# Absa Bank Botswana Limited

Integrated Report 2022

# Our 2022 Integrated Report

## 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. The Bank strives to incorporate the principle of integrated thinking into our business and reporting. This Integrated Report is aimed at various key stakeholders, including our investors.

Integrated thinking requires integrating considerations around prosperity, people and the planet into our core business activities considering our external environment, and taking a holistic view of factors that create or erode enterprise value. Considering the Bank's reliance on a wide range of tangible and intangible resources, integrated thinking is critical to ensure cohesive decision- making and responsible capital allocation. Ultimately, integrated thinking helps us balance short- and long-term outcomes, which is fundamental to our ability to create value sustainably over time.

This Integrated Report thus aims to provide our stakeholders with a concise and informed view of the Bank's strategy, business model, corporate governance, performance and prospects in the context of our operating environment, reporting on how we create and preserve 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.

## Frameworks, assurance and reporting suite

Our report is based on the 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 Financial Reporting Act of 2020 through the Botswana Accountancy Oversight Authority, the Non-Banking Financial Institutions Regulatory Authority Act (Cap 46:08), and the Banking Act (Cap 46:04).

[*] https://www.ifrs.org/issued-standards/ir-framework/
[1] Less than 12 months.
[2] One to three years.
[3] Longer than three years.

## Reporting period and forward-looking statements

This report covers the period from 1 January 2022 to 31 December 2022. Notable and/or material events after this date and until the approval of this report on 5 June 2023 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. Given continued levels of uncertainty. Our approaches, planning, and stress testing exhibit a higher than usual level of uncertainty as to the outlook statement.

## Process disclosure, materiality and assurance approach

This Integrated Report uses dynamic materiality to scope which matters are significant for reporting and servicing the informational needs of capital markets. A matter is material if it can significantly affect our ability to create or preserve value or lead to value erosion (i.e., enterprise value) over the short[1], medium[2] and long term[3]. Our material matters as determined through our materiality determination process are:

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[1], medium[2] and long term[3]. 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 2022 strategy on 8 December 2021. 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 (CMC). The Bank applies a risk-based, combined assurance approach over operations. Our assurance model therefore, which comprises of internal controls, risk reviews, management assurance, compliance monitoring and conformance reviews, the internal audit function 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.

## 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 5 June 2023.

**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 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 empowering Africa's tomorrow, together...one story at a time. The Bank has adopted an integrated approach to reporting, in accordance with various corporate governance rules and standards, and this is our second integrated report. Please share your feedback on our report by emailing *Botswana.CustomerService@absa.africa.*

## Navigational icons used in this report

**Hyperlinks** are used throughout this report and is indicated through the use of *red italic text*

**Integrated thinking principle** We sign post where integrated thinking and decision making are at play to create the basis for long-term value creation.

**King IV statement** We sign post statements by those charged with governance in line with King IV disclosure practices.



**Six capitals** We consider all six capitals in assessing value creation, preservation and erosion. These icons sign post the relevant capitals.

**Description of Capitals**

Financial capital

**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, equity, or generated through operations or investments. We seek to use our financial stocks of value to enhance the outcomes on all our capitals in order to support our ability to create value over the short, medium and long term while preventing value erosion.

Intellectual capital

**Intellectual capital**
Intellectual capital refers to our intellectual property and organisational capital, including tacit knowledge, systems, procedures, and protocols. Our ability as a Bank to innovate in order to meet pressing and future needs is also considered part of our intellectual capital.

Manufactured capital

**Manufactured capital**
Our Group IT infrastructure is the most material part of our manufactured capital, taking our strategic direction and evolving business model into consideration. While our buildings and other manufactured capital provide necessary inputs, the detail of these aspects of our manufactured capital are not detailed in this report.

Human capital

**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 entrench our purpose and nurture a culture of ownership, belonging, participation and inclusion.

Social and Relationship capital

**Social and relationship capital**
Sound relationships with our stakeholders are vital to value creation and preservation. These serve as valuable capital in both good and challenging times. 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.

Natural capital

**Natural capital**
Natural capital refers to all renewable and non-renewable natural 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.

### Sustainable Development Goals

(SDGs) Absa Group's prioritised SDGs.

SDG 5 SDG 7 SDG 8 SDG 10 SDG 13 SDG 16

## Absa – brave, passionate and ready

# Absa at a glance

Absa Bank Botswana Limited applies integrated thinking and through this integrated report share our value creation story with our stakeholders.

**Our purpose**

***Empowering Africa's tomorrow, together ...one story at a time***

**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**

Advancing our **digitally-led** business strategy.

**Awards and notable achievements**

Top Employer Botswana 2022
Certified excellence in employee conditions

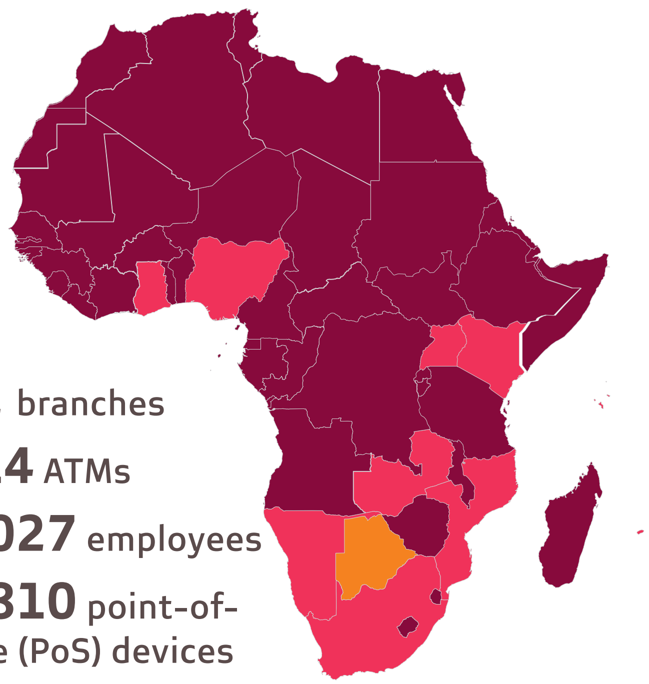
## Absa at a glance

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

**P22.7 billion**
**balance sheet size**
(2021: P21.5 billion)

**P17.0 billion**
**deposits due to customers**
(2021: P16.4 billion)

**22%**
**Capital adequacy ratio**
(2021: 18%)



**32** branches

**114** ATMs

**1 027** employees

**4 810** point-of-sale (PoS) devices

## Abbreviations

| | |
|---|---|
| **ABB** | Absa Bank Botswana Limited |
| **AFS** | Annual Financial Statements |
| **AGM** | Annual General Meeting |
| **AI** | Artificial Intelligence |
| **AIS** | Absa Insurance Services (Pty) Ltd |
| **ARO** | Absa Regional Operations |
| **ATM** | Automatic Teller Machine |
| **ASB** | Absa Securities Botswana (Pty) Ltd |
| **BOB** | Bank of Botswana |
| **BWP** | Botswana Pula |
| **bn** | Billion |
| **CAF** | Commercial Assets finance |
| **CAR** | Capital Adequacy Ratio |
| **CASA** | Current Accounts Savings Accounts |
| **CET1** | Common Equity Tier 1 Ratio |
| **CIB** | Corporate and Investment Banking |
| **CMC** | Country Management Committee |
| **CSI** | Corporate Social Investment |
| **DR** | Discount Rate |
| **DVaR** | Daily value at risk |
| **ECL** | Expected credit losses |
| **EDs** | Executive Directors |
| **EFTs** | Electronic Fund Transfers |
| **ERMF** | Enterprise Risk Management Framework |
| **ERTP** | Economic Recovery and Transformation Plan |
| **ESG** | Environmental, Social and Governance |
| **ESD** | Enterprise Supply Chain and Development |
| **FATF** | Financial Action Task Force |
| **FIA** | Financial Intelligence Agency |
| **FX** | Foreign Exchange |
| **GACC** | Group Audit and Compliance Committee |
| **GBP** | Great British Pound |
| **GDP** | Gross Domestic Product |
| **IAS** | International Accounting Standards |
| **ICT** | Information Communications Technology |
| **IESBA** | International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants |
| **IFC** | International Finance Corporation |
| **IFRS** | International Financial Reporting Standards |
| **IMF** | International Monetary Fund |
| **INED** | Independent Non Executive Director |
| **IR** | Integrated Reporting |
| **KYC** | Know Your Customer |
| **KPIs** | Key Performance Indicators |
| **LAR** | Liquid Asset Ratio |
| **mn** | Million |
| **NBFI** | Non-bank financial institutions |
| **NBFIRA** | Non-Bank Financial Institutions Regulatory Authority |
| **NED** | Non-Executive Director |
| **NFI** | Non funded Income |
| **NII** | Net Interest Income |
| **NPS** | Net Promoter Score |
| **PoS** | Point of Sale |
| **PPE** | Personal Protective Equipment |
| **PPPs** | Public-Private Partnerships |
| **RBB** | Retail and Business Banking |
| **RWA** | Risk Weighted Assets |
| **SACU** | Southern African Customs Union |
| **SADC** | Southern African Development Community |
| **SDGs** | Sustainable Development Goals |
| **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 |
| **SPPI** | Solely payments of principal and interest |
| **STEM** | Science, Technology, Engineering and Mathematics |
| **TAG** | Technical Accounting Group |
| **TCFD** | Task Force on Climate-related Financial Disclosures |
| **UK** | United Kingdom |
| **UNESCO** | The United Nations Educational Scientific and Cultural Organisation |
| **USA** | United States of America |
| **USD** | United States of America Dollar |
| **VAT** | Value-Added Tax |
| **VRF** | Value Reporting Foundation's |
| **ZAR** | South African Rand |

# 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, 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.

## Cellphone 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.

## Digital Customer Onboarding
Customers can open saving and current account online from anywhere , at any time. This is absolute convenience





# 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 | **P12.1 billion** Gross loans and advances (2021: P11.1 billion) | **P10.4 billion** Deposits due (2021: P10.1 billion) | **P4.1 billion** Gross loans and advances (2021: P3.9 billion) | **P6.6 billion** Deposits due (2021: P6.3 billion) |
| | **P522.8 million** Profit before tax (2021: P415.1 million) | | **P357.2 million** Profit before tax (2021: P244.2 million) | |
| Serving | Individuals: youth, self-employed, consumers, prestige and premier customers.<br><br>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, Jwaneng, Tsabong, Gantsi, 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. | |

| | Retail and Business Banking | Corporate and Investment Banking |
|---|---|---|
| Areas of differentiation | • An engaged and energised workforce<br>• The largest branch network in the country<br>• Full bank offering with integrated insurance products and a clear focus on customer value management<br>• Enhanced digital capabilities<br>• A stable customer base with improving retention and cross-selling opportunities<br>• Robust credit and collections capability<br>• Strong, secure lending capabilities<br>• Strong brand recognition. | • Over 100 years of experience on the African continent with global connectivity and local differentiation<br>• Consistently recognised as an industry leader in the areas of investment banking, research and cash management<br>• Enhanced proposition by launching Islamic Banking<br>• Strong stakeholder relationships<br>• Expertise and thought leadership across several key sectors driving the economy. |

# Absa bank in the Botswana banking context


## Botswana peer comparison

| | | Revenue growth % YOY | Revenue growth Pmn | Pre-Provision profit Pmn | Profit before tax Pmn | Profit after tax Pmn |
|---|---|---|---|---|---|---|
| Absa Bank Botswana | 2022 | 13% | 208.8 | 890.4 | 880.0 | 672.1 |
| | 2021 | 5% | 73.6 | 738.8 | 659.3 | 502.6 |
| First National Bank Botswana | 2022 | 11% | 274.3 | 1 338.6 | 1 308.1 | 1 011.9 |
| | 2021 | (1%) | (21.0) | 1 197.9 | 1 059.3 | 808.8 |
| Stanbic Bank | 2022 | 21% | 242.1 | 557.0 | 568.9 | 443.9 |
| | 2021 | 7% | 70.1 | 471.1 | 262.6 | 206.4 |
| Standard Chartered Bank | 2022 | 22% | 163.8 | 296.1 | 253.1 | 201.8 |
| | 2021 | (2%) | (14.1) | 79.7 | 77.0 | 60.3 |
| Access Bank | 2022 | 3% | 15.4 | 50.2 | 70.2 | 8.2 |
| | 2021 | (1%) | (4.7) | 42.2 | 20.9 | 16.8 |

*"The Botswana market contains a broad spectrum of banks and other competing financial services institutions. The table above provides a view of the Bank's position relative to our most significant peers."*

## Empowering Africa's tomorrow – our strategic intent

# Board Chairman's report

*As the Board, we will continue to exercise our role of oversight and fiduciary responsibility in the consideration of multiple stakeholder interests, to ensure that the Bank remains an agile and leading financial services provider in Botswana.*

Daniel Neo Moroka
Board Chairman

## Context

Over the last year, we continued to witness volatility in the global economy. The subdued economic performance and inflationary pressures were driven by a series of headwinds related to the impact of the war in Ukraine, global monetary tightening, persistently high energy prices and the slowdown in China, amongst other factors. Despite the global challenges, Botswana's economy demonstrated resilience, particularly given the high inflation rate and an increase in lending. Furthermore, despite COVID-19 receding as an immediate threat to the local economy, financial conditions tightened significantly through the year, placing pressure on consumers and businesses and the speed of execution for some financial assets. The GDP outlook remains fundamental to our strategic planning, especially considering the importance of the mining sector, particularly diamonds in the performance of the economy. As a Bank, we are alive to the risk management and due diligence strategies we will need to continue deploying as we participate in this sector.

These headwinds point to a difficult period ahead that will require companies to navigate the challenging operating environment carefully. As the Board, we will continue to exercise our role of oversight and fiduciary responsibility in the consideration of multiple stakeholder interests, in order to ensure that the Bank remains an agile and leading financial services provider in Botswana.

## Purpose, performance and strategic direction

It gives me great pleasure to introduce our new and resounding purpose, captured as "Empowering Africa's tomorrow, together... one story at a time". This is the cornerstone of everything we do as we aim to be an organisation that meaningfully and positively contributes to all the communities where we operate. It is my strong believe that it is this oneness of mind, intention and action that is the engine behind the strong performance we managed to achieve in 2022.

We continued to demonstrate our commitment to the execution of a robust strategy, thereby delivering a strong overall performance. We achieved a profit before tax of P880million, which is a 33% year on year growth, fuelled not only by a 13% revenue increase, which was at an impressive P1.9 billion, but also by exceptional management from a cost, impairments and controls perspective. Our return on equity was a commendable 23% and we achieved a balance sheet growth of 6%, while our cost to income ratio was at 52%. This performance can be attributed to the effective execution of our strategy and the commitment of all our employees. Further details on our financial performance can be examined in the Finance Director's report on page 54 of this integrated report. The Board considered this remarkable performance when declaring a final dividend of 40thebe per share, amounting to P342million, which was paid on 22 May 2023. The full year total dividend, inclusive of the previously declared interim dividend amounted to P445million and we believe this is testament to our persistent commitment to delivering value to our investors on the backdrop of a well-executed strategy.

On 8 December 2021 the Board considered and approved a prodigious strategy that was implemented throughout 2022, and on 10 November 2022, the Board and management yet again came together to refine our strategic focus areas for 2023, which we believe will continue to provide and preserve value for our stakeholders. More details on our strategy can be found in the Managing Director's report on page 50. However, at a high level, diversifying our revenue streams with a deliberate transactional led growth remained a crucial pillar of our strategy, as evidenced by the 13% year on year revenue growth mentioned above. Our business banking segment continued to forge ahead in transactional led growth with a double-digit revenue growth as a result of zoning in on defending the ,corporate value chain financing. We maintained our focus on being the primary partner for our customers and creating value across the client relationship from a





platform and relationship perspective. In our retail business, we launched the multi-residential finance solution, which is a proposition designed to assist our customers in the creation of intergenerational wealth through investment property ownership. We also partnered with SCI Wealth Botswana to provide fiduciary services to our affluent customers, supporting them to build and preserve their wealth.

The adoption of digital technologies by customers over the past few years has been encouraging. As a Board, this has given us even greater resolve to ensure that we build capacity and evolve into a digitally powered business with end-to-end consistent and seamless experience for our end users. At the beginning of 2022, the Board approved what we believe is a holistic and practical sustainability strategy that will propel us in our efforts to be an active force for good in everything we do, contributing to the ESG agenda. As a leader, it is extremely satisfying to witness the involvement of majority of the Bank's employees and partners in the betterment of the communities where we operate, solidifying our legacy as part of a pan-African bank. Over the last year alone, our financial literacy program provided training to over 15,000 youth and adults across different entities such as Botswana Football League football teams and Botswana Police Services.

We believe that people are the cornerstone of any successful organisation and we continued investing in our people to ensure we build a talented and diverse team through distributed leadership. We once again received the Top Employer Africa certification from the Top Employers Institute®, and in 2022, the Bank scored above global best-practice standards overall, with key areas being purpose and value, career development, well-being and digital human resources. In this light, we have embarked on a culture transformation journey to enhance our competitiveness even more.

## Board and executive management matters

We continued to enhance our skill set as a Board, and in this regard, in March 2022, we welcomed Mr Thabo Matthews on the Board and Mr Saviour Chibiya joined us in April 2022. Their detailed profiles can be found on page 76 of this report. As a Board, we are among the leading BSE listed companies with an admirable gender diversity composition and we will continue making a deliberate effort in this regard. I am confident that our Board represents appropriate diversity of skills and experience to effectively govern the Bank. An in-depth view of the Board's performance and execution of the corporate governance mandate can be found on pages 76 to 107 of this report. The Board will continue to foster comprehensive oversight while supporting management to execute on our strategy.

As previously announced to shareholders, our Managing Director, Keabetswe Pheko-Moshagane went on leave from 1 June 2022 to 31 August 2022, and during this time, the Board passed an interim baton to the Bank's Chief Operations Officer, being Krishnan Menon Balachandran. Krishnan stepped down as we welcomed Keabetswe back and I would like to thank both executives for the astounding and steady leadership demonstrated during this transitionary time. Let me also congratulate Keabetswe for being recognised among the Definitive List of Women's CEO's of Africa's top listed companies. Since the last report, the Board has also appointed the Corporate Banking Director Tebogo Giddie and the Head of Marketing and Corporate Relations Dennis Mambure. Details on our executive management and structure can be found in the "Protecting value through strong governance" section of this report. As the Board, we remain assured that our executive and senior leadership have the relevant experience to achieve the Bank's strategic goals. In the coming year, a key focus will be on enhancing our succession planning at Board and executive level, to ensure the Bank's stability and sustainability going forward.

## Outlook

The current business operating environment is challenging and looks set to be dominated by uncertainty in the near term. The outlook for the diamond sector and the broad economy is dimmed by deteriorating global economic conditions. However, our business remains well-positioned and resilient, and I am confident that we will continue to steadily navigate the headwinds and deliver our commitments with poise. Our strong balance sheet with capital that is well above regulatory requirements will enable us to support our sustainable growth ambitions. None of our ambitions would be achievable without our employees and thus we will continue to focus on our employee value proposition, inclusive of our reward framework, talent investments and promotion of an ethical work environment. As the Board we will pay greater attention to our role in the ESG agenda, prioritising the Bank's efforts from a sustainability perspective, as well as adherence to new and enhanced corporate governance guidelines that we are anticipating in our market.

## Appreciation

I would like to extend sincere appreciation to our stakeholders, particularly regulators and shareholders, for their support and feedback. I am grateful to my colleagues on the Board for their commitment and camaraderie as we diligently execute our fiduciary duties. Thank you to the executive leadership of the Bank and indeed to all employees, for running with the vision, in our purpose, on a daily basis. A heartfelt thank you to our loyal customers, who inspire all of us to work together in reaching our goal of being an undisputed leading financial services provider in our market...empowering Africa's tomorrow, one Botswana story at a time.

# Our purpose

## Purpose is at the core of everything we do

**Absa aspires to be a truly purpose-led organisation. This means making a proud and positive contribution to the world around us and putting our purpose at the core of everything we do.**

This year, as part of the Group, we began an immersive and inclusive journey to assess whether our purpose statement, **bringing possibilities** to life, continues to reflect who we want to be as a business. We started by unpacking the building blocks that sit at the intersection of what the world needs, what we have to offer, and what will make us proud. To do this, we participated in offsite workshops with the Group senior leadership team and our employees provided input through participation in surveys and virtual platforms. What emerged were key themes around our role in powering Africa's possibilities, enabling our clients to realise their dreams, investing in people and exemplifying integrity. Building on this input, we finalised our new purpose statement in January 2023:

***Empowering Africa's tomorrow, together ...one story at a time***

Each word signifies a clear meaning and emotion:

### Empowering

As a financial institution we empower and enable – from investing in our colleagues to uplifting our communities and enabling our clients' ambitions.

Empowering is active, every moment, walking together as partners.

We unlock opportunities for our clients through imagination, energy and passion, and finding innovative solutions.

Empowering ensures we invest in people and their capabilities.

### Africa's

We have an African heartbeat.

We cherish our home; we care for it, and we invest in it. We feel a sense of wellbeing and warmth. Africa is a home we are proud of.

It is the continent of our birth more than 70 years ago.

### tomorrow

We value our heritage and embrace the challenge of reimagining a better tomorrow – for our employees, our clients, and our communities. We know that every action we take has a consequence for a meaningful tomorrow.

We relentlessly deliver on our commitments today with a long-term mindset through good times and bad.

We are stewards of a sustainably better world. Tomorrow embodies the aspiration of youth and future generations.

Tomorrow represents one day to many years.

### together

We are a trusted and caring partner, committed to working with all our stakeholders.

We embrace diversity and inclusivity. This strengthens us, unleashes everyone's full energy and enables better outcomes.

We are a collective, holding ourselves and each other accountable for our outcomes.

We are stronger together than alone.

We listen to many perspectives while remaining decisive.

We work together to bring our strategic ambitions to life.

### ...one story at a time

Brick by brick we build a masterpiece – no matter how big or small.

We embrace Africa's heritage of storytelling. Stories bind us.

We see you. We hear your story – it inspires us to act and grounds us in what is real.

We believe that being purpose-led is essential, enabling the Group to navigate difficult choices with agility and ensuring we meet the needs of our broader stakeholders while also rallying and inspiring our people and clients. Ultimately, an embedded sense of purpose will support our long-term sustainability.



# Strategic overview

**The executive team identifies future opportunities during our strategic planning process. The executive team recalibrates our business model and strategic objectives based on the insights yielded by cross-functional risk management and integrated planning processes. Strategic opportunities are assessed with the same rigour as strategic risks.**

## Strategic journey

We have made substantial progress over the last five years and have built a strong foundation for growth. Having successfully navigated the separation from Barclays PLC and the COVID-19 crisis, we are now looking to the future and aim to raise our performance to new levels.

**2018 – 2019**

Complex decisions made which came with critical trade-offs

Delivering on separation from Barclays PLC was a priority which meant less management capacity to drive core business performance.

**2020 – 2022**

Deliberate decisions taken to address these risks while navigating the COVID-19 crisis with resilience.

Maintaining stability during the separation process while navigating the COVID-19 crisis impact in our local environment. In 2021, we re-anchored and refreshed our 2018 strategy to ensure it remained relevant, given the changes in the economic context.

**2023+**

We have the platform to raise our ambition further to grow our market share

Through a transformed organisation anchored in our purpose, we aspire to grow our market as we journey to be the leading bank in our market. We will leverage the support of our leadership and the wider organisation to deliver on our strategy, building on the foundations that have contributed to our recent successes.

## Strategic framework

**We have set our aspiration to be a leading African bank, empowering Africa's tomorrow, together ...** one story at a time. To drive performance, we are focusing on delivering against five strategic themes:

**Diversify revenue streams with deliberate transactional led growth:** We will be purposeful regarding where we compete, identifying attractive growth pockets by segment, and product. We will allocate our capital sustainably and manage risk appropriately.

