii]

1. To receive and adopt the Annual Financial Statements for the year ended 31 December 2021 together with the Directors' and Independent Auditor's reports thereon.
2. To appoint Sethunya Dorothy Makepe-Garebatho, Thabo Kagiso Matthews and Saviour Mwepu Chibiya as Directors in accordance with the Constitution.
3. To re- elect as Directors, Cosmas Moapare, Sari Helena Nikka and Benjamin Monaheng Kodisang who retire by rotation in accordance with the Constitution, and who being eligible, offer themselves for re- election.
4. To approve the remuneration of the Directors for the ensuing year.
5. To approve the remuneration of the Auditors, Ernst and Young Botswana, for the year ended 31 December 2021.
6. To approve the appointment of Auditors Ernst and Young Botswana for the ensuing year.
7. To approve, by special resolution, any substantial gifts made by the Company, details of which are available at the Company's registered office for perusal.

In the event that you wish to nominate any person(s) as directors or auditors other than one of the directors retiring or incumbent auditors, you must deliver to the Company Secretary, not less than 7 (seven) nor more than 14 (fourteen) clear days before the date of the meeting, a nomination signed by a member qualified to attend and vote at the meeting with notice by the nominated persons that they are willing to be elected as directors or auditors, as the case may be.

Proxies

A member entitled to attend and vote at the above-mentioned meeting is entitled to appoint a proxy to attend, speak and to vote in his/her stead. A proxy need not also be a member. A proxy form is available at the end of the 2021 Integrated Report.

Proxy forms are also available at the office of the Company at Absa Bank Botswana Limited, Plot 74358, Building Four, Prime Plaza, Central Business District, Gaborone

Completed proxy forms must be deposited there not less than 48 hours before the meeting.

By order of the Board

Kealeboga N. Bojosi
Company Secretary

Registered office

5th Floor
Building 4 Prime Plaza, Plot 74358
Central Business District
Gaborone
Botswana

i Details of the audio and / or visual meeting will be shared with the shareholders no later than 10 days before the meeting. Shareholders are advised to contact contactus@corpservebotswana.com to RSVP for the meeting or further enquires.

ii Further details on all resolutions can be viewed on the "Annexure to the Notice" attached hereto.

Annexure to the notice to shareholders

for the year ended 31 December 2021

Annual General Meeting of the Shareholders of Absa Bank Botswana Limited

Resolution 2. To appoint Sethunya Dorothy Makepe-Garebatho, Thabo Kagiso Matthews and Saviour Mwepu Chibiya as Directors in accordance with the Constitution.

Sethunya Makepe-Garebatho Profile

Ms Makepe-Garebatho joined the Bank's Board of Directors in September 2021. With a forte in labour law and employee relations, Ms Makepe-Garebatho has more than 26 years of experience working for various organisations such as Debswana Diamond Company, the Botswana Telecommunications Corporation and Global Resorts Botswana. She is the Managing Director and Principal Consultant of People Connections, a human resource and consultancy practice she founded in 2002.

She previously served on the boards of Botswana Housing Corporation, Botswana Stock Exchange, Botswana Trade Commission and Women's Finance House. She has also served as an Independent Trustee of the Alexander Forbes Retirement Fund and in the University of Botswana's Human Resources Committee Council. She is currently a council member of Maru-A-Pula Secondary School.

Ms Makepe-Garebatho holds a Bachelor of Laws (LLB) from the University of Botswana, a Master of Science degree in Project Management from the University of Bolton in the United Kingdom, an Executive Leadership Program with Oxford University, and has recently completed an Executive Coaching Program, as well as a Compliance Management Programme with the University of Cape Town. She is a qualified Mediator and Arbitrator, having completed a Post Graduate Diploma in Alternative Dispute Resolution with the University of Pretoria, South Africa, in conjunction with the Arbitration Foundation of Southern Africa.

Thabo Kagiso Matthews Profile

Mr Matthews joined the Bank's Board in March 2022 and is currently the Managing Director of Fibre Sourcing Botswana. Mr Matthews has previously worked in senior management roles for Barclays Bank, Mascom Wireless, KPMG Consulting, Accenture, and Deloitte Consulting. He was the Managing Director of Sechaba Brewery Holdings Limited from January 2020 to June 2021.