**The primary partner for our clients focusing on creating value across the entire client relationship:** We aim to be the primary partner for our clients by applying a customer lens across our organization to transform service culture, truly understanding and satisfying clients day-to-day needs and building a brand our people and clients can be proud of.

**A digitally powered business with end-to-end consistent and seamless experience for our clients and employees:** We aim to be a digitally powered business through digital ecosystems and partnerships – delivering a superior digital experience, using data as a strategic asset, and improving trust and security.

**Building a winning, talented and diverse team through distributed leadership:** We will do this by developing a competitive advantage through attracting and retaining leading talent, investing in our people to be future fit, and our culture of entrepreneurship, collaboration, creativity and innovation.

**An active force for good in everything we do:** We will be an active force by proactively incorporating climate change into our business, contributing meaningfully to the societies in which we operate, and maintaining the highest standards of governance and ethics.

## Strategic overview continued

### *Diversify revenue streams with deliberate transactional led growth*

Our ambitions concerning this strategic theme are twofold: we aspire to grow boldly and improve our non-funded income contribution to total income, and we aim to eliminate costs that do not align with our strategic choices.

Our key strategic intent is to diversify our revenue pools by significantly scaling non-funded income. We will deliver this by being intentional on the products to grow, defend and wells as new ones to launch. In addition, we will focus on delivering innovative propositions for our chosen client segments and industry sectors. We will provide distinctive transactional banking and payments as primary anchor, ensuring reliability and availability of our channels.

To deliver sustainable growth, we will continue to leverage our competitive advantage by providing funding and products that support economic growth and grow our revenue market share.

We have set a target to reduce our cost-to-income ratio to the low 50s to create space for further investment in these growth opportunities while building financial resilience within a challenging environment.

#### *Material matters*

- Maintaining economic and strategic momentum
- Digital dependencies and vulnerabilities

#### Capitals

**Managing our strategic trade-offs – Allocation of capital and mode of delivering products and services to our clients**

Through capital allocation and diversifying our revenue streams, we believe we can alleviate market- specific risk. This approach gives rise to a primary trade-off on how to deploy our capital, which products to deliver internally and those through strategic partnerships, e.g., the relationship with SCI Wealth Botswana on wealth creation and protection advisory services and partnerships with large corporations on funding Small and Medium Enterprises (SMEs) through our Enterprise Supply Chain and Development program. This ongoing trade-off discussion is rigorously debated to ensure sound decisioning as and when opportunities arise.

### *The primary partner for our clients focusing on creating value across the entire client relationship*

In a rapidly evolving operating context, we must remain agile and proactive in developing relevant, innovative propositions. In line with this thinking, we continue to challenge ourselves on primacy and how we shape our business to achieve it, including how to harness the full power of the bank's ecosystem.

This will enable us to harmonise sales and customer value management across our businesses; driving relevance beyond banking; and define clear measurements for primacy. In our bid for primacy and building deeper relationships with our clients, we need to balance non-interest revenue and growing sustainable, capital-light revenues.

Finally, we will continue the journey of strengthening our brand by revising our positioning (linked to our purpose) and investment levels and will align our marketing operating model to leverage the full power of our brand. We strive to ensure every action is built on our purpose to support organisational alignment and build brand affinity with clients and employees.

#### *Material matters*

- Maintaining economic and strategic momentum
- Digital dependencies and vulnerabilities
- Rising regulation
- Social cohesion erosion

#### Capitals

**Managing our strategic trade-offs – Prioritising long-term relationships**

Our strategic ambition to be the primary partner to our clients may incite a trade-off between short-term financial performance and the business' long-term relationships. However, we believe that our customer-centric pricing will deliver long-term sustainable returns as we seek to grow our universal model, integrating our customers, products and channels to deliver enhanced value for all within the ecosystem.



Strategic overview continued

### *A digitally powered business with end to end consistent and seamless experience for our clients and employees*

Being a digital-first business has never been more critical. We continue to pursue opportunities to accelerate our digital transformation to respond to increased competition and technological change that present opportunities to our business and client base.

We have successfully developed new digital propositions and will continue to simplify our offerings and accelerate our speed to market. To gain a competitive advantage, we recognise the need to continuously adapt and enhance our customer propositions supported by modern, agile technology. To achieve this, we are clear on where we must focus:

- Increasing our digital adoption and embedding digital-first ways of working in everything we do
- Deploying best-in-class digital customer journeys and relevant digital propositions
- Leverage digital to launch new transformational products, unlocking new revenue streams
- Accelerating hiring, training, and retention of critical digital skills
- Using digital advancements to transform our cost base

#### *Material matters*

- Digital dependencies and vulnerabilities
- Evolving employee value proposition.

#### Capitals

**Managing our strategic trade-offs – Prioritisation and innovation**

Within our digital ambition, an ongoing and active trade-off decision must be made between allocating our finite resources to urgent, time-bound operational matters and our recognised need to innovate. For example, if we evolve our core technology too slowly, we risk losing relevance and the ability to deliver at pace. However, we will face increased operational risk should whole-scale change impact business continuity.

### *A winning, talented and diverse team through distributed leadership*

We want purpose to be the cornerstone of our culture and ways of working. Therefore, we have co-created our organisational purpose with our employees to ensure it reflects the heart of our organisation – our people. Moreover, our realigned operating model aims to create improved ways of working, simplify governance and accelerate talent mobility.

We seek to be a leader in shaping a transformed business that fosters diversity, equity and inclusion. Our ambitious diversity and inclusion targets are supported by a comprehensive set of interventions, for example, a leadership programmes to train and empower our business leaders and talent. We support distributed leadership through ongoing coaching and development and exposing our talent to various markets within the Group.

Absa aspires to achieve a best-in-class employee experience. In line with this objective, we have embarked on a culture transformation journey and continue to offer a diverse range of benefits to our employees.

#### *Material matters*

- Digital dependencies and vulnerabilities
- Evolving employee value proposition.

#### Capitals

**Managing our strategic trade-offs – Investing now to develop our own talent**

Developing our own talent is a key choice we are making as we seek to forge a workforce that has the requisite skills to future-proof the Bank. This is becoming increasingly crucial given the broader scarce skills environment and global war for talent faced by organisations worldwide – especially with respect to digital skills. Developing our own talent to build skills internally will require up-front investment (both financial and time), a necessary trade-off as we seek to create a winning, talented and diverse team in an increasingly competitive environment.

## Strategic overview continued

### *An active force for good in everything we do*

We want to drive measurable, material change in our communities in a way that brings our purpose to life, differentiates us from our peers and strengthens our business. To do this, we have identified three specific ESG focus areas where we will invest:

- We seek to impact the fight against climate change by becoming a major player in sustainable finance transactions and proactively incorporating climate change risk into our business. We recognise that the sustainability challenges we face as an African bank differ from those faced by banks in other parts of the world due to the significant social challenges within our context.
- We continue to promote financial inclusion to underserved groups as we strive to make intergenerational wealth creation accessible to all, in particular women, youth and Small and Medium Enterprises (SMEs). In addition, we will continue to support education and skills development by advancing financial literacy with our strategic partners.
- It is our ambition to be a beacon of diversity and inclusion. This means not only unleashing our talent internally to outperform, but also supporting and enabling diversity and inclusion with our suppliers (e.g., Enterprise supplier development), clients, and the communities we operate in.

To achieve this ambition, we will operate within a resilient and robust control environment, enabling fair outcomes and transparency with our stakeholders. This supports our commitment to the highest standards of governance and ethics.

#### *Material matters*

- Maintaining economic and strategic momentum
- Rising regulation
- Social cohesion erosion.

#### Capitals

**Our sustainability priorities are embedded within our business strategy.**

**Managing our strategic trade-offs – Safeguarding future value creation through today's strategic choices**

Our sustainability strategy accounts for strategic trade-offs as we continuously seek to implement ESG practices in our business. Our activities are not carbon-intensive, nor pollutive or dependent on large quantities of natural resources. However, our lending and investment choices significantly impact the creation, preservation, and erosion of natural capital. Given the African context, we face a far more complex decision in the relative priority of environmental versus social matters. Social matters are an inherent priority; our stakeholders place high relative importance on social dimensions, and we are uniquely positioned to make a difference. As such, the choice of our ESG priorities (financial inclusion, environmental, with an emphasis on climate, and education and skills development) is grounded in the following aspects and their underlying trade-offs:

- The potential impact on our business of the topic - informed by the potential risk posed (e.g., climate change) and the business opportunity presented (e.g., green financing)
- The unique strengths of our business

Particularly on climate, we are giving due consideration to supporting a just transition as we set our ambitions. Our purpose will guide us as we seek to strike the right balance between our ESG focus areas while managing the trade-offs presented.



## Strategic overview continued

# Strategic scorecard

To achieve our ambition to be the leading bank in our market, we have always leveraged a strong measurement capability illustrating progress in strategy execution. Going forward, strategic measures will be reported externally, while medium-term metrics will be cascaded internally from strategic measures to support alignment between Group and our country strategies.

| Key performance indicator | 2022 actual | 2022 target |
|---|---|---|
| ***Diversify revenue streams with deliberate transactional growth*** | | |
| **Revenue (P'm) (Year-on-year % growth).** | **1 858.0 (13%)** | 1 790.4 (9%) |
| **2024 ambition:** Use strong internal capital generation combined with improved primacy to grow our the market share | | |
| **Return on equity (RoE) (%)** | **23%** | 17% |
| **2024 ambition:** Maintain our returns above the cost of equity and target market-related returns of above 17% over the medium term | | |
| **Cost-to-income (CTI) ratio (%)** | **52%** | 54% |
| **2024 ambition:** Capture value through improved operating efficiency to create scope for investment in digital and new ways of work. Target a CTI ratio in the low 50s | | |
| **Non-interest revenue growth (%)** | **12%** | 14% |
| ***Primary partner for our clients focusing on creating value across the entire client relationship*** | | |
| Treating customers fairly | | |
| Retail banking (%) | **85%** | 83% |
| Business banking (%) | **79%** | 77% |
| CIB (%) | **88%** | 88% |
| Customer experience index | | |
| Retail banking (%) | **82%** | 77% |
| Business banking (%) | **66%** | 63% |
| CIB (%) | **77%** | 77% |
| ***Digitally powered business with end-to-end consistent and seamless experience of our clients and employees*** | | |
| Digitally active customers | | |
| Retail banking (%) | **61%** | 59.9% |
| Business banking (%) | **55%** | 50% |
| CIB (Absa Access active customers) (%) | **99%** | 90% |
| ***Building a winning, talented and diverse team through distributed leadership*** | | |
| Employee experience index (Points out of 100) | **52.9** | 60.6 |
| Women in senior leadership (%) | **50%** | 50% |
| ***An active force for good in everything that we do*** | | |
| Number individuals participating in financial literacy education | **16 178** | 12 000 |
| Investment in the communities that we operate in (P'm) | **2.1** | 1.1 |

# Our business model

## Our purpose

Empowering Africa's tomorrow, together *... one story at a time*

## Strategy

- Diversify revenue streams with deliberate transactional led growth
- The primary partner for 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 employees
- A winning, talented and diverse team through distributed leadership
- An active force for good in everything we do

## Physical footprint

Listed on the Botswana Stock Exchange with the largest branch network of 32 in Botswana and 32 agents, servicing individuals, small- and medium-sized businesses, corporates, multi-nationals, financial institutions, banks, government and development finance institutions. We offer several *ways to do banking.*

Our operating context is impacted by several material matters namely:

- Maintaining economic and strategic momentum
- Digital dependencies and vulnerabilities
- Rising regulation
- Evolving employee value propositions.
- Social cohesion erosion
- Climate change and a just transition

## Our core banking activities, products and services

Underpinned by our strategy and physical footprint, our fully integrated business offering is delivered through customer-first digital solutions, ecosystems of financial services, and lifestyle and value chain offering.

**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.

## How it works

**We generate revenue through interest, fees and commission.**

**Potential for cost differentiation**

- Leverage our physical footprint
- 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
- Emphasis on transactional customer relationships opposed to debt led-relationships, winning customer primacy
- Potential for reaching the unbanked
- Opportunities to support a just transition to low-carbon economy
- Leveraging strategic partnership

## Capital inputs

**Value is created over time as stocks of capitals increase**

Business model dependency on capital (Low / Medium / High) — Long-term value created per capital (Low / Medium / High)

**Human Capital**
Our people are our strength, our business model is therefore dependent on our human capital.
- 50% of women in senior leadership
- 5% employee attrition

**Financial Capital**
As a financial services provider our primary capital created and transformed is financial capital.
- Total deposits of P18.1 billion
- Gross loans of P17.3 billion
- Capital adequacy ratio of 22%
- Non-interest revenue to total income of 36%

**Intellectual Capital**
We are considered a systemically important bank in our market; thus, our structures and systems should be commensurate with the protentional impact on national financial stability. Systems, processes, protocols and technological architecture provide effective security and protection to our customers' data and wealth.
- Strong brand and physical footprint
- 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**
Our relationships with key stakeholders are crucial for our license to operate.
- Shared values and behaviours
- Understanding stakeholders' needs and expectations.

**Manufactured Capital**
We maintain a physical footprint although manufactured capital only makes up 0.9% of total assets.
- Global trend towards digital banking
- 32 branches
- 114 ATMS
- 4 810 PoS devices.
- 32 Agents

**Natural Capital**
We are not a large consumer of natural capital. However, our lending decisions can affect natural capital under the stewardship of others.
- Environmental risk assessment of credit applications aligned with Equator Principles
- Enhancement of product offering to include enablement of sustainable finance transactions

## Key outcomes

**Net positive**
- P1.86 bn revenue
- 52% CTI
- 23% RoE
- P1.6 bn economic value to investors

**Net positive**
- P472 mn paid to employees in salaries, incentives and benefits
- 53% employee experience index score
- 97% retention of high-performers
- 71% female employees

**Net positive**
- Increase in customers experience index

**Net positive**
- 15 094 consumers participating in financial education
- 11 608 ReadytoWork participants
- P422 mn procurement spend on a diverse supplier base
- P2.5 mn spent on community support
- P214 mn economic value to government

**Net positive**
- Increase in digitally active customers
- Improvement in digital channels availability

**Financial Inclusion**
SDG 1 SDG 8 SDG 10
Make inter-generational wealth accessible for all

**Climate**
SDG 7 SDG 13
Be a leader in sustainable finance

**Diversity, transformation and inclusion**
SDG 5 SDG 10
Enable all our employees to bring their true selves to work, and be a beacon of inclusion

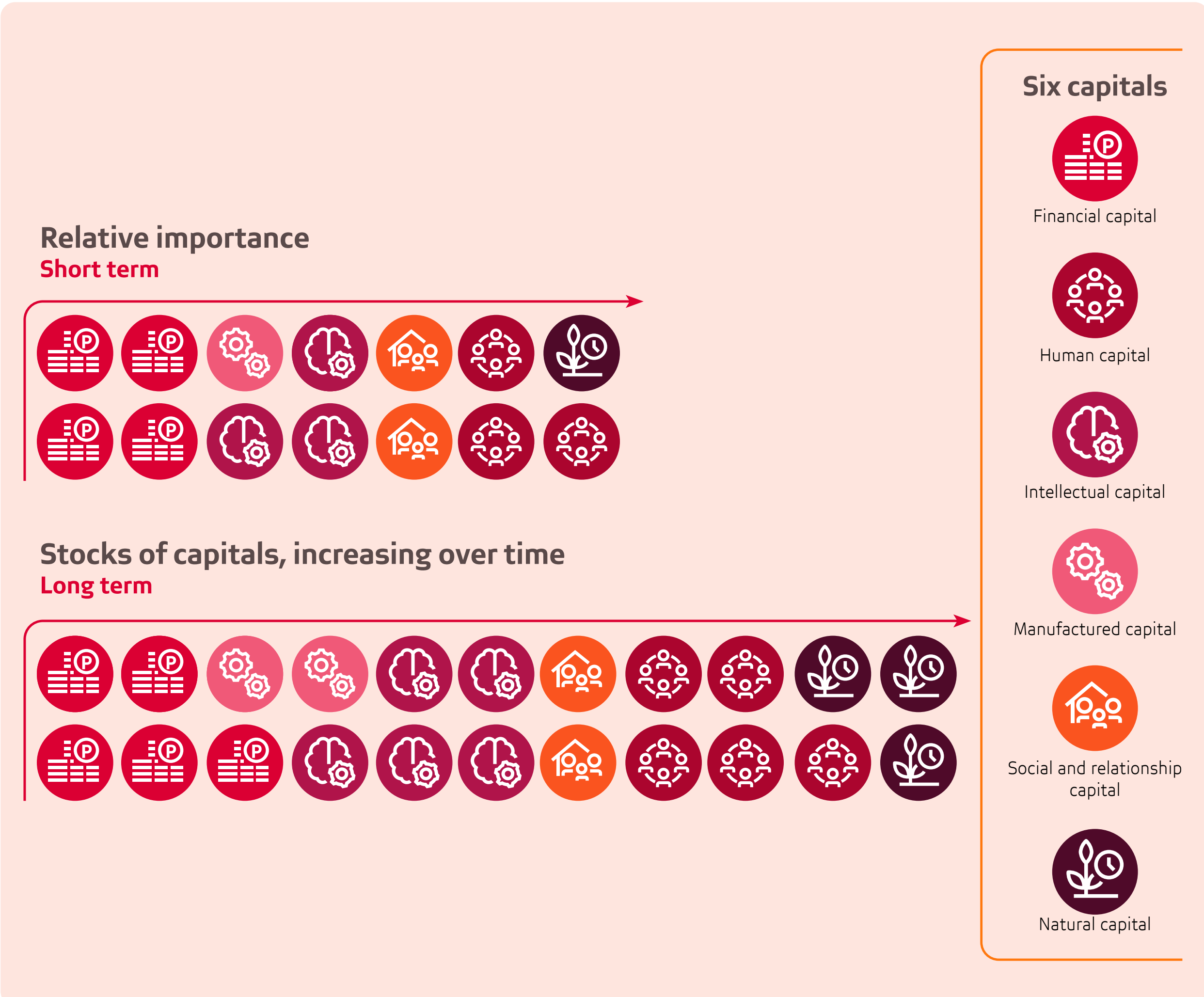
**Governance**
SDG 16
Our license to operate, a non-negotiable priority

Our business model continued

## Value over time

This is a symbolic representation of

- value created over time as Absa's stocks of capitals increase over what was initially required as inputs
- the relative dependency of our business model on certain capitals more than others
- increases in capitals because of deliberate choices, even if there is no direct benefit to the Bank in the short to medium term e.g., we choose to be an active force for good now without direct benefits as we believe our actions will benefit us in the long term.








# Our external environment

## Economic momentum

## Global and sub-Saharan Africa review

According to the International Monetary Fund (IMF), global growth decelerated from 6.2% in 2021 to 3.4% in 2022 and is projected to weaken further to 2.8% in 2023. Given the current environment of extreme volatility and economic shocks, growth forecasts are subject to a higher degree of risk and uncertainty than usual and are likely to be revised downwards. The subdued economic performance in 2022 was driven by a series of key headwinds related to the lingering COVID-19 pandemic, the impact of the war in Ukraine, the cost-of-living crisis and global monetary tightening, persistently high energy prices and the slowdown in China.

Global inflation reached a multi decade high of 8.7% in 2022, significantly higher than the pre-pandemic levels of about 3.5% (IMF). To moderate price growth, the US Federal Reserve Bank raised interest rates several times over the course of 2022. This policy approach resulted in capital outflows and reduced liquidity for emerging market players as investors reallocate capital to take advantage of higher rates of return in the US. Rising interest rates also led to currency depreciation among emerging market economies, which reduced purchasing power and increased the difficulty of servicing sovereign debt. This risk is significant for sub-Saharan Africa, with many countries already facing a debt crisis and being forced to choose between servicing debt or funding social and economic reform projects.

Despite higher inflation and lending rates, sub-Saharan Africa (SSA) economies performed better than expected in 2022 recording growth of 3.9%. Economic growth in the region was driven by policy support, resilient household spending, multilateral support, and improved tourism. However, we expect higher living costs and tightening financial conditions, fiscal stress, weaker commodity prices, adverse weather conditions and a subdued global backdrop to weigh on regional growth prospects in 2023. This will compound domestic challenges in key markets such as heightened power cuts in South Africa. The dwindling resilience could leave the economies significantly more vulnerable, with policy buffers constrained and rising debt sustainability as a major concern.

## Local economic review

Botswana's economy recorded 5.8% growth in 2022 lower than 11.9% in 2021. The lower growth was driven by base effects from the high growth rate in 2021 and a slowdown across most sectors of the economy. Mining output increased by 7.5% in 2022, a notable deceleration from 29.8% in 2021, while the Wholesale & Retail sector slowed down from 14.3% in 2021 to 5.8% and the Diamond Traders sector also decelerated from 85% growth in 2021 to 17.6%. Although the mining sector growth declined in the period under review, it is still the mainstay of the economy and continues to attract considerable foreign investment into the country, presenting sizeable opportunities for our business. The non-mining GDP grew by 5.3% in 2022 lower than 7.8% in 2021. Diversifying the economy to reduce high level of dependence on mining is a long-standing objective of the government. To support this goal, we are actively supporting non-mining industries such as agriculture sector where government is striving to build resilience in food supply chains and reliable domestic production. It is worth noting that while 2022 economic growth of 5.8% was lower than the previous year, it is still respectable considering the multiyear high inflation rate and an increase in lending rates.

## Inflation and monetary policy

Inflation remained above the Central Bank's medium-term objective range and averaged 12.2% in 2022 significantly higher than 6.7% average in 2021. Rising food and fuel prices lifted inflation to a 14-year high of 14.6% year on year in August 2022, outside the Bank of Botswana's (BoB) 3 – 6% target range. The import restrictions on some horticultural produce contributed to the rising food prices during the period under review. These developments have eroded real incomes, triggering cost of living increases, which especially impacts vulnerable groups. In an effort to alleviate the impact of higher inflation on households, government introduced a package of temporary measures, one of which was to reduce Value Added Tax (VAT) from 14% to 12%, from August 2022 for a period of six months, and extended the relief to March 2023. Rising inflation led to a tight monetary policy stance leading BoB to increase the Monetary policy rate (MoPR) by a cumulative 151 basis points in 2022. The period under review partly presented challenges to our business model as the high inflation, currency depreciation and rising interest rates resulted in a risk off sentiment and higher borrowing costs for our customers.

## Fiscal developments

According to the Ministry of Finance and Economic Development, the final budget out-turn for the 2021/22 fiscal year point to a 0.1% GDP deficit. This position shows an improvement and reflects higher than expected total revenue and grants from mineral revenue collections and revenues from BOB, as well as significant underspending on the development budget. However, the overall budget outcome for fiscal year 2022/23 is expected to worsen, with the deficit increasing to P4.9 billion or 1.8% of GDP. Government asserted its commitment to fiscal consolidation to improve public expenditure management and rebuilding the country's fiscal buffers. In order to achieve this, the government intends to reduce the wage bill as a share of GDP and improve the efficiency of parastatals and state-owned enterprises. We continue to position ourselves as a strategic financial partner to the government of Botswana by considering and aligning our strategy to broader national policies such as Vision 2036, the Economic Recovery and Transformation Plan (ERTP) which is part of the Mid-Term Review of NDP 11, the Reset and Reclaim Agenda and more recently the Transitional National Development Plan. The government continued to pursue its national development plan (NDP 11) in 2022 which resulted in a large component of development spending allocated to infrastructure development.

## Socio-political context

Botswana continued to experience broad political stability and high levels of policy continuity in the period under review. Further, the country was ranked 35th out of 180 globally in the 2022 Corruption Perceptions Index making it one of the leading examples in Africa. According to Transparency International, Botswana's strong performance was due to a robust democratic system in which the legislative and policy frameworks have continuously been improved. With political stability and a welcoming attitude towards foreign investors, the country presents a favourable operating environment which benefits our business model. On the downside, Botswana faces the challenges of structurally high unemployment (25.4% in the fourth quarter of 2022) and high levels of income inequality (Gini coefficient of 53.3%) weighs on the general consumer in Botswana and could also fuel public discontentment.

## Increased competition and technological change disrupt traditional business model

Increasing competition, advancements in digital technology, embedded finance, the need for innovative risk prevention, and rapidly evolving customer expectations are some of the factors that are placing pressure on traditional banking business models.

During the COVID-19 lockdowns, many individuals adopted digital behaviours and now expect the ease of access and personalization that have become the norm across other platforms. According to a recent McKinsey survey[1], 71% of those surveyed expect personalization from businesses and brands, and 76% of those consumers get frustrated when they do not receive it.

Within this context, traditional banks continue to focus on digital enablement and data-led innovation to meet consumer needs. At the same time, the competitive landscape for banks has evolved entirely, with an increasing number of digital-only providers and other non-banking competitors. Moreover, the rise in fintech consolidation has enhanced competition, with smaller competitors merging to create larger groups with broad offerings. To compete, banks are focusing on becoming the best ecosystem partners, partnering with retailers, e-commerce platforms and fintechs to acquire customers from these partnerships beyond their traditional channels.

While banks continue to become increasingly digitised, cybersecurity risks are on the rise, posing the threat of business interruption, ransomware attacks, data privacy breaches and material operational and financial costs. In fact, according to the Allianz Risk Barometer 2022, cyber incidents constitute Africa's top business risk.

## Business expected to empower a better tomorrow

The 2022 Edelman Trust Barometer cited business as the only trusted global institution to address the world's most pressing issues (including climate change and the energy transition), noting declining trust in governments, media and NGOs.

Financial services are fundamental to enabling economic opportunity through access to services such as banking, savings and investment, insurance and debt and equity financing. Likewise, economies depend on stable financial services that garner trust. While confidence in financial services has improved over the past decade, as an industry, we have not yet reached a trust status. Placing client primacy at the heart of banking is critical to ensure growth in trust going forward.

"Banks can sharpen their positioning through data-led innovation in their digital enablement efforts and trust-building with their core customers, by committing to ESG initiatives, and by showing their target customers that they can offer value that goes beyond just offering financial services and products[2]."

Financial markets can provide innovative and streamlined solutions at a scale that address the unique features of African economies and support the development of local businesses. By deepening and expanding domestic capital markets, liquidity can be increased, costs of capital reduced, and green and innovative instruments developed. However, this requires more robust institutional and regulatory frameworks that promote transparent and efficient markets and increase investor confidence.

Pleasingly, there is a growing commitment across the continent to ESG-related financing. Nine African countries now offer sustainable financial products while 17 have

[1] The value of getting personalization right or wrong is multiplying, McKinsey & Company, 2021
[2] Pwc – Retail banking 2025 and beyond





sustainability-focused policies in place. Moreover, governments are working to ensure they are well-placed to attract global capital focused on long-term sustainability[3].

## Changing employee expectations amid a war for talent

Our collective experiences of the pandemic fundamentally changed how we expect to work and the role of work in our lives. According to Microsoft's Work Trend Index 2022, which comprises information gathered from surveying 31 000 people across 31 countries, the number of hybrid employees rose 7% from 2021. Of those surveyed, 53% were likely to consider transitioning to hybrid in the year ahead. In addition, 47% of respondents say they are more likely to put family and personal life over work than before the pandemic. According to the World Economic Forum[4], artificial intelligence, anti-money laundering and automation will create 97 million new jobs by 2025, with existing jobs continuously evolving as employees are increasingly expected to augment their technology skills. With organizations across all sectors becoming more digitally driven, the demand for these skills has exponentially heightened competition in recruiting and retaining critical and scarce talent.

As part of our employee value proposition (EVP), the Absa Group Leadership Academy maintains partnerships with the International Institute for Management Development (IMD), Duke, Strathmore, and Henley Business Schools through which some of our talent gets exposed to high-quality programmes such as Masterclass in Self Leadership and Self-awareness, Masterclass in Self Leadership and Emotional Intelligence, Dare to Lead, Strategic Organisational Development and the Ignite Her women's development programmes.

## Regulatory change to address new frontiers of risk

Fast-paced changes in regulation within the financial sector to address new frontiers of risk have heightened demands on banks to ensure compliance, resulting in, among others, the increased cost of banking. Initiatives by regulators indicate shifts to the industry over the medium to long term with efforts to further monitor the conduct of financial institutions, adopt interbank offered rates and increase requirements on digital management. The local regulatory environment also continues to evolve to keep up with global changes.

In 2022, the BOB introduced and made amendments of eight (8) regulations with themes cutting across the enhancement of Anti Money Laundering/Combating the Financing of Terrorism (AML/CFT), beneficial ownership, data privacy and corporate governance regulations. The changes call for alignment of processes to the new or amended requirements through the revision and or amendments of existing policies and standards and where necessary enhancement of systems. To ensure smooth operation of our business, we endeavour to always be well prepared and responsive to regulatory changes as and when they occur.

> ***"Banks can sharpen their positioning through data-led innovation in their digital enablement efforts and trust-building with their core customers, by committing to ESG initiatives, and by showing their target customers that they can offer value that goes beyond just offering financial services and products[2]."***

[3] Absa African Financial Markets Index 2022
[4] World Economic Forum, The Future of Jobs Report 2020

# 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

**Who they are**

- 2 969 public shareholders holding 274 197 106 total shares, representing 32.18%
- 1 non-public shareholder being Absa Group Limited holding 577 964 146 total shares, representing 67.82%
- Shareholders include retail investors, asset managers 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**

- ▲ P1.9 billion revenue (2021: P1.6 billion)
- ▲ 23% return on equity (2021: 20%)
- ▼ 0.06% credit loss ratio (2021: 0.5%)
- ▼ 52% cost-to-income ratio (2021: 55%)
- ▲ Final dividend of 40 thebe per share declared (2021: 27.69 thebe per share)
- ▲ Total of 4 978 957 trades at a total value of P24.1 million in 2022
- ▲ All shareholder resolutions passed at the Annual General Meeting.

**Quality of relationship**

Poor — Strong

Our stakeholders needs and expectations continued

## Employees

**Who they are**

- 1 027 employees
- 71% women and 29% men
- 33 % below the age of 40
- 50 % below the age of 50
- 17 % 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 and responsible pay and terms of employment with market-related remuneration and benefits
- 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**

- ▲ 83 % response rate for employee experience survey (2021: 76%)
- ▼ 4.6% permanent employee turnover rate (2021: 5%)
- ▲ 97% retention of high-performing employees (2021: 96%)
- ▲ 50% of women in senior management (2021:45%)
- ▲ P7.7 million in training and development (2021: P5.2 million).
- ▼ 53% employee experience index score (2021: 59%)

**Quality of relationship**

Poor — Strong

## Our stakeholders needs and expectations continued

### Society

**Who they are**

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

**Needs and expectations**

Meaningful contribution towards scalable and innovative solutions that address societal and economic challenges. This includes supporting key interventions related to national development plans, the UN SDGs and the global ESG agenda. the post-COVID-19 pandemic recovery efforts as articulated in the following guiding frameworks.

**Strategic response/value proposition.**

Our societal interventions are aimed at meaningfully contributing to help create inclusive and sustainable economic growth aimed to impact our communities. We do this through: :

- Preparing young people for the future of work
- Advancing financial literacy and inclusion
- Providing products and services with a positive social impact
- Supporting an inclusive and responsible supply chain
- Minimising the impact of our business and carbon footprint on the communities and society
- Supporting national development objectives and policies to stimulate inclusive growth generating and distributing economic value.

**Measuring performance**

- ▲ P2.5 million in citizenship disbursement (2021: P2.2 million)
- ▲ 16 178 financial education participants (2021: 11 584)
- ▼ 2.2 billion housing loan book (2021: P2.3 billion)

**Quality of relationship**

Poor — Strong

## Our stakeholders needs and expectations continued

### Customers

**Who they are**

- 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
- User-friendly and reliable systems 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 empower their tomorrow by:

- 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**

- ▲ 85% Retail treating customers fairly score (2021: 83%)
- ▲ 80% Business banking treating customers fairly score (2021: 77%)
- – 88% CIB treating customers fairly score (2021: 88%)
- ▲ 82% Retail customer experience index (2021: 77%)
- ▲ 66% Business Banking customer experience index (2021: 63%)
- – 77% CIB customer experience (2021:77%)
- ▲ 36% NPS Retail (2021: 21%)
- ▲ 1.8% NPS Business Banking (2021: -1%)

**Quality of relationship**

Poor — Strong

## Our stakeholders needs and expectations continued

### Regulators

**Who they are**

- 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
- 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.
- Maintaining a transparent and constructive relationship with regulators.

**Measuring performance**

- ▲ 17% common tier 1 equity ratio (2021: 14%) remains within the Board target range and above minimum regulatory requirements
- ▲ 225% liquidity coverage ratio (2021: 208%) remains above Basel III minimum requirement
- ▲ 115% net stable funding ratio (2021: 108%) remains above Basel III minimum requirement
- ▲ 100% of employees completed preventing financial crime training (2021: 98%)
- ▲ 100% of employees completed the Absa Way Code of Ethics training (2021: 96%).

**Quality of relationship**

Poor — Strong



## Our stakeholders needs and expectations continued

### Planet

**Who they are**

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 social 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 sustainability risk framework and update of
- ▲ Credit policies for assessing transactions with and environmental lens.
- ▲ Planted 2 342 trees in the community for environmental and social impact (2021: 723).

**Quality of relationship**

Needs improvement — Strong

# Material matters

## Risk management overview

The Bank actively identifies and assesses risks arising from internal and external environments and proactively identifies 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 of 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:

- Maintaining a focus on operational resilience and proactively identify and mitigate internal and external risks arising from economic growth uncertainty brought about by Russia-Ukraine war and heightened global geo-political risk.
- Modifying credit and collections process in light of tighter economic environment.
- Aligning risk objectives to support our customers and in an efficient, responsible, and sustainable way.
- Continued refinement of control, efficiency, and operational resilience across critical processes in the Bank.
- Engaging regulatory authorities and other stakeholders on upcoming regulatory changes, to ensure the most appropriate outcomes for the banking sector and broader economy.
- Ensuring the implementation of a robust liquidity and capital management program to support the achievement of the Bank's objectives.

## Risk appetite

Risk appetite defines the level of risk we are prepared to accept across the different risk types, taking into consideration varying levels of financial and operational stress, in order to meet strategic objectives.

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

The Bank sets its risk appetite in qualitative and quantitative terms, taking into account expectations of multiple stakeholders. The quantitative risk appetite is set in terms of performance metrics as well as a set of mandate and scale limits to monitor risks. During 2022, the Bank's performance remained within its risk appetite limits.

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

| Risk metric | | Description |
|---|---|---|
| **Capital** | Total Capital Adequacy Ratio (%) | The Bank aims to have sufficient capital supply to remain within risk appetite and above minimum regulatory total capital adequacy ratio post management actions following a severe yet plausible stress. |
| | Tier 1 Capital Adequacy Ratio (%) | The Bank aims to have sufficient capital supply to remain within risk appetite and above minimum regulatory tier 1 capital adequacy ratio post management actions following a severe yet plausible stress. |
| | Common Equity Tier 1 Adequacy Ratio (%) | The Bank aims to have sufficient capital supply to remain within risk appetite and above minimum regulatory CET 1 capital adequacy ratio post management actions following a severe yet plausible stress. |
| **Earnings** | Earnings–at-Risk | With 90% confidence, the reduction in the Bank's pre-tax earnings will not exceed 80% following a severe stress event. |
| | Loan Loss Ratio (bps) | The Bank aims to prevent undue concentration and tail-risks (large, unexpected losses) by maintaining a well-diversified credit portfolio. |
| **Liquidity** | Liquidity Coverage Ratio (%) | The Bank has sufficient high quality liquid assets to survive a significant stress over a 30-day period. |
| | Net Stable Funding Ratio (%) | The Bank maintains a stable funding profile where available stable funding is adequate to meet its required stable funding. |



## Material matters continued

| Risk Theme | Statement |
|---|---|
| **Business and Strategy** | • Focus risk-taking on activities and business engagements that are core to the business strategy. This includes products, customer segments and geographies as they relate to the Bank's deposit taking, lending, transacting, trading, advisory, insurance and investment businesses.<br>• Pursue risk-taking through activities that the Bank understands and has the requisite skills and capabilities to manage. Continue to enhance the Bank's skills and capabilities in line with emerging opportunities, trends and changing markets.<br>• Minimise strategic drift in pursuing business objectives by pro-actively monitoring and responding to material deviations from planned outcomes in a timely manner. This risk appetite statement takes cognisance of the continuous change in the business environment and emerging opportunities. Maintain alignment to strategy while ensuring that the strategy remains supportive of the Bank's growth objectives, risk preferences and stakeholder value creation. |
| **People and Leadership** | • Recruit, train and develop an appropriate level of skilled and capable human capital in line with an effective operating model design for resourcing, supporting systems, diversity and performance.<br>• Align remuneration to support the delivery of strategic objectives and the efficient usage of financial resources in accordance with approved risk appetite.<br>• The Bank has no tolerance for any form of discrimination or prejudicial treatment based on age, culture, race, gender and disability, including harassment of any kind.<br>• Leadership to set an example for a high performing and values-based culture. |
| **Data and Technology** | • Maintain robust systems and recovery capabilities in order to minimise disruptions to operations due to incidents relating to technology infrastructure, third party service providers, cyber security, and data protection.<br>• Protect the Bank's infrastructure and customer assets as it pursues its digital strategy while maintaining robust and value-adding data management and processing capabilities.<br>• Evaluate the technology landscape on a continuous basis to ensure that the Bank has a forward-looking view of existing and emerging market trends to which it must respond. |
| **Capital Adequacy** | • Maintain capital adequacy at levels that enable the Bank to continue doing business under severe yet plausible stress conditions within Board approved risk appetite.<br>• Maintain capital levels above minimum regulatory requirements under a very severe stress event.<br>• Allocate capital optimally to generate appropriate returns and ensure that the Bank does not unduly hold capital in excess of the approved risk appetite. |
| **Funding and Liquidity** | • Maintain a healthy liquidity position by holding adequate but not excessive buffers of high-quality liquid assets above minimum regulatory requirements.<br>• Maintain the tenor composition of assets and liabilities at levels that ensure the sustainability of the Bank's funding structure under business as usual and stressed conditions. |
| **Concentrations** | • Maintain a well-diversified portfolio at all times whilst being cognisant of structural constraints that exist in specific markets in which the Bank operates. Manage structural concentrations within approved risk appetite.<br>• Conduct risk-taking activities in a manner that optimises concentrations in industries, sectors, products, counterparties, maturity, funding base, countries, types of collateral and credit protection providers. |
| **Earnings Volatility** | • Maintain diversified sources of earnings through an economic cycle to ensure sustainable shareholder value creation.<br>• Manage risk-taking activities within Board approved risk appetite for earnings volatility under business as usual and stressed conditions. |
| **Conduct Legal Reputation** | • Minimise the risk that harm is caused to our customers, or to the integrity and stability of the market.<br>• Regularly assess our customer engagement model to ensure we deliver on our customer centric principles.<br>• Uphold a satisfactory level of employee conduct and ethical behaviour at all times when carrying out activities on behalf of the Bank.<br>• Comply, at all times, with regulatory requirements and other laws to which the Bank and its subsidiaries are bound.<br>• Maintain business activities and processes which uphold the Bank's reputation, brand and franchise value. |
| **Environmental** | • Continuously assess the suitability of the Bank's products and customer value propositions against changing environmental and social factors while continuing to fulfil its role of growing the economy in a sustainable and responsible manner.<br>• Enhance understanding on climate-change risk and opportunity management and integrate into overall risk |

Material matters continued

## Risks from our operating context

The current risks noted below are considered material and are those to which senior management pays particular attention to 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 crystalise 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.

As discussed in the Bank's various risk forums such as Executive Risk Committee and Board Risk Committee, the risks arising from the operating context (e.g. **[A1]** and **[B1])** are tabled below, along with management responses.

**Global and local economic uncertainty –** macroeconomic factors globally placing pressure on sovereigns, companies, and individuals

**Current global and emerging risks**

- Decelerating but persistently high global inflation driving monetary policy tightening, and resultant sharp interest rate increases, will affect growth and economic activity, potentially introducing supply-side inflation into economies already under pressure sharply raising the risk of recession. **[A1]**
- As regulators strive for financial stability through interest rates hikes, stress is becoming visible particularly in global banks and consumers. Asset values are also negatively impacted. **[A2]**
- Continued geopolitical tensions, Russia v Ukraine, China v Taiwan/US, may lead to sudden spikes in commodity prices and inflation whilst pulling down economic growth at the same time. **[A3]**

**Management actions**

- Continuously scan and prepare for possible liquidity constraints.
- Improve client knowledge and develop strategies to support clients with liquidity issues.
- Use scenarios to evaluate the potential outcomes of a variety of factors. Management develops mitigating actions and assesses their effectiveness to guide decision-making.
- Maintain a strong collections processes and consider strategic capabilities, including heightened collateral monitoring.
- Monitor downside risk presented by the uncertainty.

**Risk types affected: credit, market, capital and liquidity, insurance, strategic and sustainability, model**

**Increased compliance risk due to new and emerging regulations and oversight** – the rapid pace of change and increasing complexity requires close monitoring

**Current and emerging risks**

- Increasing pace and evolving complexity of regulatory and statutory requirements across the Group's markets impact on the current business model. **[B1]**
- Skills development needed to meet new regulatory requirements for ESG risk disclosure, operational resilience assessments and digital assets regulation. **[B2]**
- Potential long-term impact of regulatory changes on business strategy and Group performance. **[B3]**

**Management actions**

- Maintain a forward-looking approach to evaluate, respond to, and monitor change.
- Engage with regulators and other stakeholders on regulatory developments.
- Build a robust control environment of compliance.
- Understand the impact of future requirements on the current business model and practices, and proactively make necessary changes.

**Risk types affected: credit, market, capital and liquidity, insurance, strategic and sustainability, model, compliance**



Material matters continued

**Strategic, execution and business risks are heightened** – these arise from external and internal drivers

**Current and emerging risks**

- Disruption driven by a constantly changing operating environment and evolving client needs. **[C1]**
- Potential adverse impact of large strategic change projects on strategy risk, change risk and people risk. **[C2]**

**Management actions**

- Monitor and manage risk strategy and risk appetite to identify and mitigate risks as they arise while supporting customers.
- Maintain focus on operational resilience and business continuity management.
- Continue investing in delivering scalable digital solutions.
- Ensure change projects are properly scoped, fully capacitated and closely monitored through senior oversight, including independent quality assurance.

**Risk types affected: credit, market, capital and liquidity, insurance, strategic and sustainability, model**

**Environmental and social risks impact the Bank, its customers and operating environment** – the developing nature of both these risks and their monitoring yields high uncertainty

**Current and emerging risks**

- Adverse impact of climate and social change will negatively impact communities and sharply heighten the Bank's credit and insurance risks. **[D1]**
- Climate and social change may cause increased migration resulting in heightened tension and complexities in managing social trends. **[D2]**
- Increasing expectations from stakeholders to integrate sustainability risk management practices with business activities. **[D3]**

**Management actions**

- Reduce the Bank's direct environmental footprint in line with its environmental action plan.
- Embed processes to encourage customers to adopt business strategies and practices that align with the Bank's sustainability objectives.
- Continuously enhance credit risk data, models and scenario analyses to assess the impact of climate change risk.
- Continue to engage with civil societies, shareholders and funding providers.

**Risk types affected: credit, capital and liquidity, insurance, strategic and sustainability, model, operational and resilience, compliance**

**Heightened resilience, fraud, financial crime, people and cyber risks expected for the foreseeable future** – preparing for systemic wildcard events requires resilience

**Current and emerging risks**

- Heightened risk of social unrest due to high inflation levels impacting cost-of-living, weak economic environments, infrastructure failures (including secondary impacts) and poor service delivery. **[E1]**
- Fraud and security risks arising from economic pressure. **[E2]**
- Increasing opportunistic financial crime and cybercrime (including ransomware attacks) and rising criminal activity sophistication. **[E3]**
- Increasing exposure to potential data leaks arising from third and fourth-party suppliers. **[E4]**
- Heightened risk to employee wellness from evolving social and economic environments. **[E5]**
- Evolving risks arising from unethical use of artificial intelligence tools relating to internal and external fraud, and cybercrime. **[E6]**

**Management actions**

- Maintain focus on operational resilience and proactively identify and mitigate risks.
- Maintain technology infrastructure's high stability.
- Invest in security platforms including external intelligence, customer awareness campaigns and industry collaboration.
- Embed a strong and resilient risk culture across the Bank.
- Enhance due diligence performed on third-party suppliers.
- Monitor and manage the impact on employees.

**Risk types affected: strategic and sustainability, operational and resilience, compliance**

## Materiality determination process

As a financial services provider, we play a pivotal role in the economic activity of individuals, businesses, and nations, helping to create, grow and protect wealth through partnerships in economic development. Many factors affect our ability to create value, including our operating environment, stakeholders, responses to risks and opportunities and our chosen strategy. This report provides the context for what we have deemed our material matters – those which can significantly affect our ability to create or preserve value or lead to value erosion over the short, medium and long term. Our materiality determination process is discussed and illustrated as follows:

**Identifying a list of potential matters considering:**
- Our external environment
- Strategic Overview
- Stakeholder's legitimate needs and expectations

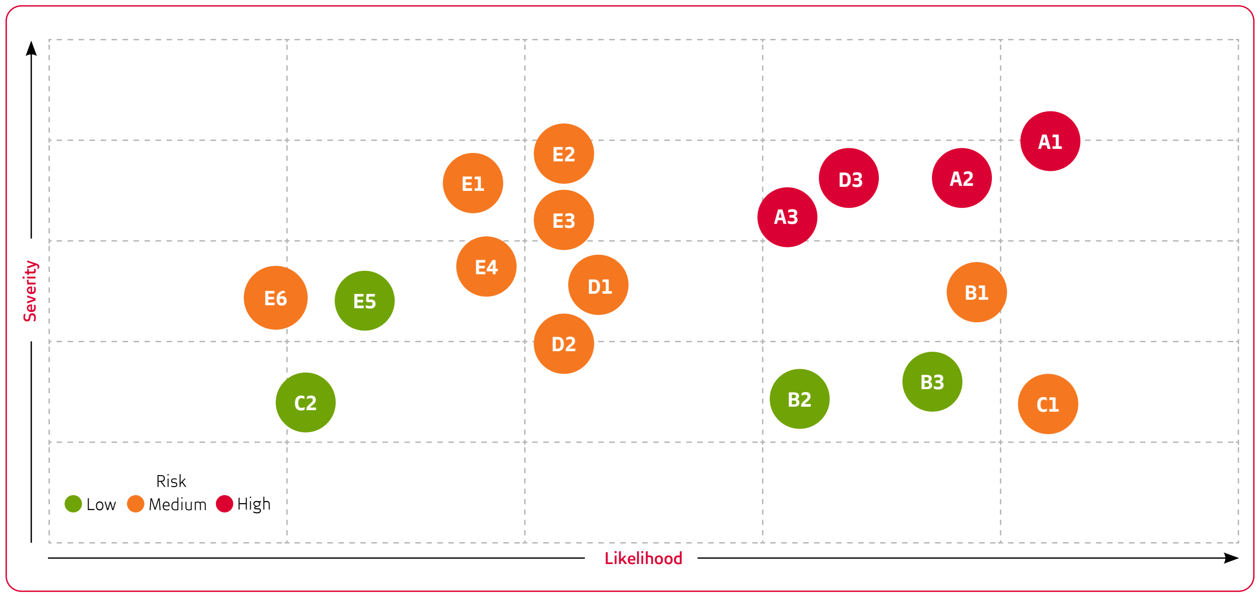
**Assessing the importance of a matter, taking into consideration**
- Our deep dive strategy review process, including a detailed business environment assessment, alongside risk and opportunities.
- The likelihood of a risk or opportunity coming to fruition.
- The arena of the effect, be it internal or external
- Our risk appetite framework ensures a balanced approach between future growth and responsible risk management.
- Quantitative and qualitative factors that influence the risk appetite of each principal risk
- Our integrated process consider potential opportunities and prospects; responses to changing consumer needs and dynamics; resource needs and relative variability; the trade-offs between possible responses; timing and execution requirements; the importance to, and impact on our strategy; and contribution to strengthening Absa's brand equity and reputation

We understand how the material issues associated with our business model affect our ability to execute our strategy.