For much of his career, Mr Matthews has provided management consulting services to organisations in public and private sectors in Botswana and South Africa. After heading Deloitte Botswana's consulting offering, he established his consulting firm providing services to clients directly and through subcontractor services. He recently expanded his entrepreneurial interests by venturing into the information technology and transportation spaces.

Mr Matthews previously served on the Botswana Life Retirement Annuity Fund boards, Bayport Financial Services, Standard Chartered Bank Education Trust, Sechaba Brewery Holdings Limited, and Kgalagadi Breweries Limited. He is currently a council member and trustee of Maru-A-Pula Secondary School. He holds a Bachelor of Arts (Honours) in Economics and Computer Science from Sussex University (United Kingdom).

Saviour Mwepu Chibiya Profile

Mr Chibiya joined the Bank's Board in April 2022 as the Absa Group Limited ("the Group") nominee. He has over 29 years of regional and international experience in financial institutions like CitiGroup, Barclays Bank, and the Group. His experience includes leadership roles including Chief Executive Officer, Managing Director ("MD") and Regional Head for varied segments, including corporate and investment banking ("CIB") and retail and business banking ("RBB").

He joined the Group in 2010 as MD (Managing Director) of Barclays Bank Zambia Plc. In 2017, he joined the Absa Regional Operations ("ARO") leadership team as Regional MD, assuming increasingly pan-African regional responsibilities. Reporting to the Group Chief Executive, Mr Chibiya is currently the Group Executive for ARO. In his current role, he is responsible, together with RBB and CIB, for the Group's ARO businesses and the Group's strategy, collaboration, and relationships with its key stakeholders across these businesses. Mr Chibiya is a member of the Group Executive Committee and provides input in terms of the overall Group's strategy and, in particular, the strategic choices for the Group's growth in the ARO banks.

Mr Chibiya has previously served on the boards and board committees of Barclays Bank Zambia Plc, Barclays Life Zambia Ltd, Zambia Electronic Clearing House Ltd and Citibank Zambia Ltd. He is a past chairperson of the Bankers Association of Zambia and past vice-chairman of Junior Achievement. He is a fellow of the Zambia Institute of Banking and Financial Services and holds an Economics degree from the University of Zambia.

Resolution 3. To re- elect as Directors, Cosmas Moapare, Sari Helena Nikka and Benjamin Monaheng Kodisang who retire by rotation in accordance with the Constitution, and who being eligible, offer themselves for re- election.

Annexure to the notice to shareholders (continued)

for the year ended 31 December 2021

Cosmas Moapare Profile

Mr Moapare is the lead independent non-executive director and chairperson of the audit committee. Mr Moapare joined the Bank's Board of Directors in March 2020 and is a Chartered Accountant by profession. He is the founder and Chief Strategy Officer of Cosburg (Pty) Ltd. He has held various positions at Botswana Telecommunications Corporation, Botswana Telecommunications Authority (now BOCRA), and the Local Enterprise Authority (LEA), where he was the Deputy Chief Executive Officer.

Mr Moapare has immense directorship experience with past seats on the boards of Air Botswana, the National Development Bank (NDB) and the Finance and Risk Subcommittee of the Botswana Institute of Development Policy Analysis (BIDPA), as well as the Botswana Institute of Accountants (BICA) Practice Review Committee. Mr Moapare has also served as the Chairman of the LEA Pension Fund. He holds a Bachelor of Commerce degree from the University of Botswana and is a Fellow of the BICA.

Sari Helena Nikka Profile

Ms Nikka joined the Bank's Board of Directors in March 2020 and has made her career in international finance. She previously served as the Chief Executive Officer of Norsad Finance Limited (Botswana, Zambia), an impact investor and regional private credit firm offering medium to long-term risk capital to mid-market growth companies across the southern Africa region. She has considerable experience on international best practices on environmental, social and governance standards.

Before working for Norsad, she was the Programme Director (Finnpartnership) and Senior Investment Manager for Finnfund, the Finnish development financier and professional impact investor investing in responsible and profitable businesses in developing countries. She was also a Project Finance Advisor for Finnvera Plc (Finland), a specialised financing company that promotes Finnish exports to emerging markets and developing countries.