**Considering the relevance of identified matters by:**
- Validating potential matters through local, regional, and global peer review
- Understanding their significance within our industry through scrutiny of thought leadership
- Engaging with various internal functions, including strategy, risk, investor relations, company secretariat, sustainability, and citizenship
- Noting whether matters are key topics of discussion at Board Committee meetings
- Understanding the root causes of changes in performance

**Prioritising material matters**
- Enables us to respond quickly to risks and opportunities specific to Absa and our strategic intent, magnifying our ability to create value.
- Prioritizing the risks and opportunities arising from the operating context is based on our Risk and issue Classification Matrix (RICM).
- As a formula, RICM is expressed as: Likelihood x severity of impact = Risk classification
- When assessing the severity of potential impact, we consider both financial and non-financial impacts. We consider non-financial impact types as they relate to regulators, customer, reputation, our service and employees.

Our material matters are prioritised as per graph below:








Stakeholders: Investor community, Customers, Employees, Regulators, Society, Planet

## Unpacking material matters

### Maintaining economic and strategic momentum

The current environment remains volatile. While we saw initial economic recovery as lockdown measures eased, economic momentum has been insufficient to return to pre-pandemic levels. Impacts include high inflation, low growth and supply chain disruptions caused by the rising cost of raw materials, commodities, energy and transport. The Central Bank has had to increase policy rates in response, which has resulted in tighter financial conditions characterised by higher interest rates and lower liquidity.

Within this context, not only does Absa need to adapt to the constantly changing operating environment but to evolving client needs and expectations, as they, too, are impacted by economic pressures.

We continuously assess how macroeconomic factors impact large strategic change projects.

### Principle risks affected

Credit, market, capital and liquidity, strategic and sustainability, model, operational and resilience.

### Opportunities

- Promoting financial inclusion through targeted and relevant financial products
- Innovating products, services and pricing structures.
- Expanding the non-traditional acquisition channels across the business.
- Delivering holistic and integrated product solutions to customers and enhancing Absa Rewards programme as rewards are central to driving customer engagement and primacy.
- Galvanising acquisition efforts in the youth and student segments.
- Scaling lending products.
- Driving efficiencies in cost.
- Creating balance in revenue mix.

### Impact on our business models

SDG 8 SDG 10 SDG 16

#### Financial capital

▼ Within a constrained environment, we recognise that there is an increased risk of credit defaults, inflationary pressures on our cost base and margin pressures.

▲ The increase in the Monetary Policy Rate by the central bank results in higher net interest income.

▼ Providing additional support to constrained customers affects margins.

#### Social and relationship capital

▲ Increased financial inclusion.

▲ Customer primacy and brand affinity.

#### Manufactured capital

▼ Physical footprint gives way to more efficient and cost-effective digital channels, possibly impacting on human capital.

### Link to strategy

**Diversify revenue streams with deliberate transactional led growth**

**Primary partner for our clients focusing on creating value across the entire client relationship.**

**An active force for good in everything we do.**

### Stakeholders

Material matters continued

## Digital dependencies and vulnerabilities

A rapidly developing competitive landscape, changing consumer demand, financial disintermediation and disruptive technologies have highlighted businesses' dependency on digital infrastructure. Non-traditional banking service providers are also partaking in the banking space through finance solutions offered to SMMEs.

Government and businesses recognise the need to digitise rapidly if they wish to compete globally but face constraints in technical and financial resources to build robust ecosystems.

As a digitally powered bank, we engage on the platforms and ecosystems our customers prefer, continuously diversifying and strengthening our modes of service delivery. Protection against data leakage and other security breaches is essential because banks play a vital role in ensuring functioning payment and settlement systems, thus demanding additional resources be funnelled to this priority area. Cybercrime and associated attacks (such as ransomware) remain significant threats to financial institutions domestically and abroad, with attacks becoming more aggressive, sophisticated and widespread. We have identified increased use of artificial intelligence tools to perpetrate fraud and cybercrimes. The increase in social engineering attacks, such as vishing place our customers at risk, increasing the need for us to educate our customers on how they safeguard against such attacks.

As a large financial institution, we use major international financial market infrastructure and transact with global counterparts, indirectly exposing the domestic financial system to global cyberattacks. Potential data leaks through reliance on third-party technology suppliers also pose a significant risk for financial institutions, as attacks on these providers are still prevalent. The ability to attract and retain technology professionals remains challenging, as this remains a rare skill set. The rise in remote workers has also created a unique challenge, necessitating heightened internal awareness to mitigate these employees' becoming targets of cyber attackers. Therefore, we continually work with our people to enhance their understanding of the risks involved and strengthen the systems enabling the Bank to track anomalies and proactively investigate potential threats.

## Principle risks affected

Strategic and sustainability, operational and resilience, compliance.

## Opportunities

- Adding new digital capabilities to the Absa mobile banking app further supports the increased digital adoption rate. This is also complemented with various security features to improve customer authentication, transact behaviour and real-time intervention where suspicious activities are observed.
- Capitalising on alternative channels (agency banking, USSD, mobile and internet banking and merchant acquiring).
- Enhancing primacy through customer service that is safe, reliable and seamless
- Enabling greater access to convenient self-service options for customers.
- Deepening understanding of customer needs.
- Increasing agility, efficiency and cost optimisation through cloud computing and artificial intelligence.
- Growing revenue from digital products and services through the use of mobile technology and fintech partnerships.
- Furthering financial and digital inclusion.

## Impact on our business model

SDG 5 SDG 8 SDG 10

### Financial capital

▲ Increased transaction volumes and higher digital inclusivity affect fee income.
▲ Cost efficiencies over the medium to longer term.
▼ Financial loss as a result of cybercrime and data loss.

### Human capital

▼ Scarcity of digital and technology skills resulting in talent wars.
– Helping to reskill the existing workforce drives retention and meets fundamental business needs while recognising that being digitally focused could impact job creation.
▲ Work from home and hybrid work, improving the employee value proposition.

### Social and relationship capital

▼ Increased reputational risk as a result of data leakage and other security breaches.
▲ Closing of the digital divide, increasing financial inclusion.



Material matters continued

Stakeholders: Investor community, Customers, Employees, Regulators, Society, Planet

## Link to strategy

Diversify revenue streams with deliberate transactional led growth

Primary partner for 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 employees.

A winning, talented and diverse team.

## Stakeholders

## Rising regulation

Banks face an ever-changing regulatory environment, with compliance failures that can lead to litigation, penalties and reputational damage. With the increased advancement of banking systems, for example, in crypto-currency and fintech, regulatory bodies aim to ensure compliance that secures economic stability to protect consumers and maintain institutional soundness.

The Central Bank, being a significant player in the regulation of the banking sector in Botswana, continues to monitor local and international developments from a standard setting and trends and policy perspective to ensure that the regulatory framework aligns regulatory capital requirements with a broad range of underlying risks inherent to a bank's portfolio and provide incentives for banks to improve their risk management systems and governance practices.

While up-to-date regulation is critical to promote responsible banking and protect customers and banks alike, the pace of change in these regulations

requires a coordinated, comprehensive and forward-looking approach. We, therefore, continue to bolster our regulatory capabilities (including specific skills development) to anticipate, influence and respond to our changing regulatory landscape while assessing the likely impact of regulatory shifts on our business model and strategic priorities.

## Principle risks affected

Credit, market, capital and liquidity, strategic and sustainability, model, operational and resilience, compliance.

## Opportunities

- Consistent policies in certain industry sectors, e.g., mining, to boost exports.
- A catalyst for progressive change through advocacy
- Technology-enabled models to improve ease of compliance.
- Improved public confidence in financial institutions.
- Increase in attracting foreign investment.
- Accessing international and local capital.

## Impact on our business model

### Social and relationship capital

▲ Sound, positive and healthy relationships with regulators.
– Compliance burden may affect customer journeys and experiences, yet customers benefit from the protection provided by regulation.
▼ Reputational damage as a result of non-compliance.

### Financial capital

▲ Increased costs to comply.
▲ Penalties and fines due to non-compliance.

## Link to strategy

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

An active force for good in everything we do.

## Stakeholders

## Evolving employee value proposition

COVID-19 changed the working landscape, with employees questioning traditional structures of work and employers seeking to identify strategies to keep employees engaged. The pandemic also renewed the emphasis on employee health and wellbeing. As a result, companies are under scrutiny regarding their response to mental health challenges. Fostering open dialogue has never been more critical for companies to demonstrate their commitment. Employees are also increasingly looking to work in inclusive and diverse environments.

Global insecurity resulting from economic hardships, geopolitical events and political instability has resulted in many moving away from their home countries or regions in search of better opportunities, resulting in a brain drain from some countries and an increase in skilled migrants into others. The war for talent is ongoing, as many organisations prioritise attracting and retaining the best skills. Furthermore, due to rapid skills obsolescence, there is a need to leverage digital transformation to build the talent and skills required for the future of business.

Absa understands that its people's wellbeing is vital to building a winning, talented and diverse team, as it increases employee productivity and engagement. We continue to support hybrid working as the new normal, and this model will remain part of our blueprint. To prepare our organisation for this longer-term transition, we continue to upskill employees and leaders with the knowledge and tools to enhance productivity, engagement, and inclusiveness in a virtual world. Furthermore, the Bank is committed to progressing its transformation and inclusivity agenda, believing that diversity presents a competitive advantage that will continue to shape our organisational agility and resilience in years to come.

By establishing ourselves as an employer of choice, we gain access to the top skills in the marketplace. Likewise, our internal initiatives enable our employees to continually upskill and reskill based on the evolving needs of our business. This, too, becomes a drawcard for talent.

## Principle risks affected

Strategic and sustainability, operational and resilience.

## Opportunities

- Engaged and talented workforce.
- Employer of choice for current and prospective employees
- Home of Botswana's leading talent.

## Impact on our business model

SDG 5 SDG 8 SDG 10

### Financial capital

- ▼ Fair and equitable remuneration appropriately addressing unfair remuneration differentials as well as attracting and retaining high performers.
- ▼ Investment in skills development and training.
- ▲ Lower hiring cost as top talent remains with Absa.

### Human capital

- ▲ Increase in employee engagement index.
- ▲ Win the war for scarce skills.
- ▲ Improved employee value proposition.

### Intellectual capital

- ▲ Increased know-how and institutional knowledge.
- ▲ Employees equipped for work in the digital age.
- ▲ Profile changes to reflect a more diverse team in terms of age, race and gender.

## Link to strategy

**Primary partner for 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 employees.**

**A winning, talented and diverse team.**

**An active force for good in everything we do.**

## Stakeholders





Stakeholders

Investor community · Customers · Employees · Regulators · Society · Planet

## Social cohesion erosion

Still nursing the physical and emotional effects of COVID-19, many are dealing with mental health deterioration. As a result, government and businesses have increased wellness campaigns and initiatives to support people and communities dealing with stressors in their social and economic environments.

Unemployment, weakening wage growth, and heightened poverty impact our customers and increase instability, business disruptions and social unrest. We, therefore, continue to interact with government and through various associations, seeking to advocate for enabling policy environments that promote national objectives and beneficial socio-economic outcomes.

Our products and services support financial wellbeing and extend financial inclusion to lower-income groups. In this way, we contribute to a more inclusive economy and societal financial wellness, developing affordable, needs-based financial products delivered through innovative and convenient channels supported by consumer education and financial literacy training.

## Principle risks affected

Strategic and sustainability, operational and resilience.

## Opportunities

- Financial inclusion.
- Equal opportunity and poverty eradication.
- Customer primacy and extended customer life journeys.
- Increased and diversified revenue streams.

## Impact on our business models

SDG 8 SDG 10 SDG 16

### Financial capital

- ▼ Increased loss from disruption and damage.
- ▼ Investment in communities.

### Social and relationship capital

- ▲ Reputational gains supporting communities.
- ▲ Customer primacy.

### Human capital

- – Preservation of available job opportunities.

## Link to strategy

**Primary partner for our clients focusing on creating value across the entire client relationship.**

**An active force for good in everything we do.**

## Stakeholders

## Material matters continued

### Climate change and a just transition

Extreme weather events continue to have a global impact, and there is an urgency to move towards a low-carbon economy. By becoming a low-carbon economy, Botswana would benefit from gaining a competitive advantage through lowering its cost of carbon, increased technological innovation and enhanced leverage in trade agreements. Financial institutions remain vulnerable to the effects of physical and transition risks because of climate change, which heightens credit and insurance risks. With climate risk pervasive across industries, there is also a war for talent, as climate science and risk management expertise are scarce. Furthermore, ESG stakeholder expectations are evolving, and there is added pressure on banks to support clients' transition to a zero-carbon economy, focusing on banks assessing the industries they finance. Within this context, we recognise that while our direct impact on climate change through our carbon footprint may not be material, our impact on driving a low-carbon economy is significant through our products and services.

Regulators are also monitoring developments in climate change. Climate change poses systemic risks to the local economies, infrastructure, water and food supplies, public health, agriculture and livelihoods. Clients in the agriculture sector are also heavily impacted, increasing the risk of food insecurity. There is a lack of infrastructure and low investment in renewable energy sources, and Botswana remains heavily dependent on fossil fuel driven industries. Carbon-intensive industries also employ a significant proportion of workers. Shifting away from these industries could lead to unemployment issues. Transition efforts should therefore consider societal repercussions and opt for solutions that holistically address social and environmental challenges.

### Principle risks affected

Credit, capital and liquidity, insurance, strategic and sustainability, model, operational and resilience, compliance.

### Opportunities

- Positioning Absa as a leader in sustainable finance
- Increasing insight into customers' sustainability needs and roadmaps to net zero can lead to new financing opportunities, including nature-positive financing
- Furthering capital allocation to environmentally responsible businesses
- Access to sustainable green loans
- Contributing to a just transition and responsible consumption
- Driving business continuity for clients.

### Impact on our business model

SDG 7 SDG 8 SDG 13

#### Social and relationship capital

- ▲ Supporting clients' transition paths.
- ▲ Appreciate the social context to ensure a just transition.

#### Financial capital

- ▲ Investors are seeking climate and environmentally friendly opportunities, which will diversify our funding base and reduce funding costs.
- ▲ Increased and diversified revenue from sustainability-related products and services.
- ▼ Increased impairment risk due to physical and transition risks because of climate change.

#### Human capital

- ▲ Increased ESG skills and talent.

#### Natural capital

- ▲ Low-carbon societies and businesses.
- ▲ Food and water security.

### Link to strategy

**Diversify revenue streams with deliberate transactional led growth**

**Primary partner for 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 employees**

**A winning, talented and diverse team.**

An active force for good in everything we do.

### Stakeholders

## Together...one story at a time – delivering value

# Managing Director's report

*Through the sustainability strategy, we are actively contributing in four areas, being inclusive financing, environmental sustainability, education and skills development and promoting a just society, while committing to the highest standards of governance and ethics.*

Keabetswe Pheko-Moshagane
Managing Director

## Context

Despite a challenging and competitive operating environment, the Bank delivered an excellent set of results, evidenced by a 23% return on equity. While the threat and impact of COVID-19 receded in 2022, a full recovery to pre-COVID-19 levels is yet to be realised in some parts of the world and certain sectors. The business operating environment remained volatile as we continued to face some considerable headwinds, such as the Russia/Ukraine conflict, which caused substantial global uncertainty, resulting in Botswana's inflation reaching a multi year high of 14.6% in August 2022. Rising inflation led to the Monetary Policy Rate (MoPR) increasing by a cumulative 151 basis points in 2022. All this culminated in a cost-of-living crisis, eroding customers' purchasing power and their ability to save.

Botswana's GDP grew by 5.8% in 2022 below the 11.9% witnessed in 2021. As expected, economic growth projections reflect further deceleration to 3.7% in 2023. As a result of this downward trajectory, the Government of Botswana has responded by introducing incentives to stimulate economic growth, particularly in terms of a diversified private sector -led growth, which is to be delivered as part of the Transitional National Development Plan (TNDP).

As a bank, we have ramped up our efforts across all levers, in order to insulate our operations against the unpredictable business environment by refreshing our strategy, in tune with the global trends and developments in our industry and market. We have also identified opportunities by solutioning for the identified market challenges.

## Financial performance

Our financial results are solid, and I am pleased to report that we have exceeded pre-COVID-19 levels for most of our key indicators. It is important to highlight that our performance is due to a sturdy pre-provision profit growth, which is driven by an unwavering focus on efficiency and a commendable revenue growth. Our cost to income ratio is within our target of lower 50s. This demonstrates a well-executed strategy that is on track to meet our commitments and stakeholder expectation.

Our balance sheet is strong and we have ample capital to support our growth ambitions, with our capital adequacy ratio of 22% above regulatory requirements and internal target. Although 2023 macro-economic indicators are daunting, we are well positioned to continue delivering in a difficult operating environment. The Bank's provision coverage remains appropriate, and we continue to invest in our growth ambitions from a client, platforms and a branding perspective. Over the last year we maintained a comparatively low expense growth rate driven by cost management strategies across board. We were also intentional in our system and platform stability and believe these are key inputs for a desirable customer experience and brand embedment output, ultimately preserving value for our shareholders. A detailed view on our financial performance metrics, delving into our different business sectors can be found on the Finance Director's report on pages 54 to 57 of this report.

## Delivering on our strategic commitments

Two years after the successful launch of our new brand and taking into considering our market context, it was important to refresh our strategy. Our Group and Botswana strategy still re-anchors our 2018 strategy to enable us to build on our learnings, success and momentum. This resulted in the 5 key strategic pillars that will shape our direction going forward. The pillars revolve around the following:

- Our people and leadership
- Being a primary banker for our clients
- Revenue growth and diversification
- Being a digitally powered business, and
- Being a force for good in everything we do.





For the Bank to achieve its set targets, it is imperative for due focus on our people agenda. We have won the Top Employer award by the Top Employers Institute® consecutively over the last two years, but we have not let this accomplishment stop us from ramping up our efforts to building a winning, talented and diverse team, as we understand the criticality of this lever. Over the past few years, we have developed an employee value proposition that we believe has put the Bank at the forefront of attracting top talent. Our employee wellness remained crucial as we supported employees to deal with psycho-social and health issue of the COVID-19 aftermath. We have also embarked on a culture transformation journey, seeking employees' insights on our culture and work environment through the employee experience survey, where 83% of our employees participated. We have challenged ourselves as a leadership team to focus and hone our efforts to resolve any identified matters in a sustainable manner, engaging employees throughout the journey. Investment in our employee's development remains critical and to this end, staff training costs increased by 49% from the prior year.

Secondly, a priority for us in the medium term is to be the primary partner for our clients. Supporting customers when they need us most is an essential element of this strategic theme. In 2022 we continued to provide support to SMEs through our Enterprise Supply Chain and Development program, providing capacity building to over 1 000 SMEs. The program allows the Bank to support customers to access finance and markets.

Thirdly, building a digitally powered business as a key enabler remains top of our strategic agenda. We pioneered the delivery of Quick Response (QR) code cash withdrawal facility, enabling our customers to access their cash through our ATMs using their mobile phones instead of a card. We are mindful of the challenges that are brought by advancement of technology and as such have invested considerably in enhancing our cybersecurity as we developed our platforms. As a result of our focus on our digital transformation, we have seen an improvement in the number of customers using our digital platforms.

Market dynamics continue to impact the sources and quantum of our revenue pools. It becomes imperative therefore, that we remain laser focused on our fourth strategic pillar of revenue diversification. The execution of this pillar was mainly driven by:

- Remaining clear on the economic sectors that we aim to explore, maintain and grow
- Aligning our strategy to key government programs that support citizen empowerment and economic growth
- Continued focus on enhancing our digital offerings, and
- Relentless customer focus leading to new customer value propositions

Lastly, the significant focus on ESG in recent years makes being "an active force for good in everything we do" even more important in how we operate and execute on our mandate as a financial institution. Details on our achievements on this pillar are therefore included below.

For additional information on our strategy execution, refer to the together one story at a time - delivering value section on pages 58 to 69 of this report.

## Making an impactful contribution to the environmental and social issues

During our strategy refresh process in late 2021, the criticality of ESG was elevated. This gave birth to our medium-term sustainability strategy, which forms the foundation of integrating ESG priorities into our operations and core business strategy. The strategy is linked to the United Nations Sustainable Development Goals (SDGs) that we consider most relevant for our business and operating context.

Through the sustainability strategy, we are actively contributing in four areas being inclusive financing, environmental sustainability, education and skills development and promoting a just society, while committing to the highest standards of governance and ethics.

Climate change is the central theme of the environmental agenda. Our operations do not heavily rely on environmental inputs. However, our lending decisions can affect natural capital under the stewardship of others. This presents an opportunity for us to provide progressive sustainable finance solutions. We have therefore put in place frameworks and policies to guide our lending practices that support sustainable financing.

Additionally, we are even more engrossed on inclusive financing, including the mass market and SMEs. We funded 211 SMEs to the total value of P157.7 million. Majority of the SMEs funding was through our ESD programme, where funding was to enable them to participate in the large corporates value chain opportunities brought about by the Government's implementation of the Economic Inclusion Act. Financial literacy education was offered to our retail customers in an effort to enable them to make decisions that will culminate in the creation of generational wealth.

We partnered with like-minded organisations to prepare young people for the future workplace using our bespoke ReadytoWork programme. In addition, we delivered demand-led and innovative interventions that are aligned to national imperative initiatives aimed at addressing youth employability. This includes funding at our leading national tertiary education institutions for studies in the science, technology, engineering and mathematics (STEM) field. We continued with the hackathon and incubation programme, upskilling the youth with entrepreneurial and digital solutioning skills.

Managing Director's report continued

Our success is interlinked with the wellbeing of the communities in which we operate. We aim to amplify the positive impact of the Group by contributing to solutions that address several socioeconomic challenges. In 2022, we proudly committed and contributed to people living with disabilities empowering them with financial knowledge and due support. To this end, we contributed over P2m in support of various community initiatives.

## Redefining our purpose

Over the last year, as part of the Group, we begun a journey of collectively reviewing our vision and purpose as a pan African bank. We started the journey by assessing the building blocks that lie at the intersection of what the world needs, what we have to offer, and what will make us proud, considering the invaluable input from employees across all the Africa Regional Operations, including Botswana. Through this process, key themes emerged around our role in powering Africa's possibilities, enabling our clients to realise their dreams, investing in people and exemplifying integrity. Building on this input, our new purpose statement, as finalised in January 2023 is: Empowering Africa's tomorrow, together...one story at a time.

A key focus in 2023 will thus be to embed the new purpose, placing it at the core of what we do, unpacking what it means to our everyday roles and responsibilities and guiding the continuous evolution of our brand to one that inspires our employees and customers while evoking a sense of pride. Our purpose will guide us as we empower our tomorrow together one story at a time.

## Conclusion

At the time of writing this, there is heightened uncertainty in global banking markets with the collapse of major banks and financial institutions. Regulatory responses have been swift and cohesive, and whilst we continue to monitor the situation closely, we do not envisage systemic risk to the Botswana banking sector. Furthermore, the global, regional and domestic economic outlook remains uncertain given the geopolitical tensions, tightening monetary conditions, weaker commodity prices and adverse weather conditions. We have however observed an easing of inflation in the first half of 2023. Despite these headwinds, we remain cautiously optimistic that we will successfully deliver our medium-term strategy with the support we continue to receive from all our valuable stakeholders. I remain confident in my leadership team's ability to respond accordingly, but it is also important to note that the Botswana banking sector remains liquid and well capitalised.

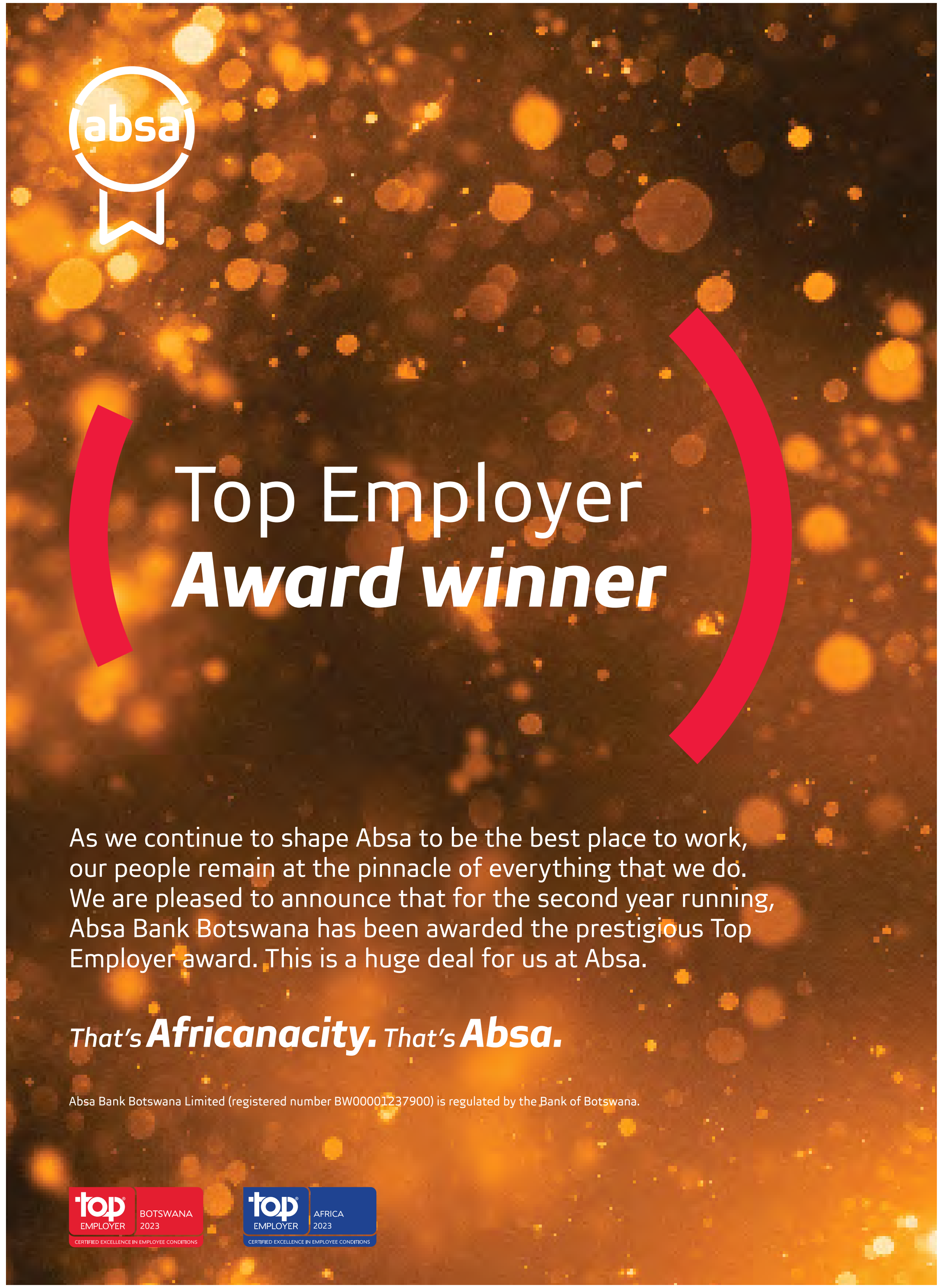
As an industry, we have witnessed dynamic developments in our regulatory landscape and as a Bank we are committed to working with our regulators to continue making our industry safe, stable and secure. We are alive to the increased spurts of Cash-in-transit heists and have augmented our collaboration between law enforcement agencies and other players in the banking industry to mitigate the risk.

I would like to thank Krishnan for his leadership as the interim Managing Director during my extended leave and also express my gratitude to my executive team and all employees for their unwavering support during this time.

I would also like to appreciate the Board for their support, guidance and provision of strategic oversight over the operations of the Bank.

To our loyal customers, thank you for the vote of confidence every time you use our platforms and allow us to serve you. We will continue to forge ahead with your loyalty in mind. Let me encourage all our stakeholders to share their thoughts and insights on our report by sending an email to Botswana. CustomerService @absa.africa.





# Finance Director's report

*Over the last year, we continued to witness volatility in the global economy.*

Cynthia Morapedi
Finance Director

## Strategic performance

Revenue growth
**13%**
(2021: 5%)

Revenue
**P1.9 billion**
(2021: P1.6 bn)

Cost-to-income
**52%**
(2021: 55%)

## Shareholder value

Profit before tax
**33%**
(2021: 81%)

Return on equity
**23%**
(2021: 20%)

Total dividend per ordinary share
**40.00 thebe**
(2021: 27.69 thebe)

## Strong deposits and loans

Net loans and advances
**P16.3 billion**
(2021: P14.9 bn)

Customer deposits
**P17.0 billion**
(2021: P16.4 bn)

## Normalising risk profile

Expected credit losses
**P10.4 million**
(2021: P79.5 mn)

Pre-provision profits
**P890.4 million**
(2021: P738.8 mn)

## Strong capital and liquidity

Capital adequacy ratio
**22%**
(2021: 17%)

Liquid asset ratio
**15%**
(2021: 15%)

**The bank continues to post positive results with improved financial performance, and we remain committed to bringing a meaningful return to our shareholders as evidenced by our year-on-year improvements and the Bank's forward momentum.**

## Improvement in earnings to pre-COVID levels

The pandemic is no longer a significant driver of activities surrounding our business operations, and we believe that as a bank and a country, we are now in the post-COVID management era. The results that have been posted in the audited financial statements confirm that our business has recovered, and the 2022 key indicators are up not only on 2020 and 2021, but on pre-COVID levels. We believe that we have adapted well to changes in the operating environment that were occasioned by the pandemic and its aftermath, and we remain optimistic that our operational resilience will continue to bring value to our shareholders.

## Overview of 2022

Although we are operating in uncertain economic terrain, the Bank's response strategy has delivered a positive set of financial results for 2022, indicating the recovery of our financial performance and of the business environment post-COVID. While inflation is softening, it still well above the BoB target range and the marginal propensity to consume (MPC) figures continue to indicate that inflationary pressure has filtered through to consumers, especially when viewed through the lens of consumer deposits and the volume of transactions executed over the reporting period.

Businesses continue to operate under immense pressure from a cost perspective and there is the ever-present danger of returns diminishing over time. It is therefore imperative for us to continue to manage costs and to find more efficient means of delivering superior product and service standards to our customers.

## Revenue performance

Our total revenue grew by 13% year-on-year to P1.9 billion, driven by good performance in both net interest income and non-funded income, which grew on the back of the recovery of economic activities in 2022. This improved trajectory was evidenced across the different segments. The Retail and Business Banking segment realised 28% growth (17% in 2021), while Corporate and investment banking (CIB) saw 43% year-on-year growth.







## Summarised statement of comprehensive income

| | 2022 P'mn | % change | 2021 P'mn | % change | 2020 P'mn |
|---|---|---|---|---|---|
| Net interest income | 1 186 757 | 13% | 1 048 404 | -1% | 1 055 003 |
| Net fee and commission income | 671 276 | 12% | 600 797 | 15% | 520 586 |
| **Total Revenue** | **1 858 033** | **13%** | **1 649 201** | **5%** | **1 575 589** |
| Operating expenses | (967 589) | 6% | (910 419) | -4% | (948 411) |
| **Pre-provision profit** | **890 444** | **21%** | **738 782** | **18%** | **627 178** |
| Credit losses | (10 422) | -87% | (79 475) | -70% | (263 235) |
| **Profit before tax** | **880 022** | **33%** | **659 307** | **81%** | **363 943** |
| Taxation | (207 942) | 33% | (156 715) | 133% | (67 197) |
| **Profit for the period** | **672 080** | **34%** | **502 592** | **69%** | **296 746** |
| **Basic and diluted earnings (thebe per share)** | **79** | | **59** | | **35** |

## Interest income

Despite the prevailing economic conditions, thin market liquidity and inflationary pressure impacting cost of funding and interest expenses, interest income grew during the period under review. Gross interest income grew 19% year-on-year (2% in 2021), and interest expense grew by 37%, resulting in net interest income growth of 13%, compared to a 1% contraction in the previous year. Healthy balance sheet growth across segments contributed to improved net interest margins.

## Net fee and commission income

Gross fee and commission income grew by 10%, and this resulted in an increase of 4% in net fee and commission income (14% in 2021). Transactional volumes reached pre COVID-19 levels, signalling a positive recovery in business sentiment. The bulk of this growth was propelled by our digital drive and adoption coupled with the momentum in transactional volumes during the year under review. It is important to note that the success story around our digital strategy has borne positive fruits in terms of expanding our fee and commission income base.

Commission expense increased, principally from fee expenses incurred as volumes increased. The bulk of our transactional banking portfolio is foreign currency based, and the movement of the Pula against major currencies will impact the transactional costs. In 2021, we had posted a net reduction, primarily because of the benefit in foreign exchange movements, but in 2022, those movements were in the opposite direction.

## Improving cost-to-income ratio

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, improving our cost-to-income ratio from 55% in the previous year to 52% in the period under review. The decrease resulted from our robust cost containment, process optimisation and cost avoidance strategies as well as from our continued drive to enhance operational efficiencies and grow our revenue.

## Earnings performance

We remain optimistic that our operational resilience and momentum will continue to bring value to our shareholders despite the prevailing challenges and economic uncertainties. 2022 saw the Bank pursue its digital strategy which included investment in new technologies, building and integrating new platforms, rolling out new products, and by employing appropriate portfolio management strategies especially under periods of stress. Executing on revenue diversification strategies and building operational efficiencies contributed positively to our financial performance.

## Shareholder value

Despite operating costs continuing to rise on the back of high inflation, we saw a material recovery in our profitability by 33% compared to 2021. Pre-provision profit of P890 million was achieved, an increase of 21% over the P739m achieved in 2021, and this outcome translates to a full-year profit before tax of P880 million (P659 million in 2021). Profit after tax for 2022 was P672 million, an increase of 33% from P503 million in 2021.

This performance indicates that the business continues on its solid recovery trajectory in spite of the uncertainties of the post-COVID economic landscape. Return on equity (ROE) for 2022 was 23%, a 3% improvement from 2021, and the total final year dividend is 40 thebe per ordinary share, up from 27.69 thebe in the prior year.

*We maintained strong capital positions for the year under review, with total capital ending at P2.9 billion, positioning us well to support future growth. This signals a Capital Adequacy Ratio (CAR) of 22% which ended at 19% post final dividend payment, against a regulatory limit of 12.5%.*

## Total balance sheet growth

Our balance sheet remains solid and on an upward trajectory. On aggregate, our total balance sheet has grown by 6% with a total financial position of P22.7 billion. We maintained the structural composition intact year-on-year with loans and customer deposits being the primary driver of our balance sheet growth.

## Growth in customer deposits

The price of money has increased, illustrating that constraints exist, and customers expect significantly more for their money than was the case in 2021. Despite inflation induced liquidity challenges which have reduced the amount that ordinarily would be available for investment and savings, customer deposits grew by 4% to P17 billion in 2022, which was slightly below the industry rate. This was largely driven by the active acquisition and penetration strategies, which enabled us to address the needs of our customers and grow our deposit base. In 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 (CASA) balances.

## Growth in customer loan book

Our customer advances recorded moderate positive year-on-year growth, increasing by 10% from 14.9 billion in 2021 to P16.3 billion in 2022, mainly driven by opportunities in our retail banking segment for 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. The Bank's loan book growth was slightly ahead of the industry average of about 7%, suggesting the success of a deliberate strategy to proactively support our customers and strategically deploying our capital and the performance of our balance sheet reflects deliberate and intentional growth in the sectors where we have chosen to play.

## Credit impairments

While expected credit losses (ECL) had been a significant driver of our performance for 2020 and 2021, impairments over the reporting period have been immaterial in terms of credit exposure for purposes of financial performance. Expected credit losses for 2022 were P10 million, a 87% improvement from P79 million in 2021, signalling an end of the significant COVID-induced impact on credit risk and the numbers that we posted in the past three years. In 2020 we had taken a deliberate approach to be pro-active in terms of forecasting significant increase in credit risk due to the impact of the pandemic, resulting in a material charge to our profit of P263 million in that year. However, this strategy provided a sound base cover from a credit loss perspective and significantly benefited the 2022 performance.



Finance Director's report continued

During the year under review, the minimisation of expected credit losses is a tribute to 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.

The impact of macroeconomic variables, specifically GDP performance, in our impairment modelling is quite significant. Projections of future GDP performance impact our credit modelling. As a result, the material recovery in the GDP numbers over the past three years resulted in a commensurate recovery of our impairment costs.

## Liquidity position

The overall market liquidity remains relatively subdued due to competing needs for funding across different sectors and cost of funding pressure. Over the reporting period, we tapped into our note programme to raise funds to support growth in our business as an alternative funding model to using customer deposits. This was part of our overall mixed strategy to ensure adequate and stable funding over the medium term.

## Capital levels

We maintained strong capital positions for the year under review, with total capital ending at P2.9 billion, positioning us well to support future growth. This signals a Capital Adequacy Ratio (CAR) of 22% which ended at 19% post final dividend payment, against a regulatory limit of 12.5%. The Liquid Asset Ratio (LAR) was 15% against the 10% regulatory limit. The Common Equity Tier 1 ratio increased to 17% from 14% and remained comfortably above regulatory requirements.

## Dividend

In light of our improved financial performance and sound capital levels, the Board resolved to declare a final dividend of 40 thebe per share for the year ended 31 December 2022, which was paid on the 22nd of May 2023. An initial interim dividend of P103 million was declared, and a final dividend for the year under review was P342 million, bringing the total dividend for the year to P445 million.

## Performance by segment

### Retail banking

Consumer lending is still one of our significant areas of growth driving our performance, and it was the same in 2022. The introduction of new products and services to our customers, which is underpinned by the digital agenda, has continued to significantly impact the performance of the segment.

### Business banking

Business banking is our flagship franchise and the vehicle through which we actively participate in the economy of Botswana. To this end, we consider citizen economic empowerment initiatives as pivotal to our overall strategy and key drivers of growth for 2022. Our ESD value proposition continues to grow and bring positive results year-on-year. Previously, it was focused primarily on the mining value chain, however we are on a deliberate strategy to expand the value proposition to cover other areas outside mining.

In terms of digital adoption, we have seen the evolution and maturity of our customers in terms of digital platforms within the SME portfolio, their comfort levels, and their ability to take up new services and products to better manage their business. The mobile banking app as well as the debit card for SMEs are some of the advances that have continued to enhance and improve the ease of doing business for that subsegment.

## Conclusion

The economic outlook remains challenged given the significance of the recovery that still needs to occur, but the macro-economic outlook remains promising given the forecasted recovery in GDP and other macro-economic factors locally and globally. We forge ahead cautiously with optimism as we continue to navigate the effects of the COVID-19 pandemic and the world builds a new normal post this. Our key focus will continue to be delivering value to our customers and enabling them to reach their possibilities by providing right banking solutions as we also continue to shape our entity into one that is resilient, efficient and relevant for our times.

# Diversify revenue streams with deliberate transactional led growth


Return on Equity (RoE) **23%**
RBB Revenue Contribution **P1.3billion**
CIB Revenue Contribution **P540.3million**

| | RBB 2022 P'mn | 2021 P'mn | CIB 2022 P'mn | 2021 P'mn |
|---|---|---|---|---|
| Net interest income | 865 | 801 | 322 | 248 |
| Non-interest income | 410 | 390 | | |
| Net Trading and other Income | 43 | 38 | 178 | 130 |
| Total income | 1 317 | 1 229 | 541 | 420 |

**Accolades and key achievements evidencing our focus on diversifying our revenue streams with deliberate transactional lead growth**

- Global Banking and Finance Award: Best Agri Business Botswana 2022
- Global Banking and Finance Award: Best SME Bank Botswana 2022

**Material matters**

- Maintaining economic and strategic momentum
- Digital dependencies and vulnerabilities
- Rising regulation
- Climate change and a just transition

**Capitals affected**

**Contribution to SDGs**

SDG 8



## Diversify revenue streams with deliberate transactional led growth continued

Absa delivered strong financial performance with revenue exceeding pre-covid levels on most of our key indicators. Our performance was because of strong pre-provision profit growth, driven by solid revenue growth and unwavering focus on efficiency. Our return on equity increased to 23%, significantly above our cost of equity, improving returns year on year underpinned by the following:

- Focusing on growth in attractive client segments
- Introduction of new banking solutions

### Retail and Business Banking (RBB)

Retail revenue grew by 7% year-on-year, driven by 11% growth in non-interest income and 8% growth in net interest income. In the period under review, retail operating expenses grew below inflation at 2% year-on-year. In line with our revenue diversifying intent, fee income increased by 5% year on year.

The retail business introduced new offerings to market in 2022. Firstly, we launched the multi-residential finance solution, a proposition designed to assist our customers in creation of intergenerational wealth through commercial property ownership. In the third quarter of 2022, we partnered with SCI Wealth Botswana to provide fiduciary services to our affluent customers, supporting them to build and preserve their wealth. Secondly, we launched a Youth-banking proposition in partnership with the iBranch, creating a youth hub that ran various activations at universities to promote our offering and onboard students. This resulted in over 3 000 young people onboarded as our customers. We also won payment mandates with our clients, providing them with a payment gateway thereby cementing our transactional led revenue growth strategy.

Business Banking remained resilient as demonstrated by the double-digit growth in the revenue. The growth was as a result of focusing on defending corporate value chain financing through Enterprise Supply Development programme (ESD), supporting Small and Medium Enterprises (SMEs) to exploit corporates supply value chain. We signed new memorandum of agreements with large corporates in 2022 to diversify the ESD programme. We continued to focus on selectively growing the commercial agriculture in various strategic farming areas around the country. Non-interest income year on year growth of 7% was derived from an increase in transactional services and foreign exchange fees.

### Corporate and Investment Banking (CIB)

The CIB division introduced unsecured bid bonds to align to the ever-changing corporate landscape in Botswana and ensure we remain a preferred banking partner for our customers. We note that while there was general optimism that the global economy was rebounding from COVID-19, some sectors have experienced challenges beyond those brought about by the pandemic, specifically emanating from the Russian invasion of Ukraine and the Chinese lockdowns which impacted on Botswana's diamond performance. Botswana is a large net importer, hence the supply chain disruptions brought about by geopolitical tensions have resulted in significant delays in receipt of goods from abroad and have severely impacted our fast-moving consumer goods (FMCG) sector and large corporate clients.

Notwithstanding the above, 2022 saw significant growth in several products, particularly in trade and working capital, and short-term lending. With the challenges that the market faced, there was an urgent need for importers to respond by purchasing in bulk to mitigate the consequences of supply chain disruptions. The continuance of the Ukraine war meant that our clients needed to find alternative modes of supply, requiring increased working capital. The commercial property finance (CPF) book also saw moderate growth in 2022, increasing by 10% over 2021 and getting back to pre-COVID levels. Many property development projects were delayed during the pandemic, leading to uncertainty about the market, but there is significant improvement and greater optimism in this sector.

2022 was another tumultuous year for global markets as the world grappled with the ripple effects of aggressive interest rate hikes from the United States Federal Reserve Bank. Despite these headwinds, the Markets business achieved double-digit revenue growth by focusing on its core strategic pillars of pursuing growth selectively, onboarding new customers, providing excellent customer service, leveraging technology to increase customer convenience, and continuously innovating to provide bespoke products and risk management solutions. We saw a significant uptake in risk management products as more companies opted to minimise the foreign exchange and interest rate volatility in their income statements by utilising derivatives such as foreign exchange (FX) options, structured forwards and cross-currency swaps. Volumes across our focus sectors increased markedly, particularly in tourism, indicating that most customers were operating higher than pre-pandemic levels.

### Focus areas 2023

- Assess opportunities to diversify our revenue streams through new products and partnerships.
- Continue momentum on revenue growth driven by transactional volumes.
- Within RBB, emphasis will be placed on expanding our presence in the workplace banking arena by deepening liability led propositions.
- Enhancement of our digital wallet ecosystem offering.
- We will pursue growth in chosen sectors under business banking and CIB.

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


> ***"In CIB we rolled out our new Islamic banking offering in December 2022, underscoring our commitment to promote inclusivity and cater for the diversity of our clientele."***

**Accolades and key achievements evidencing our focus on being the primary partner for our clients**

- Global Banking and Finance Award: Best Bank for Financial Inclusion Botswana 2022
- Launched Islamic Banking Proposition
- Chartered Institute of Customer Management: Second runner up for customer service award

**Material matters**

- Maintaining economic and strategic momentum
- Digital dependencies and vulnerabilities
- Rising regulation
- Climate change and a just transition
- Social cohesion erosion

**Capitals affected**

**Contribution to SDGs**

SDG 8 SDG 10

We are focused on being the primary partner for our clients by putting their ever-evolving needs at the forefront of all that we do. This is anchored on ensuring that we are relationship led across all levels, driving client convenience through our digital systems as we transform our service culture. We will build a brand our people and clients can be proud of.







## Improving primacy and client acquisition

We launched several solutions and products to cement primacy and partnerships with our clients. Several marketing campaigns were activated over the reporting period, such as the Win-a-Moraka competition aimed at promoting a culture of savings given the challenging economic landscape. Our agency banking, (which supports our SPARK digital wallet proposition) aimed at the unbanked and underbanked customers in remote areas, registered 30 additional agents across the country over the reporting period.

High inflation and rising interest rates significantly eroded our customers' purchasing power and their ability to save. In an effort to ease the financial burden on our customers, we enhanced our loyalty and rewards programme that offers the following additional discounts:

- internet connection for our customers to stay connected
- home assist, which is a company that does various house maintenance duties, and
- healthcare services such as optometry and pharmacies to ease pressure on the ever-growing health-care costs.

Our business banking strategy of focusing on driving agriculture segment performance and Enterprise Supply Development program (linking the SMEs with the large corporates in the supply chain) remains intact. The ESD program was supported by the government's drive for citizen economic empowerment program and the implementation of Economic Inclusion Act. This was largely driven by mining and telecommunications sectors and the implementation of major construction water projects. Furthermore, we officially opened the SME business center in Gaborone.

In CIB, we rolled out our new Islamic banking offering in December 2022, underscoring our commitment to promote inclusivity and cater for the diversity of our clientele. We are encouraged by the uptake of the offering and note that there is significant demand for the Bank to be able to respond to niche markets and cater for all subsegments within the economy.

We hosted various events including the first to market Non-Bank Financial Institutions (NBFI) conference, which focused on the insurance sector. Through the conference, we hosted various partners to engage and discuss lessons learnt from the COVID-19 pandemic, and how businesses can be future fit for the client of today. Our business banking segment continued to sponsor various agricultural events including the national agricultural show.

## Strong relationships and superior customer experience

As some subsectors still struggle to adapt to the dynamic and uncertain post-COVID economic landscape, we have continued to maintain very close relationships with our clients to better understand how we can support them with credit relief measures and possible deferments on certain transactional obligations. This customer-centric approach contributed to the recovery of many companies in 2022, and increased competitiveness has translated to our own.