Ms Nikka has served on various boards and board committees of companies and investment funds investing in Africa, Asia, Latin America and Eastern Europe. She has a range of experience in project finance, senior debt instruments, mezzanine and equity investments, and financing solutions for microfinance institutions and commercial banks.

Ms Nikka holds a Master of Science degree in Economics and Business Administration from Turku School of Economics and Business Administration in Finland.

Benjamin Monaheng Kodisang Profile

Mr Kodisang joined the Bank's Board of Directors in March 2020 and is the founder and Chief Executive Officer of ALT Capital Partners, a Pan African impact investor focusing on economic infrastructure, social impact property and private equity. He has over 25 years of investment expertise, having been the Chief Executive Officer of Sanlam Alternative Investments, Managing Director of STANLIB Asset Management and Africa, and Managing Director of Old Mutual Property.

Mr Kodisang previously served as President and Director of the South African Property Owners Association (SAPOA); Chairman of Western Cape's Trade, Investments and Destination Marketing Agency (WESGRO). He was also the first Chairman of the Johannesburg Securities Exchange (JSE)-listed SA Corporate Real Estate Fund.

He has worked in Botswana, South Africa, Namibia, Lesotho, Swaziland, Kenya, Tanzania, South Sudan, Ghana, Nigeria, India, and Saudi Arabia. Mr Kodisang holds a Bachelor of Commerce Honours degree from the University of South Africa and is a Chartered Accountant.

Resolution 4. To approve the remuneration of the Directors for the ensuing year.

Non-Executive Director fees per annum are proposed as follows:

	P'000
Board Chairman	618
Board Member	203
Audit Committee Chairman	137
Audit Committee Member	68
Risk Committee Chairperson	80
Risk Committee Member	40
Human Resources Remuneration and Nominations Chairperson	79
Human Resources Remuneration and Nominations Member	39
Credit Committee Chairperson	79
Credit Committee Member	39

Annexure to the notice to shareholders (continued)

for the year ended 31 December 2021

Resolution 5: To approve the remuneration of the Auditors, Ernst and Young Botswana, for the year ended 31 December 2021

Ernst and Young Botswana paid P4.7million for the year ended 31 December 2021.

Resolution 7. To approve, by special resolution, any substantial gifts made by the Company

Donations

1. Youth Hub – Ibranch Recruiters – P512,000
2. F.G. Mogae Scholarship Fund – P66,000
3. Sir Ketumile Masire Foundation – P100,000
4. Hackathon and Incubation Program – P145,562

Sponsorships

1. Botswana Football Association – P3,400,000

Proxy form

for the year ended 31 December 2021

Please complete in block letters.

I / We _____
of _____
being a shareholder (s) of Absa Bank Botswana Limited, hereby appoint
_____
or failing him/her_____
or failing him/her_____

as my/our proxy to vote for me/us on my/our behalf at the 36th Annual General Meeting of the Company to be held by means of audio or audio and visual communication on Tuesday 28th June 2022 at 09:00hrs which will be held for purposes of passing the proposed resolutions and to vote for / against the resolutions and / or abstain from voting in respect of the following:

	For	**Against**	**Abstain**
Ordinary resolution 1			
Ordinary resolution 2			
Ordinary resolution 3			
Ordinary resolution 4			
Ordinary resolution 5			
Ordinary resolution 6			
Special resolution 1			

As witness my hand this_____ day of _____2022

Signature _____

Witness _____

Note:

1. Each shareholder entitled to attend and vote at this meeting is entitled to appoint one or more proxies to act in the alternative to attend, vote and speak in his stead. A proxy need not be a shareholder of the company.

2. Any alteration or correction made to this form of proxy (including the deletion of alternatives) must be initialled by the signatory/ signatories.

3. This form of proxy should be signed and returned to the Registered Office of the Company, Head Office Fifth Floor, Building 4, Prime Plaza, Plot 74358, Gaborone, Central Business District or emailed to contactus@corpservebotswana.com no later than 48 hours before the meeting.