A great customer experience is key to driving primacy. At Absa, we want our customers to feel that their best interests are always considered, and treated fairly, especially during complaints process. Our client experience score measures the service quality experienced by our customers, and the Ombudsman oversees customer complaints in the industry. Our customer experience index scores have increased year on year for RBB and remained constant for CIB. The treating customers fairly (TCF) score measures our customers' perception of our performance against our Conduct Risk Framework and the expected TCF outcomes. Our RBB TCF scores have improved year on year and remained constant for CIB, higher than RBB scores.

All the above culminated in our overall customer base year-on-year growth of 5%. The number of customers that had a transactional relationship with the bank grew by 7% year-on-year, while digital customer growth was 5%.

### Focus areas 2023

To advance our goal of being a primary partner for our clients in the year ahead, we will:

- Drive customer primacy through a deep understanding and satisfaction of clients' needs
- Being a data driven and data focused organisation in the delivery of our solutions and relationship building
- Rebuild a brand with affinity, linked to our purpose
- Driving self-service and continue to champion through greater communication, enhanced awareness, and purpose driven client education.

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


The adoption of digital technologies by our customers and colleagues over the past few years has been encouraging. This has given us enough impetus to continuously build relevant and strong digital technology capabilities enabling us to offer a seamless experience across the consumer ecosystem, including social, digital, and mobile apps.

**Data as our strategic asset**

- We have set a stand-alone MI and Data Analytics department to drive the use of data in the organisation

**Superior digital customer service and experience**

- Always-on, secure services with enhanced digital service availability
- Reliable service, with zero severity 1 and 2 incidents

**Accolades and key achievements evidencing our focus on being a digitally powered bank**

- Best Digital Bank Botswana 2022
- Introduction of bulk deposit taking machine

**Material matters**

- Maintaining economic and strategic momentum
- Digital dependencies and vulnerabilities
- Rising regulation
- Evolving employee value proposition

**Capitals affected**

**Contribution to SDGs**

SDG 8 SDG 10

At Absa, we invest in strategic initiatives supporting our ambition to be a digitally powered bank. These include optimising our digital capability as the foundation for providing superior digital experiences for our customers and colleagues. We focused our efforts and investments on enhancing our mobile and payment offerings to our retail customers.

Our digital wallet, Spark by Absa, was launched in the last quarter of 2021 and saw greater penetration in 2022, with more than 50 000 customers registered. Absa also partnered with Air Botswana to provide them with a payment gateway that enables execution of their e-commerce transactions. We also partnered with Water Utilities Corporation to roll out self-service kiosks in various malls in Gaborone.

Our strategic focus of driving the digitalization agenda remains unchanged. We enabled our customers through onboarding in the various platforms like Business internet Banking, Absa Access, NovoFX platform and improving utilization of the platforms.

In line with driving digital adoption and utilization, we onboarded 983 business banking customers on the business internet banking platform. Business Banking will continue to drive its momentum to increase the number of SMEs using the digital channel as they transition from transacting by cheques given their discontinuation at the end of 2023.



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

For our CIB and business banking customers, we took further strides in leveraging technology to increase customer convenience with our Absa Access platform. The focus in 2022 was to ramp up capabilities of the platforms to enhance their operational performance, to continue to integrate the entire banking suite of services into a single portal, Absa Access, with one point of entry, and ultimately, to perform above competitor standards.

A substantial amount of our marketing effort is also being done through various digital platforms, a clear demonstration of our focus on being a digital powered bank. We continue to be closer to the customer through various interaction on our various platforms.

## Superior digital experiences for our customers and employees

We continue to invest in customers' and employees' digital experiences. Key initiatives across our various platforms and progress include:

| | |
|---|---|
| Absa Access | We migrated 99% of our clients from legacy platforms onto Absa Access. Absa Access is a digital banking platform where clients can access all banking services in one place through single sign on. Of the migrated clients, a significant portion were activated on Absa Access. |
| Digital Onboarding | Launched in 2023, our Retail customers can open new accounts online without the need to visit our branches. |
| QR code cash withdrawal | We rolled out a first to market QR code cash withdrawal facility on our ATM. Customers are able to get cash by using their mobile phones to scan the QR code at the ATM. |
| Zero Rating App | We have made our apps accessible to all the customers without the need to have data credit in their phones. |
| Workday Experience | We continue to enhance our colleague's experience in the execution of various people related activities such as leave management, performance management and other administrative tasks. |
| Digital Corners in our branches | We added six digital corners at selected branches to enhance our self-serve offering and educate customers on the use of our digital banking platforms. |

## Stable and secure platforms

Over the year we spent considerable effort and resources in stabilising our platforms. Notable focus has been on Absa Access and our Spark by Absa. The results of the efforts have begun to yield positive results as we have noted significant stability on both platforms thereby improving our clients' experience.

We remain alert to the ever-present cybersecurity threats that are faced by all organisations of our size. We continue to monitor the trends and institute relevant mitigatory measures. Collaborating with other player in the market such as Mobile Network Operators is also assisting us manage some of the risks and in the process also reduce potential risk to our clients. Customer education and awareness remains critical, and we ran several cybersecurity education campaigns throughout the year.

## Focus areas 2023

We will drive our strategic agenda of being a digitally powered bank by:

- Continuously enhancing our digital offering and enabling clients to self-serve
- Launching new offerings
- Focusing on the bill payment ecosystem
- Building out and maximising the various initiatives aligned with e-commerce and card acquisition
- Integration of Absa Access FX Trading platform into our core digital service solution with a single-entry point for all digital functionalities
- Investing in Cybersecurity enhancement
- Digital Marketing Transformation.

# A winning, talented and diverse team


**Embarked** on our culture transformation journey

**97%** retention of high-performing employees

**P472 million** paid in remuneration, benefits, and incentives

**P7.7 million** invested in employees training and skills development

**Accolades and key achievements evidencing our focus on building a winning, talented and diverse team**

- The Top Employers Institute® – Top Employer Botswana
- Retention of senior leadership top talent and critical skills team members

**Material matters**

- Evolving employee value proposition
- Social cohesion erosion
- Digital dependencies and vulnerabilities

**Capitals affected**

**Contribution to SDGs**

SDG 5 SDG 8 SDG 10

## Culture transformation

COVID-19 changed the way we modelled our business to remain effective in delivering excellent service to our customers. For the greater part of the year, we continued with a hybrid model affording high degree of flexible working arrangements for some of our employees. Due to the nature of the pandemic, we took deliberate effort to closely focus on employees welfare and health issues offering employees access to facilities that supported them in these areas. We remained mindful of the role that culture plays in building competitive advantage for our business.

As the impact of COVID-19 eased, we embarked on a culture transformation journey to support employees settle well and align into the changing world. Our focus is on our people and as such, we regularly check how our employees are experiencing the Absa brand in their workspaces. In 2022, 83% of our employees participated in the employee experience survey, giving us critical insights, which are key inputs into our culture transformation journey. The key themes that came out of the survey that we are already addressing include remuneration, psychological safety, and leadership role modelling.

Over the reporting period, a key intervention undertaken is the review of our remuneration levels across the various grades to assess any perceived discrepancy and commence a phased approach in rectification measures.

P472 million was spent on employee remuneration, benefits, and incentives in 2022. Psychological safety in the workplace is also important to us and as such we have put in place measures that empower employees to make appropriate decisions in the execution of their work. In addition, employees have access to psychologists at the Bank's cost,



A winning, talented and diverse team continued

should they feel the need to consult on any personal or business-related issues that they may be experiencing. As a Bank, our leadership is bestowed with driving the culture of role modelling and in order to ensure ownership and accountability, we have significantly invested in initiatives to align behaviour to our purpose and strategy. To this end, our leaders have committed to the following:

- Exercising distributed leadership
- Progressive collaboration and holding each other accountable
- Connecting deeper with employees, practicing Know Your Colleague
- Leading with empathy and respect

## A talented and diverse team

### Inclusive workplace

Diversity and inclusion matter more than ever before in this intensely connected world. The Bank therefore remains committed to fostering an inclusive and transformed workplace to better serve our diverse customer footprint and position. 71% of our workforce is women and women in senior leadership roles increased to 50% from 45% in the prior year while women in middle management roles declined marginally to 55% from 57%.

### Generational diversity

Young people under 35 constitute 15% of our workforce, thus contributing to youth employment. According to the International Labour Organization, Africa's youth unemployment rate slightly declined to 12.7% (2021: 12.9%). However, the youth unemployment rate in Botswana decreased to 33.5% (2021: 34.4%). As a financial institution, we have a responsibility to apply our resources to support the socioeconomic stability in our country. Therefore, we continue to offer ReadytoWork, F.G. Mogae scholarship and the hackathon and incubation programme preparing the youth for employment and entrepreneurship and absorb them into the workplace.

### Talent, leadership, and succession

The Bank was able to retain top talent holding critical skills over the reporting period achieving 96% retention of top talent. We are pleased that our leadership pipelines have had a positive impact on talent retention, with 60% of vacancies filled with internally.

We also continue to focus on accelerated leadership development for our young talent pipelines. In 2022, 11 young talents completed our Gen A programme, delivered in partnership with Duke Corporate Education. Absa Group's One Young World programme sponsored 29 talented youth to attend the 2022 One Young World Global Summit, with 4 employees from Botswana.

We once again received the Top Employer Africa certification from the Top Employers Institute®, a global authority on recognising excellence in people practices. In 2022, the Bank scored above global best-practice standards overall with key areas being purpose and value, career development, wellbeing, and digital human resources.

## Supported and enabled employees

### Integrating wellbeing in the workplace

Post COVID-19 impact to our employees relate to long-COVID, financial and mental health issues. While the Bank did not implement any salary reductions during the period, some of our employees have experienced financial strain due to their family members losing jobs in other industries. We continue to support our affected employees through the services of our company doctor and psychologist, offering guidance to affected individuals on how to best navigate through this terrain.

### Developing a future-fit workforce

We invested in training and development for our employees, and we will continue to do so into the future. To improve the leadership and technical skills we launched the Retail and Chief Operations Office (COO) Academies, which caters for 80% of our bank employees. We will continue to upskill and refresh our talent to ensure that they have the capabilities to drive our strategy. As part of ensuring that our employees are equipped with necessary skills and resources to enable them to deliver on their jobs, selected employees in management underwent leadership trainings facilitated in partnership with IMD Business School and Duke Corporate Education. We also leveraged on the scale of our Group to provide our employees opportunities to work in other markets on short term assignments. All our employees continue to have access to Udemy, an online training platform that provides different programs.

### Working environment

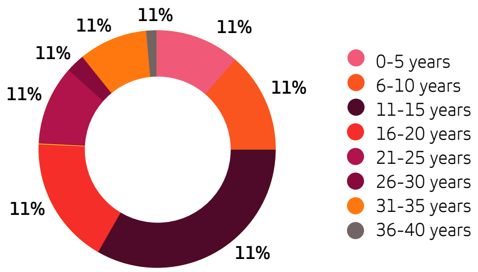
We recognise that the spaces and places that will define the organisations of tomorrow must be flexible, future-ready and fit for purpose while retaining a people-centred approach. Therefore, to accelerate our organisation's longer-term transition to a flexible model incorporating site-based, hybrid and remote working options, we continue to support employees and the business to optimise productivity, engagement, and inclusiveness in a virtual world. We are enabling the business with the requisite technology infrastructure, tools, and resources to adopt various flexible working arrangements, moving beyond transactional to transformational change allowing a change-fit and resilient workforce with greater flexibility.

A winning, talented and diverse team continued

## Building a sustainable business

Productivity, wellness, and engagement remain top priorities for Absa. As such, we monitor attrition closely to understand areas for improvement, adjustments to our talent and strategic workforce plans, and improvements to enhance the employee experience. Our ability to retain high-performing employees across all grades marginally decreased to 94% from 94.3% in 2021, above the industry benchmark of 93%. Our total headcount remained stable at 1 027 employees (2021: 1 069), and voluntary attrition staying constant at 5%. Pleasingly, our average employee tenure is 16 years.

**Employee tenure profile (%)**




We continue monitoring health metrics such as absenteeism, occupational health, and safety. Our absenteeism rate for 2022 and 2021 remained constant at 1.7%.

### Employee relations

A reduction in employee relation cases (which include misconduct, grievance, and disciplinary cases) has been experienced when compared to the previous two reporting periods (2020/2021) and is below the risk threshold:

- Misconduct as a % of the workforce – 1% (target <5%)
- Dismissals as a % of misconduct cases – 20% (target <25%)

### Focus areas 2023

A summary of our 2023 focus areas include:

- Embed leadership role modelling and integrate the renewed purpose and values into people practices and culture initiatives across the organisation while continuing to strengthen shared ownership of our culture transformation
- Support a culture of care by integrating wellness initiatives across the employee life cycle, specifically focusing on strengthening our mental and financial wellbeing proposition to our employees
- Drive targeted investment into future-fit, critical, and scarce skills development to equip the workforce of the future



# An active force for good in everything we do


**P2.1 million** invested in communities
**16 178** financial eduction participants

**Accolades and key achievements evidencing our focus on being an active force for good**

- Crafting of a medium-term sustainability strategy to drive implementation of ESG priorities
- Obtained ISO370001 certification in recognition of our anti-bribery and corruption control environment.
- Planting over 2 000 trees to offset carbon emissions

**Material matters**

- Maintaining economic and strategic momentum
- Rising regulation
- Social cohesion erosion
- Climate change and a just transition

**Capitals affected**

**Contribution to SDGs**

SDG 8 SDG 10

We aim to be an active force for good in everything that we do, prioritising business activities that have the most positive environmental, social and economic impact, while mitigating negative impact. We have a vested interest in assisting Batswana in creating intergenerational wealth by delivering financial products and services in a socially and environmentally 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. As a purpose-led organisation and recognising the link of our sustainability to that of the communities we operate in, we crafted a deliberate sustainability medium term strategy in 2022 to enable us to embed environmental, social and governance (ESG) aspirations into the core business strategy, bringing together multiple value creation initiative across the Bank. Together, these distinct yet complementary activities generate the direct and indirect economic, social and environmental impacts across the Bank.

Informing our approach are the following principles:

- Commitment to diversity, stakeholder engagement and strategic partnerships
- Sound risk management, including environmental and social considerations
- Ethical behaviour and sound corporate governance
- Investing in digitisation and innovation to deliver solutions to customers, employees and society
- Positive social and business impact.

This led to our sustainability strategic focus areas of inclusive financing, environmental sustainability, education and skills development and promoting a just society.

## Advancing inclusive financing

We seek to impact economic growth at a national, community and individual level by:

- enabling improved decision making through financial literacy and thought leadership,
- supporting the growth of emerging entrepreneurs and,
- impacting economic growth by providing innovative, relevant propositions

Our financial literacy program seeks to ensure that the people we serve and our communities at large, have a good understanding of money matters, enabling them to make sound financial decisions that will facilitate a comfortable and fulfilling life. In 2022, training was provided to over 15 000 youth and adults across different entities such as Botswana Football League football teams and Botswana Police Services. In addition, our women in business webinars provided a useful platform from which impactful conversations covering both critical business matters and environmental concerns were held.

We supported SMEs through our ESD programme, providing them funding to enable them to take advantage of contracts to supply large corporates. In addition, through our business club offering, 1 047 SMEs were provided with training covering various topics such as tax compliance, compliance to intellectual property, and business management. The trainings and capacity building interventions were delivered in collaboration with external stakeholders such as Local Enterprise Authority (LEA), Companies and Intellectual Property Authority (CIPA), and independent business development service provider such as Collective Value Chain.

## Environmental sustainability

We aim to promote sustainable environmental practices and to mitigate climate change risk while using positive and progressive climate-linked initiatives to contribute towards a more sustainable future for the communities in which we operate. We aim to promote environmental sustainability and justice through progressive lending and sustainable management of Absa's physical assets. This will be delivered over the medium to long term sustainability plan by:

- Managing climate risk and the associated social risks; specifically managing Absa's direct ecological impact,
- Providing innovative, sustainable financial products, and
- Employing enhanced assessment criteria for capital allocation decisions, which incorporates climate change, positive impact and our environmental, social and governance commitments.

There is significant financing requirements for the energy transition. In addition, development of resilient infrastructure requires access to capital markets, bank debt and wider funding solutions, providing revenue pools that are projected to grow over time. Our ambition is to be a leader in sustainable finance. We are at an advanced stage to launch ESG-linked financing options. In 2022, we initiated the processes required to introduce sustainable finance products including developing frameworks, policies and deploying tools to assess transactions and lending from an environmental lens.

Our 2022 women in business webinars unpacked business opportunities presented by the environmental challenges faced globally and nationally. One of the webinars covered sustainable agriculture, where experts imparted their knowledge on sustainable farming practices to take advantage of the various initiatives by our government to drive food security and self-sustenance.

We are privileged to have partnered with the Botswana Academy of Science and the Botswana Institute for Technology, Research and Innovation (BITRI) in supporting the inaugural research excellence awards where there is a strong focus on environmental issues. Our support covered the special award on sustainable water use, a subject that is critical for Botswana.

Internally, a programme to reduce "waste-to-landfill" through effective waste management and recycling is underway. Processes to measure and monitor utility consumption as an effort of tracking and reducing our carbon footprint are being established. We also collaborated with one of our CIB clients, Khoemacau Copper Mining (Proprietary) Limited to plant 2 000 trees in the Lake Ngami area as our effort to preserve the natural resources in the area.

## Education and skills development

Through our programmes, we aim to support Botswana build strong, dynamic skill and knowledge bases that will underpin the nation's economic growth and global competitiveness by funding access to quality tertiary education and promoting youth entrepreneurship. Considering the on-going challenges facing the youth, we delivered programs that contribute to the development of skills and capabilities of the youth, enabling them to be economically active and socially responsible citizens of Botswana.

The Absa ReadytoWork program has made significant strides in providing employability and entrepreneurial skills to youth across Botswana. It is a digital skills development programme, with modules including work, people, entrepreneurial and money skills. It seeks to ease the transition from school to the world of work. Organisations that are implementing the USAID funded DREAMS program which seeks to provide young people with skills necessary for an economically successful live, have made ReadytoWork their programme and choice. To further support young people who are entering the working world, we hosted a series of monthly online sessions to discuss key elements of work and entrepreneurship. The sessions were led by Absa employees, covering subjects such as saving and investing, and debt management.





We successfully launched our second hackathon and incubation program with a focus on agriculture and solutioning for the challenges that our farming communities face. The shortlisted teams that participated in the hackathon underwent the incubation program which consists of entrepreneurial skills development and mentoring, enabling them pursue their aspirations in the advancement of technology long after completing the program. The winning team will be offered a development and maintenance contract for their solution before it being rolled out to interested clients. In addition, we continued to work closely with Innovateium (Pty) Ltd the 2021 hackathon winners to perfect their solution.

The F.G. Mogae Scholarship Fund, launched in 2008, continues to provide opportunities for Batswana to pursue their tertiary education at master's degree level. We are currently supporting 6 students, all of whom are pursuing science, technology, engineering and mathematics (STEM) subjects at the University of Botswana and the Botswana International University of Science and Technology.

Our Youth Hub program provided career guidance and skills development to youth across Botswana. The weekly radio program, which was a key component of the project, provided an opportunity to engage with industry experts including our employees on work related matters. We also hosted career weeks at selected universities and colleges in different parts of the country. In 2022, the program supported 2 200 young people by providing work and people skills training and access to employment opportunities.

## Promoting a just society

Our goal is to support efforts that overcome issues relating to equality, social wellbeing, employment and justice. In 2022, our focus was on building relationships and providing skills development to young people living with disabilities. To this end, we worked with the Botswana Society for the Deaf and Pudulogong Centre for People Living with Disabilities to provide financial literacy to their students and members. As part of our intention to support students living with disabilities, we also donated a sick bay to the Lephoi Centre, which was established to educate and support children living with disabilities.

Our employees play a vital role in our efforts of being an active force for good. Absa continues to provide them time off work and small grants for their chosen community projects which are aligned to this strategic pillar. They use their professional skills and expertise in a range of activities that make a profound difference in the lives of Batswana.

### Focus areas 2023

The next steps in bringing our active force for good ambitions to life include:

- Further strengthening our climate risk management framework
- Building and embedding our ESG capabilities
- Clarifying our ambitions per ESG focus area, aligned to our purpose.

# Outlook

## Long term value creation requires future focus, responsive strategic planning and consideration of available resources.

*Short term*
*<12 months*

*Medium term*
*3 years*

*Long term*
*>3 years*

Our next steps in 2023 are discussed by:

**Our leaders**

- *Chairman's report*
- *Managing Director's report*
- *Finance Director's report*

**Business:**

**Employee tenure profile (%)**

- *Diversify revenue streams with deliberate transactional led growth – Future focus 2023*
- *Primary partner of our clients focusing on creating value across the entire client relationship – Future focus 2023*
- *A digitally powered business with end to end consistent and seamless experience for our clients and colleagues – Future focus 2023*
- *Building a winning, talented and diverse team through distributed leadership – Future focus 2023*
- *An active force for good in everything we do – Future focus 2023*

**Those who govern us:**

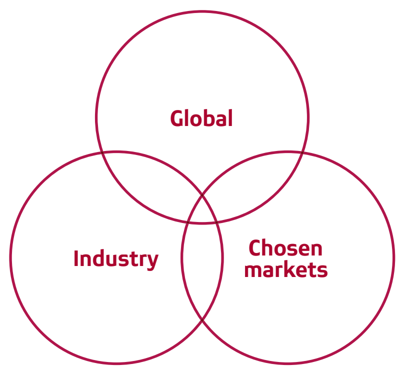
- Board committee future focus areas

We need to ensure our stated aspiration and supporting strategic themes are grounded – considering the risk involved, the competitive landscape, the available opportunities, and our ability to deliver on these opportunities. This includes considering the availability, affordability, and quality of the capitals we will require to execute our strategy.

Our understanding is informed by potential barriers and opportunities, taking into account:

1. Most severe global risks in the next decade
2. Medium to long term trends in our industry
3. Medium to long term trends in our market

We unpack these elements in more detail on the pages that follow.




## Most severe global risks in the next 10 years[1]

1. Failure to mitigate climate change
2. Failure of climate-change adaptation
3. Natural disasters and extreme weather events
4. Biodiversity loss and ecosystem collapse
5. Large-scale involuntary migration
6. Natural resource crises
7. Erosion of social cohesion and societal polarisation
8. Widespread cybercrime and cyber insecurity
9. Geo-economic confrontation
10. Large-scale environmental damage incidents.

Environmental | Geopolitical | Societal | Technological

[1] Source: World Economic Forum Global Risks Perception Survey 2022-2023

## Medium to long-term trends in the financial services industry

**Payments[2]**

- Africa cashless transaction volumes are expected to rise by 78% from 2020 to 2025 and then by 64% from 2025 to 2030 in Africa (globally 82% and 61%)
- 60% of central banks are exploring digital currencies
- Central banks remain concerned about decentralized finance and private crypto currencies
- Digital wallet use will continue to rise, with convenience driving wallets as a first point of contact
- Digitised supply chains are the next frontiers for digital wallets
- Regulators are expected to strengthen domestic infrastructure for payments.





- Payment initiation is changing towards digital wallets supported by open banking
- New customers are skipping card payments and opting to move directly into mobile wallets and account-based payments
- Cross-border payments are being re-invented on the back of the need for low-cost, instant solutions
- Cross-border connectivity of domestic instant solutions will be possible through global payments standardization
- As consumers adopt new payment solutions, financial crime is rising and banks will need to protect full payment ecosystems.

## Retail Banking trends[2]

- By partnering with banks, customer-facing parts of the value chain will be captured by FinTechs and entertainment players without the hurdle of a banking licenses
- Big tech and non-traditional players (e.g., retailers) could apply for full banking licences
- Regulators will rethink barriers to entry based on concerns (from consumers over data, privacy and cybercrime) or opportunity for new entrants (e.g., crypto currencies)
- Technology investment costs will be high but necessary to ensure optimal customer experiences or risk falling behind peers and non-traditional banking players
- Public distrust can incite doubt in financial institutions or banks reclaim trust as the central provider of financial products and services.

## Trends shaping Corporate and Investment Banking[3]

- Real-time, low-cost, resilient platforms
- Innovate products and services aligned to clients, business, and regulatory changes
- Digitise and automate business processes to deliver better customer experience
- Mounting and changing regulation and security standards
- Technology advances and the adoption of technology.

## Medium – term outlook in our market

Real GDP expanded by 5.8% in 2022 and we expect growth to decelerate to 3.7% in 2023.The lower growth reflects the deteriorating global macroeconomic landscape given the country's over-reliance on the diamond sector. The local economy is projected to hover around 4% in the next 3 years. Although we see a more challenging year ahead, we expect some tailwinds to growth from the reopening of the Chinese economy, which could be supportive of diamond demand.

Furthermore, the Government's plan to implement an expansionary two-year Transitional National Development Plan (TNDP) with a focus on infrastructural projects, spanning water, road construction, digital connectivity, health, and education, should further support the economy's post-pandemic recovery. One of the key policy priorities for the TNDP is striving to achieve diversified private sector-led growth. This will be achieved by focusing on three strategies being Business Environment Reform, Value Chain Development and Special Economic Zones (SEZs). In 2022, the Government announced a plan to rationalise State Owned Entities (SOEs) to improve efficiencies. which is to be implemented during the TNDP period. We recognise the important role that the financial sector plays in assisting government realise its objectives and we continually adjust our strategy to accommodate policy direction by the government.

We expect GDP growth to hover around 4% in the medium term reaching 3.9% in 2024 and 4% in 2025, headline inflation is expected to be slightly lower averaging 5.8% and 4.5% in 2024 and 2025 respectively and we do not expect significant changes with the monetary policy rate (MoPR) in the medium term.

## Investment grades

In September 2022, S&P Global Ratings (S&P) released an update of the sovereign credit rating for Botswana where it maintained the country's sovereign credit rating for long and short term foreign and local currency sovereign credit at "BBB+/A-2", with a stable outlook. The stable outlook is on the back of the agency's expectation that the demand for Botswana's diamond will remain strong against downside risks presented by the weakening global economic activity. Looking ahead S&P indicated that a rating upgrade could occur if there is a significant increase in Botswana's economic growth, along with the diversification of the export base, that could lead to greater economic resilience whilst a rating downgrade, may arise in the event of a weaker fiscal or external sectors' performance, combined with a short-lived recovery in the upstream and downstream diamond segments. The Bank has sufficient capital to take advantage of opportunities and risks from future upgrade or downgrade respectively.

## Possible effects on our strategic ambitions

By assessing the global risks, industry changes, and key market trends, we can adjust or affirm our strategic response and identify which strategic pillars are most at risk. It further enables us to understand how changes to the various capital inputs into our business model might impact future performance and strategy execution. We see the possible effects over the medium and long-term as follows:

[2] PwC-Future of payments 2025
[3] 2022 CGI Voice of our clients corporate transaction banking

## Outlook continued

**Strategic pillar most at risk** | **Capital most impacted**

**Diversify revenue streams with deliberate transactional led growth**

Given the stressed economic climate, a significant risk facing the banking sector is the potential for impairments to remain elevated. Credit risk can result from expected losses (e.g., customers having difficulty repaying loans) or unexpected losses (e.g., unfavorable climate conditions leading to losses in the agriculture sector).

During our strategic planning process, we considered potential scenarios in the global and local environment over the next three years and how these scenarios could influence our ability to create revenue growth and diversification. We considered an inflation growth and a stagflation scenario considering factors such as interest rate, cost-of-living, monetary policy, GDP growth and inflation. We are comfortable that, despite the immediate economic downturn and the medium-term risk of increased cost-of-living, we are in a strong capital position to deliver our medium-term plan (2023-2025).

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

The competitor landscape is continuously evolving with an increasing number of digital only providers and other non-banking competitors. We therefore have to compete within this evolving environment to be the primary bank for our clients, giving us an agility to adapt to our customers evolving needs.

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

Widespread cybercrime and cyber insecurity can possibly negatively affect the quality of intellectual capital i.e., our systems and or data assets can be compromised. We will significantly invest in our digital platforms to achieve our medium -term plan.



## Outlook continued

**Strategic pillar most at risk** | **Capital most impacted**

**Building a winning, talented diverse team through distributed leadership**

People are our strength, and our business model depends on human capital. We continue to realign our workforce to be future fit. We are also deliberate in creating conducive environment for entrepreneurial culture, collaboration, creativity, and innovation. We will continue to refresh our employee value propositions for competitiveness and alignment to new ways of working.

**An active force for good in everything we do**

As a responsible corporate citizen, we recognise that climate change has many dimensions, and is already impacting most countries and the global economy. A failure to deal effectively with this challenge will have far-reaching negative effects on the population of the world and the global economy for decades to come. Increased climate and ecological risk in the long term will widen the opportunities base for Absa in terms of sustainability and ESG-linked financing.

## Protecting value through strong governance

# Protecting value through strong governance

## Our Board as at 5 June 2023

### Non-executive Directors

### Daniel Neo Moroka [70]

**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 an associate of the Botswana Institute of Banking and Finance and a member of 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 [57]

**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 [52]

**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.



## Protecting value through strong governance continued

### Sari Helena Nikka [55]

**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.

### Kgotlayarona Ramaphane [62]

**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 [56]

**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.

Protecting value through strong governance continued

## Our Board as at 5 June 2023

### Non-executive Directors

### Thabo Kagiso Matthews [52]

**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 [51]

**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 30 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 businesses, including corporate and investment banking ("CIB") and retail and business banking ("RBB").

He joined the Group in 2010 as MD 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 Chief 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.





Protecting value through strong governance continued

## Our Board as at 5 June 2023

### Executive Directors

### Keabetswe Pheko-Moshagane [44*]

**Executive (Managing) Director**

Keabetswe Pheko-Moshagane joined the Bank in 2010 and is a seasoned executive with over 15 years' experience in the banking and telecommunications industry. Prior to joining the Bank, she consulted for various companies and industries in South Africa.

Keabetswe 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. Prior to her appointment as the Managing Director, she held the position of the Bank's Chief Operations Officer (COO).

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

### Cynthia Morapedi [43*]

**Executive (Finance) Director**

Cynthia Morapedi joined the Bank in October 2015 as the Financial Controller, and is a Chartered Accountant with over 18 years of professional experience. Prior to joining the Bank, she held the position of Finance Manager at Bank ABC, 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), having been admitted as a full member in 2006. Cynthia has completed several leadership programs, including the Inspirational Leader program with IMD, Switzerland in 2022.

**Board changes**

- Thabo Kagiso Matthews joined the Board in March 2022
- Saviour Mwepu Chibiya joined the Board in April 2022
- No other Changes occurred since the 36th Annual General Meeting

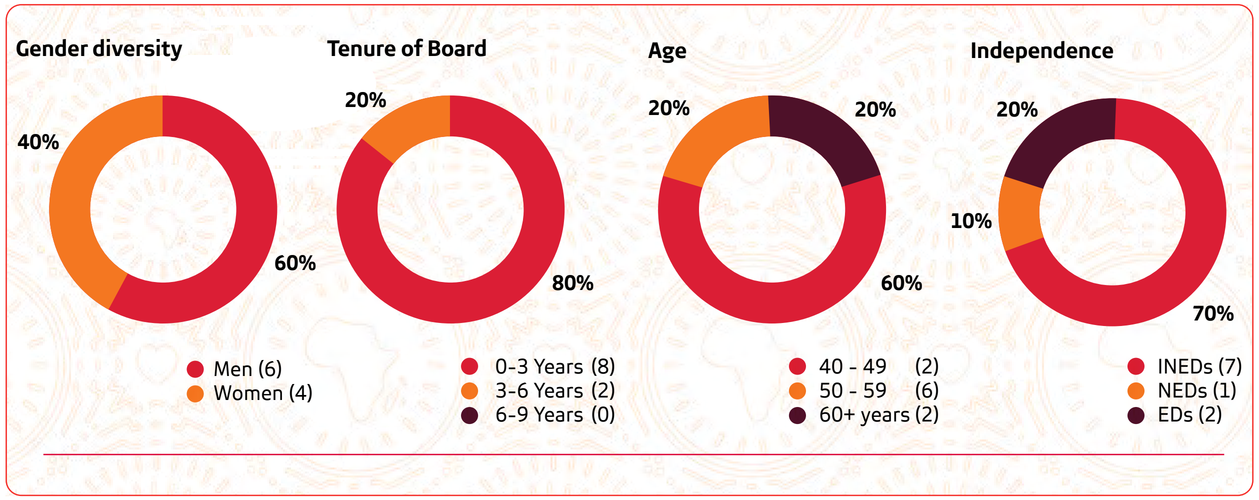
**Kgotlayarona Ramaphane, Daniel Neo Moroka and Sethunya Makepe-Garebatho set to retire by rotation at the 37th AGM and the Board fully supports their re-election.**

- Composition outlook for 2023 is to recruit one additional non-executive director.

*** Keabetswe and Cynthia are both members of the Country Management Committee.**

Protecting value through strong governance continued

## Board composition and diversity








Protecting value through strong governance continued

## Country Management Committee as at 5 June 2023

### Kealeboga N. Bojosi

**Head of Legal**

Kealeboga Bojosi joined the Bank in 2012 and has been heading the Legal function since 2015.

He has read, taught and practiced 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 and is a Solicitor of the Supreme Court of England and Wales.

Dr Bojosi has also completed several executive management courses, including the Oxford Leadership Program through the Said Business School, Oxford University.

### Tebogo Giddie

**Corporate Banking Director**

Tebogo Giddie joined the Bank in 2020 and is a seasoned transactional banking specialist with 15 years in the banking and financial services sector, having previously worked for Standard Chartered Bank Botswana Limited and Stanbic Bank Botswana Limited.

Tebogo's experience spans across cash management and trade finance solutions on strategic and acquisition clients, public sector relationship management as well as experience in the human capital and hospitality industries in Botswana.

She holds a Masters of Science, Strategic Management from the University of Derbyshire (U.K) and a Bachelors of Arts, Human Resources Management from Durban University, Pietermaritzburg, South Africa.

### Puseletso Nyamambi

**Acting Head of Compliance**

Puseletso Nyamambi joined the Bank in November 2008 has 20 years' experience in fraud management and 7 years' experience on Financial Crime Issues. She has been Certified as a Compliance Professional through Association of Certified Compliance Professionals in Africa (ACCPA).

Prior to joining the Bank, Puseletso previously worked the Directorate on Corruption and Economic Crime as well Stanbic Bank Botswana. Since joining the bank, she has held various positions, including the Head of Financial Crime in the chief operations office.

She holds a Bachelor of Arts (Major: Criminology & Psychology; Minor: Sociology) from Melbourne University - Australia. She also holds Post Graduate Certificates in Enterprise Risk Management and Finance for Non-Financial Managers, both of which were acquired through the Botswana Accountancy College. Puseletso has completed several leadership trainings such as the Global Management Foundation Program conducted in conjunction with IMD Business School for Management and Leadership in Switzerland.

Protecting value through strong governance continued

## Country Management Committee

### Segomotso Banda

**People Function Director**

Segomotso Banda joined the Bank in April 2022 and has 19 years' experience in human resource; having trained, mentored, and supervised over 20 human resource managers in the various member hospitality business units within the region. Her exposure to the labour environments in Botswana, Zambia, Zimbabwe, Malawi, and South Africa has enhanced her appreciation of the impact of culture on the labour environment.

She has 16 years' experience as an Industrial Court Assessor at the Industrial Court of Botswana, on behalf of Business Botswana Association.

Segomotso holds Master of Science in Human Resource Management with the University of Manchester and Bachelor of Commerce - Management with University of Botswana.

### Krishnan Menon Balachandran

**Chief Operations Officer**

Krishnan Menon Balachandran joined the Bank in 2020 and has over 18 years' 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, having managed 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.

### Dennis Mambure

**Head of Marketing and Corporate Relations**

Dennis Mambure joined the Bank in 2022 and brings over 20 years of experience in marketing, corporate relations, sales and product management. His career spans banking, telecommunications, agriculture and manufacturing sectors.

Dennis is a Council member of the Women's University in Africa. He previously held senior roles in Barclays Bank of Zimbabwe and FMBcapital Holdings plc.

Dennis is a Fellow of the Chartered Institute of Marketing (UK). He holds an MSc in Marketing, Master of Public Policy and Governance as well as a B Comm Honours in Marketing.



Protecting value through strong governance continued

Country Management Committee

### Leroy Klein

**Chief Risk Officer**

Leroy Klein joined the Bank in 2008 and was appointed Country Treasurer in 2017. He has over 13 years' experience in the banking sector, having held middle and senior management roles within the Treasury function. Leroy was appointed Chief Risk Officer on 5 May 2021.

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 management and treasury related courses over the period with Absa.

### Valeta Mthimkhulu

**Retail Banking Director**

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

Prior to 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 as 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 not-for-profit sectors.

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

Protecting value through strong governance continued

## Country Management Committee

### Maungo Mokotedi

**Chief Credit Officer**

Maungo Mokotedi joined the Bank in 2018 as the Head of Corporate Credit and was recently appointed the Chief Credit Officer. He has a 20 years' 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 Master of Science in Strategic Management.

### Salma Baduel

**Country Treasurer**

Salma Baduel joined the Bank in 2014 and has 10 years' experience in the banking sector, with particular focus in the Treasury field. She started her career in Treasury at First Capital Bank as a Money Market Trader before joining the Bank where she held various management roles within Treasury. She held the role of Head of Balance Sheet Management, before being appointed as the Country Treasurer in December 2021.

In her period in the Bank, she completed various Treasury related courses and completed a short-term assignment in Absa Group where 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 recently completed her Executive Masters in Positive Leadership and Transformation with IE University, Spain. Salma has also completed a Green, Social and Sustainability bonds executive training with the International Finance Corporation (IFC).





Protecting value through strong governance continued

## Attending CMC by invitation

### Barati Rwelengera

**Chief of Staff and Strategy (CMC Secretariat)**

Barati Rwelengera 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 context of the current and expected business environment. She is currently the Chief of Staff and Strategy, responsible for overseeing the Executive Office.

Prior to 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), holds a Post Graduate Diploma in Business Administration from the University of Cape Town's Graduate School of Business and has completed the Yale School of Management executive program on Corporate Sustainability Management: Risk, Profit, and Purpose.

### James Nthoyi

**Head of Markets (Standing CMC Invitee)**

James Nthoyi joined the Bank in 2014 and has 12 years of experience in the banking sector, with a particular focus on Global Markets. He held various management roles within Global Markets and was exposed to managing risk across multiple markets before assuming the role of Head of Markets. Before joining the Bank, he was a fixed-income and currency trader at First National Bank of Botswana.

His tenure with the Bank includes a short-term assignment to Absa Capital, where he spent time trading interest rates and currencies across the various African jurisdictions in the Absa Group.

James holds a Bachelor of Commerce degree from the University of Cape Town and is currently enrolled in an Executive Master of Business Administration from the IMD business school, Switzerland.

### Keletso Setimela

**Business Banking Director (Standing CMC Invitee)**

Keletso Setimela joined the Bank in 2013 as Head of SME banking from Stanbic Bank where he held a similar role and was appointed Business Banking Director in 2020. He has over 26 years of work experience across various industries covering telecommunication, corruption and economic investigation, entrepreneurship and enterprise development, development financial institutions, with 13 years' experience in commercial banking.

Keletso has held various positions including Branch Manager at Citizen Entrepreneurial Development Agency, Branch Manager at Local Enterprise Authority (LEA), LEA EXCO member as National Branch Network Director, Head of SME Banking at Stanbic Botswana, Head of SME Banking Barclays Bank of Botswana.

Keletso has attended various leadership training including Investment In Excellence (IIE), Seven Habits of Highly Effective people and fundamentals of Project Management. He holds Master of Science- Strategic Management, University of Derby, Bachelor of Commerce (Accountancy), University of Botswana, Diploma in SMEs Development and Management, Galilee College, Israel.

Protecting value through strong governance continued

## Attending CMC by invitation

### Idah Nkoloi

**Chief Internal Auditor**

Idah Nkoloi joined the Bank as the Chief Internal Auditor in 2018 and has over 15 years of both internal and external audit experience. In this role, Idah oversees the effectiveness of governance, risk management and control over current and evolving risks in the context of the current and expected business environment. As Chief Internal Auditor, Idah functionally reports to the Board through the Chairperson of the Board Audit Committee and administratively reports to the Managing Director. She attends CMC meetings by invitation, particularly in terms of strategy sessions and control environment matters.

Prior to joining the Bank, Idah worked at Deloitte & Touché Botswana Audit and Assurance division, where she provided audit and other assurance services to various clients across all industries in Botswana. She left Deloitte as a manager in Audit.

Idah is a Certified Internal Auditor with the Institute of Internal Auditors (IIA), a fellow member of the Association of Chartered and Certified Accountants (ACCA), and a fellow member of the Institute of Chartered Accountants (BICA).

### Yonta Leburu

**Company Secretary**

Yonta Leburu joined the Bank in 2014 from Stanbic Bank Botswana, and has over 12 years of banking experience.

She joined the Bank as a Corporate and Investment Banking Compliance Manager and has held various positions in the Bank, including Country Project Manager for the Barclays separation program and Deputy Chief of Staff in the executive office. As Company Secretary, Yonta functionally reports to the Board through the Board Chairperson and administratively reports to the Managing Director. She attends CMC meetings by invitation, particularly in terms of strategy sessions.

Yonta is an admitted attorney in the High Court and Other Courts of the Republic of Botswana. She holds a Bachelor of Laws (LLB) and a Bachelor of Social Science (Politics, Public Administration and Policy) from the University of Cape Town, a Post Graduate Compliance Risk Diploma from the University of Johannesburg, and a Master of Laws (LLM) in Global Corporate Compliance from IE University in Spain. She has been certified as a Compliance Professional through Association of Certified Compliance Professionals in Africa (ACCPA) and has completed a US Corporate Law and Governance program with New York University. Yonta has undertaken several leadership courses, including the Compliance Career Academy Program, facilitated by Judge Business School, Cambridge and the Young African Leaders Initiative Regional Leadership Centre Program (USAID grantee).

### CMC changes

- Luka Disho stepped down as Acting People Function Director in March 2022
- Segomotso Banda was appointed People Function Director in April 2022
- Barati Rwelengera stepped down as Acting Head of Marketing and Corporate Relations in April 2022
- Dennis Mambure was appointed as Head of Marketing and Corporate Relations in May 2022
- Lesley Bradley resigned as Corporate Banking Director in April 2022
- Tebogo Giddie was appointed as Acting Corporate Banking Director in May 2022 and as Corporate Banking Director in April 2023
- Keabetswe Pheko-Moshagane went on maternity leave from 1 June 2022 – 31 August 2022. During this period, the Board and relevant regulators approved Krishnan Menon Balachandran as the acting Managing Director
- While Krishnan was acting Managing Director, Tebogo Direng was appointed acting Chief Operations Officer
- Titose Musa resigned as Head of Compliance in March 2023
- Puseletso Nyamambi was appointed as Acting Head of Compliance in March 2023

The Board is fully engaged in the appointment process of senior management, considering the ongoing ethical standard of the fit and proper enquiry, prior to relevant regulatory approvals.

Protecting value through strong governance continued

> ***"The Board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence."***

## Board role, structure and composition

**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 year under review saw the Bank remain committed to promoting and preserving value through upholding business integrity and good corporate governance, with the requisite oversight from the Bank's Board of Directors ("the Board").**

The Board is ultimately responsible for protecting shareholders' interests, establishing management policies, and acting as a fiduciary for shareholders, bearing in mind and balancing other stakeholder needs. During the period under review, the Board achieved this through the following actions:

- Upholding the Bank's approved purpose, values and behaviours;
- Engaging proactively with the Bank's management to test, challenge, improve, and implement the Bank's strategy;
- Overseeing performance of management;
- Providing 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; and
- Testing, challenging and implementing controls, processes and policies that enable the assessment and management of risk.

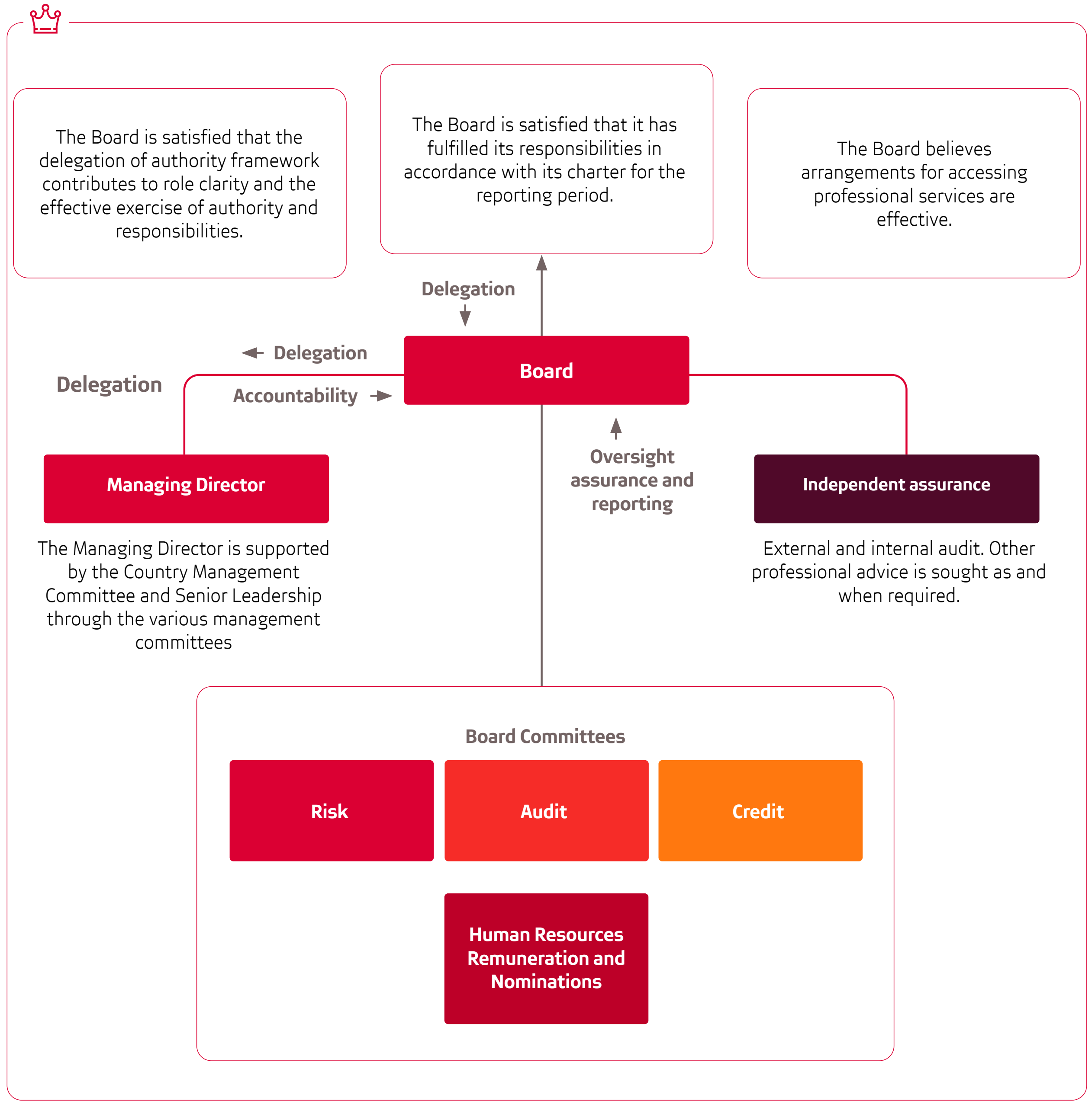
The composition and structure of the Board should, and does enable the execution of this oversight and balancing mandate. The size and composition of the Board is prescribed by the Bank's Constitution and the Board Charter, which specifies that the minimum number of Directors shall be five (5) and the maximum number shall be twelve (12), at least half of which shall be resident in Botswana. The composition of the Board is also guided by provisions of the Banking Act and Guidelines on Corporate Governance for Banks/Financial Institutions licensed and supervised by the Bank of Botswana, ("the guidelines"), the Botswana Stock Exchange ("BSE") Listings Requirements, the BSE Code of Best Practice on Corporate Governance ("the Code"), and the Absa Group Limited ("AGL" or "the Group") policies to ensure that the Board comprises of individuals of the right skills, experience and expertise bearing in mind the size and business of the Bank. The Board is satisfied that its composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence.





Protecting value through strong governance continued

We have a diverse Board, ranging broadly in age, race, gender, ethnicity, culture, educational background, skills, experience and knowledge. This provides a fertile environment for discussion, debate, input, challenge and thoughtful outcomes. In addition, 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 Independent Non-Executive Directors ("INEDs"), Non-Executive Directors ("NEDs") and Executive Directors ("EDs"). The Board has four committees, being the Board Audit Committee, the Board Credit Committee, the Board Risk Committee and the Board Human Resources Remuneration and Nominations Committee ("HR Committee").



## Protecting value through strong governance continued

### Objectives

The main objectives of the Board are as follows:

- Provide effective and ethical leadership, acting in a way that is considered, in good faith, and promoting the success of the Bank for the benefit of its stakeholders;
- Ensure the Bank complies with applicable laws and regulations;
- Monitor business performance and be responsible to shareholders for creating and delivering sustainable shareholder value, through sound business management;
- 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;
- 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; and
- 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.

The Board Charter is the document that guides our Board and its committees in their activities and decisions, as well as in their dealings with each other, with management and with our stakeholders. It addresses the composition and responsibilities of the Board, as well as Terms of Reference ("TORs") for the Bank's Committees, reviewed and approved by the Board annually.

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; and
- The governance structure of the Board;

Each Committee has TORs that set out the following:

- The role of the Committee;
- The composition of the Committee; and
- 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 independence and tenure

One of the top-of-mind issues is the promotion and maintenance of an independent board that reflects balance of power in order to ensure that no one individual, or group of individuals wield unfettered power on the Board. This also ensures that the Board is able to balance the needs of all the stakeholders and keep the best interests of the company at the forefront in all decision-making, The Guidelines mandate that "to promote and enhance diversification, transparency, and independence of the board of directors, the representation of related persons on the board of a bank shall be restricted to one-third of the board membership". The Board undertakes an annual exercise that considers a number of governance best practice recommendations, to determine the independence of the Board, in terms of form, and are satisfied that the Board is compromised of a majority of INEDs. Additionally, the Board is satisfied that in deliberations and decision-making, the Board members set aside their personal interests and act with objectivity. In the instance that the Board identified actual or perceived conflicts of interests, the Board is satisfied with the controls and procedures currently in place to manage this.

From a tenure perspective, the Board currently has no directors that have been on the Board for more than 6 years, while 20% have been on the Board for 3-6 years, and 80% have been on the Board for 0-3 years.

### Board changes

During 2022, the Board welcomed Thabo Kagiso Matthews and Saviour Mwepu Chibiya to the Board, who were approved by shareholders at the Annual General Meeting ("AGM") on 28 June 2022. The 37th AGM is scheduled for 29 June 2023 and there will be no new directors proposed for appointment, however in line with the Constitution, a third of the Board who are eligible, will retire by rotation and offer themselves for re-election. Additional information on the AGM and the director profiles are available on page 219 of this report.

To enhance the efficiency and effectiveness of the Board Committees, the Board assessed and re-constituted the membership of its Board Committees, with effect from 1 April 2022. In line with King IV, which encourages a holistic and integrated approach when the Board is establishing committees the Board assessed the requirements and mandate of each Committee and the available skill-set in order to ensure that the Board Committee compositions promote effective collaboration through the right cross-membership, ensuring complementary work is produced in instances of overlapping of jurisdiction and also ensuring a balanced distribution of power of membership within the committees.



## Protecting value through strong governance continued

### Board meetings

The Board and each Board Committee have a minimum of four (4) scheduled meetings per year and all Directors are expected to attend all meetings. In practice, the Board meets more frequently than 4 times per year, responding to the demands of the business. In 2022, the Board and its Committees held a total of 27 meetings, excluding the Board and management strategy session, training sessions as well as team building sessions. A quorum for Board meetings consists of a majority of the members and may be reached provided the members are in attendance, either in person or by teleconference.

The Board, through the Company Secretary, prepares a Board and Board Committees calendar as well as 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, significant commitment from our Board members and this includes attendance at ad hoc meetings that sometimes only require the attendance of NEDs. Members of senior management of the Bank and assurance providers (external auditors) may attend meetings by invitation in line with the charter and the TORs 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 |
|---|---|---|---|---|---|
| Daniel Neo Moroka | 7/7 | - | - | - | - |
| Kgotlayarona Ramaphane | 7/7 | - | 4/4 | 7/7 | - |
| Sari Helena Nikka | 7/7 | 1/1 | 3/4 | 6/7 | - |
| Cosmas Moapare | 7/7 | 4/4 | - | - | 5/5 |
| Benjamin Monaheng Kodisang | 7/7 | 4/4 | - | - | 5/5 |
| Sethunya Makepe-Garebatho | 7/7 | - | 3/3 | 7/7 | - |
| Thabo Kagiso Matthews* | 6/6 | 3/3 | - | - | 4/4 |
| Saviour Mwepu Chibiya** | 5/5 | - | - | - | - |
| Keabetswe Pheko – Moshagane*** | 5/7 | 3/4 | 2/4 | 4/6 | 3/5 |
| Cynthia Morapedi | 7/7 | 4/4 | 4/4 | 6/6 | 4/4 |

*Thabo joined the Board on 15 March 2022
** Saviour joined the Board on 4 April 2022
***Keabetswe was on maternity leave from 1 June 2022 – 31 August 2022

***"One of the top-of-mind issues is the promotion and maintenance of an independent board that reflects balance of power in order to ensure that no one individual, or group of individuals wield unfettered power on the Board. This also ensures that the Board is able to balance the needs of all the stakeholders and keep the best interests of the company at the forefront in all decision-making."***

## King IV application

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. Locally, as an entity listed on the Botswana Stock Exchange ("BSE"), the Bank is subject, and adheres, to the BSE' Listings Requirements, and the BSE Code. The Bank is also subject to regulatory guidelines like the Bank of Botswana Guidelines on the Appointment of Directors and Senior Officials ("Bank of Botswana Guidelines"), which apply to all licensed banks and provide guidance on the implementation of the provisions of the Banking Act (Chapter 46: 04). New guidelines (Guidelines on Corporate Governance for Banks/Financial Institutions licensed and supervised by the Bank of Botswana), which were circulated by Bank of Botswana and at the end of 2022, for implementation mid-2023, will repeal and replace the Bank of Botswana Guidelines, and the Bank will ensure to continue adhering to the guidelines.

The Group adheres to the King IV Report on Corporate Governance for South Africa, 2016™ ("King IV") and as a subsidiary company of the Group, the Bank also applies King IV. The Board adopted the revised and enhanced Group Governance Framework in June 2022, developed pursuant to the recommendations of King IV, and as a general governance improvement mechanism for the Group. This Framework standardises the application of policies and standards and ensures 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 are complied with. It provides clarity on the roles and responsibilities of the Group and subsidiary boards, the proportional application of King IV by subsidiaries as well as the management of discretion limits across the Group.

Similarly, the Bank also adopted the Group's Policy on Legal Entities and Directors, which is intended to operationalise key governance principles for effective board and legal entity governance. The Board is also continuously seeking to improve our governance practices and to comply with the 17 Principles in King IV. In this way, for example, the Board continuously assesses and evaluates its own performance and that of its committees, its chair and its individual members, support improvement in its performance and effectiveness in line with King IV. Through the Board Risk, Credit and Audit Committees, the Board continuously governs the risk in a way that supports the Bank in setting and achieving its strategic objectives as well as ensure compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the Bank. Additionally, the Board has oversight and annually reviews principal and critical risk frameworks such as the Enterprise Risk Management Framework ('ERMF') and the Operational Risk Management Framework ("ORMF"), and ensures that management identifies, measures and monitors a variety of risks through several control mechanisms.

| King IV Principle | Status | Sound governance practices |
|---|---|---|
| **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 and individual Board members' individual declaration of interests at the beginning of every Board meeting, which assists the Board in ensuring ethical decisions are made in the best interest of the Bank as a whole. 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, and the appointments do not conflict with the Bank and/or 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 with the necessary awareness, insight and information. |







| King IV Principle | Status | Sound governance practices |
|---|---|---|
| **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. The code outlines our values and expected behaviour when engaging with our fellow employees, customers, shareholders, governments, regulators, business partners, suppliers, competitors and the broader community. During 2022, the Board continued to receive the Conduct Risk report on a quarterly basis from the Head of Compliance, which includes various indicators that point to the implementation and monitoring of adherence of the approved code of ethics. Indicators include employee training attendance, trends of whistle-blowing reports, data privacy monitoring, as well as 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 where we operate. The Board oversees the Bank's stakeholder policies and takes a stakeholder inclusive approach, recognising the need for transparent disclosure and open channels of communication. The Board is engaged and on an annual basis, signs off the Bank's strategy, inclusive of the citizenship strategy. On a quarterly basis, the Board is engaged on citizenship initiatives and strategic updates, and during 2022, the Board reviewed and approved the enhanced sustainability strategy, which will significantly assist the Bank in being an active force for good. |
| **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 rigorous combined strategy session annually for appreciation and contribution to the Bank's core purpose and enabling strategic pillars. The 2022 strategy was approved on 8 December 2021 and the Board considered and approved a refreshed 2023 strategy on 10 November 2022. |
| **Principle 5:** The governing body should ensure that reports issued by the organization enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects. | Applied | The Annual financial statements for the year ended December 2022 were approved by the Board on 22 March 2023 and shared with relevant stakeholders on March 30, 2023. The Board is engaged on a quarterly basis on the organisation's performance and any risks to its short, medium and long-term prospects and has ensured that this publication contains reports that will enable stakeholders to make an informed assessment on 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 on an annual basis in order to continuously improve corporate governance in the Bank. |

## Protecting value through strong governance continued

| King IV Principle | Status | Sound governance practices |
|---|---|---|
| **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 are not aligned to the size and complexity of the organisation and commenced a recruitment process that saw the appointment of a number of NEDs over the last two years. As per the Company constitution and Board Charter, the Board can have up to a maximum of 9 NEDs. The Board is currently in the process of recruiting for the remaining NED vacancy. In terms of the recruitment exercise, the Board was deliberate in promoting gender diversity in the consideration and assessment of candidates. As at the approval of this report, the Board comprised of ten (10) directors, four (4) of which 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 | Following the conclusion of the recruitment of a substantial number of NEDs, in March 2022, the Board reconstituted the Board Committees in a manner that the Board believes promotes an effective discharge of the Board Committee mandates. Post the conclusion of the remaining NED vacancy, the Board will again look at the Board Committee composition, in an effort to ensure that the membership of the Audit Committee is separate and distinct from other committees, as per good governance best practice. In 2023, the Board will incorporate tenure limits and rotation cycle of board members in Board Committees TORs in order to promote a transfer of skills and board succession. |
| **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 | As previously reported, the Board had concluded over 90% actions arising out of the last external and internal board evaluation. An outstanding action that the Board closed in October 2022, was a Board retreat session that was externally facilitated, that delved into the enhancement of board culture, with a focus on ethical leadership and the Board's leading role in organisational culture and change". Furthermore, in February 2023, the Board appointed an external party to facilitate its Board evaluation which included evaluations of the performance of the Board, Board Committees, individual board members and company secretary during the reporting period. |
| **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 and through the HR Committee ensure adequate succession is in place for senior management. The Board receives a report on senior management succession and development every quarter in order to ensure continuous monitoring of this key indicator. Over this period, the Board was adequately engaged and considered the interim appointment of the managing director, Krishnan Menon Balachandran (who is the Bank's Chief Operating Officer) to hold fort while the Bank's managing Director, Keabetswe Pheko-Moshagane was on 3 month maternity leave. The Board ensured relevant regulatory engagement was carried out and stakeholders duly engaged during this period. |
| **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 provides guidance to and oversight of, the management of compliance risk, remuneration, the enterprise-wide risk management, and the related lines of defense that support good governance practices. The Board actively monitors the control environment and adjusts risk appetite and growth objectives accordingly. |



## Protecting value through strong governance continued

| King IV Principle | Status | Sound governance practices |
|---|---|---|
| **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 key strategic enabler and in 2022, the Board reviewed the Bank's digital strategic objectives against the agreed scorecard, as detailed on page 23. On a quarterly basis, 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, and does so by remaining abreast of evolving regulations and best practices. The Board sets the tone and leads the Bank ethically, effectively and responsibly and is satisfied that the manner of oversight supports the organisation being a good and ethical corporate citizen. |
| **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 | The Board reviewed and thoroughly considered and exercised oversight on the critical decisions regarding remuneration, such as the salary mandate, bonus pool, out of cycle rewards and executive remuneration. We have seen significant progress over the last year in the areas of remuneration, combined assurance and our relationships with our investors, in particular. The 2022 remuneration report is indicated on page 102 was crafted in consideration of stakeholder feedback and demonstrates the commitment to transparency of the Board in this regard. |
| **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 continued to exercise oversight and requisite risk management through an Enterprise Risk Management Framework, ensuring<br>• Risk appetite set and monitored<br>• Combined assurance approach<br>• Solvency, liquidity and going concern status regularly tested<br>• Capital allocation deliberated and executed<br>• Liquidity and funding tested and stressed<br>Furthermore, the Board attended ERMF focused training in July 2022 to ensure alignment and appropriateness of the ERMF and ORMF in terms of enabling an effective control environment. |
| **Principle 16:** In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organization over time. | Applied | The Board continuously assesses stakeholder feedback in an effort to improve its governance roles and responsibilities. During the AGM, the Board, met with, considered and deliberated various stakeholder feedback on several expectations, which are incorporated throughout this report. |
| **Principle 17:** The governing body of an institutional investor should ensure responsible investment. | Not Applicable | |

## Board evaluation and effectiveness

Regular performance assessments provide the Board with an opportunity to review and improve its performance. A rigorous Board evaluation allows the Board to reflect on its roles and responsibilities, its culture and its relationship with management. Post the closure of actions from the previous external and internal evaluations, in February 2023, the Board appointed and commenced an external evaluation to look at the Board's performance in 2022 and recommend focus areas for 2023. The Board evaluation included evaluations of the Board, the Board Committees, individual board members and the company secretary. The process of evaluation consisted of members completing an online questionnaire, that was drafted using best practice as espoused by the King Reports on Corporate Governance in South Africa. In addition, members attended confidential one-on-one interviews with the facilitator for the facilitator to delve deeper into scoring and trends. The report was presented to the Board in April 2023 and there were no major areas of concern, with the Board scoring above the market private companies' benchmark, with a very strong performance noted in performance of the Board Committees.

As per the BSE Listings requirements, the Board also assessed the secretariat function and is satisfied with the competence, qualifications and experience of the company secretary. The company secretary function is executed by Yonta Leburu who is a qualified attorney, duly admitted in the High Court and Other Courts of the Republic of Botswana. Please refer to page 86 of this report for the full profile of the company secretary.

## 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, ensure that all skills needed to effectively discharge its mandate are present. The skills matrix is tabled for review and approval by the Bank's Board, at least annually. Furthermore, the Bank's Board continuously assesses the areas for development and training required by the Board, with such training provided on an annual basis to further enhance the skills and knowledge of the Board as a whole. Over the reporting period, the Board was trained on several topics, including corporate governance, ethics, sustainable finance training; environmental, socio and governance training; sustainability risk training; markets and risk management products training; Enterprise Risk Management Framework training; Operational Risk Management Framework training; Resilience Risk training and the Board's role in leading organisational culture and change.

| Board Skills | Number of Board members |
|---|---|
| Financial Services | 10 |
| Risk Management | 10 |
| Retail / Consumer | 6 |
| Investment Banking | 5 |
| Assets & Liabilities | 5 |
| Fund Management | 5 |
| Human resources / Compensation | 2 |
| Citizenship / | 2 |
| Legal | 1 |
| Information technology / Tech/Digital | 2 |
| Large Scale Industrial / Comm | 4 |
| Oil and gas | 1 |
| Environmental, social and governance | 1 |
| Property Management | 1 |
| Labour Law | 1 |
| Management consultancy | 1 |
| International Trade | 1 |
| Audit, Consultancy and taxation | 1 |
| Other Industries | 5 |



Protecting value through strong governance continued

## Board governance outlook

On 29 November 2022, the Board considered and approved its performance objectives for 2023, which are as follows:

- **Corporate strategy** – Oversee the execution of the approved short-term plan for 2023 and the medium-term plan, within the framework of the regulatory and control environment, and having regard to the uncertainties of the macro environment. Monitor financial performance including key deliverables such as diversification of revenue streams with a deliberate transactional led growth.
- **Customer Centricity** – Monitor and assess the Bank's goal in being the primary partner of the Bank's clients, by focusing on creating value across the entire client relationship embedding the Absa brand.
- **Technology** – Oversee the technology and digital journey of the Bank to ensure the consistent provision of services, a safe and secure environment (with a particular focus on cyber information and data protection), an optimised and sustainable customer experience (recognising different needs for our different customers) and sustainable benefits realisation, within the context of an accelerated pace of change.
- **People and culture** – Monitor and assess the Bank's progress with respect to:
  - i. Building a winning talented diverse team through distributed leadership
  - ii. Values and ethical practices
  - iii. Organisational culture
  - iv. Talent strategy
- **Active force for good** – Monitor the Bank's role regarding environmental, social and governance matters, with a focus on:
  - i. Promotion of Corporate governance through increased disclosures
  - ii. Inclusive finance
  - iii. Environmental sustainability
  - iv. A just society
  - v. Education and skills development

From a corporate governance perspective, the Board will focus on proportionate and effective implementation of the new Guidelines on Corporate Governance for banks/financial institutions licensed and supervised by the Bank of Botswana as well as concluding the recruitment of the Board and ensuring that the board size and skills are in line with the complexity of the organisation.

***"A rigorous Board evaluation allows the Board to reflect on its roles and responsibilities, its culture and its relationship with management."***

Protecting value through strong governance continued

## Board Committees

Board Committees assist the Board in the execution of the Board's duties and responsibilities, with each committee comprising suitably skilled directors and statutory committees having independent non-executive directors as chairpersons. Each committee has written terms of reference that are reviewed annually and mapped to applicable legislation, regulation and governance practices to ensure relevance and compliance.

### Board Audit Committee

Cosmas Moapare
Chairperson

#### Mandate

- In particular, the program monitors key financial controls, accounting systems, shareholder reporting the management of key financial risks.
- 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, an INED other than the Chairperson of the Board is appointed to chair the Committee.
- The Committee, which has written ToRs approved by the Board that are in compliance with the Banking Act, Chapter 46:04, reports to the Board on a quarterly basis 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 key financial risks.
- The function of the Chief Internal Auditor is accountable to the Audit Committee and is responsible for development and maintenance of 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 Committee monitors key financial controls, accounting systems, shareholder reporting and the management of key financial risks.

#### Attendees

- Chairperson - Cosmas Moapare
- Members – Thabo Matthews and Benjamin Kodisang
- Mandatory attendees –
  - Managing Director
  - Finance Director
  - Head of Compliance
  - Chief Operating Officer
  - Chief Risk Officer
  - Chief Internal Auditor
  - Head of Legal
  - External Auditors
- Other invitees – senior management officials as necessary

#### 2022 Focus areas and material decisions

- 4 meetings held over the year
- Consideration of interim and final dividend, which were recommended to the Board for approval
- Solvency assessment
- Appointment of KPMG Botswana as the 2023 external auditors, subject to regulatory approval and shareholder approval at the 37th AGM
- Deep dive and maintenance of a sustainable satisfactory Controls Environment, issue management, including continued oversight on the lines on defence and the combined assurance providers
- As per the BSE Listing requirements, assessment of the performance of the Chief Internal Auditor and Finance Director. The Committee is satisfied with the performance of the Chief Internal Auditor and the Finance Director was conducted. Details on the profiles and qualifications of the Chief Internal Auditor and Finance Director are on page 86 and 79 of this report.

#### 2023 Focus areas

- The Committee's 2023 forward planner was approved on 17 November 2022

Focus will be on the following:

- Financial control
- Deep dives on Taxation environment
- Statutory responsibilities, including annual and interim financial reporting and regulatory disclosures





Protecting value through strong governance continued

### Board Risk Committee

Sari Nikka
Chairperson

#### Mandate

- That primary objective is to ensure that the Bank has implemented and manages an effective risk management plan and policies that will support the Bank's ability to achieve its strategic objectives.
- The Committee ensures that the Bank has effective capital and liquidity processes in place, and their management is effective and optimal.
- The Committee, which has written ToRs approved by the Board that are in compliance with the relevant regulatory guidelines and governance practices, reports to the Board on a quarterly basis to ensure compliance with applicable laws, rules and standards.

#### Attendees

- Chairperson – Sari Nikka
- Members – Kgotlayarona Ramaphane and Sethunya Makepe-Garebatho
- Mandatory attendees –
  - Managing Director
  - Finance Director
  - Chief Internal Auditor
  - Chief Operations Officer
  - Chief Risk Officer
  - Head of Compliance
  - Treasurer
  - Head of Legal
- Other invitees –
  - senior management officials as necessary

#### 2022 Focus areas and material decisions

- 4 meetings held over the year
- Risk appetite and principal risk profiles
- Adequacy of risk data aggregation and risk reporting (RDARR)
- Updates on regulatory reforms, including interest rate benchmark reforms
- Internal capital adequacy assessment process (ICAAP)
- Revised Enterprise Risk Management Framework, including Principal Risk Taxonomy

#### 2023 Focus areas

- The Committee's 2023 forward planner was approved on 15 November 2022

Focus will be on the following:

- Business Risk reporting
- Sustainability strategy and implementation
- ESG monitoring
- Risk and control self-assessment
- Operational risk environment

## Protecting value through strong governance continued

### Board Credit Committee

**Benjamin Kodisang**
Chairperson

#### Mandate

- This Committee, separate from the Risk Committee, was established in August 2020 and is mandated to exercise oversight over Credit Risk, functioning as the ultimate sanctioning authority
- Its primary objective is to review the Bank's credit portfolio s tabled by the Bank's Chief Credit Officer at every committee sitting, which must include an evaluation of the overall health of the credit portfolio, emerging risks, and material concentrations within the credit portfolios.
- The review must provide key insights into developing industry, sector and product trends and incorporate agreed management actions to modify behaviour and strategy in accordance with specific findings
- The Committee has written ToRs approved by the Board, which are in compliance with the relevant regulatory and best practice guidelines

#### Attendees

- Chairperson – Benjamin Kodisang
- Members – Thabo Matthews and Cosmas Moapare
- Mandatory attendees –
- Managing Director
- Finance Director
- Chief Credit Officer
- Other invitees:
  - Retail Director
  - Corporate Banking Director
  - Head of Corporate Credit
  - Economist
  - Head of Retail Credit
  - Head of Business Support and Corporate Recoveries

#### 2022 Focus areas and material decisions

- 5 meetings held over the year
- The macroeconomic environment, including economic recovery, headwinds and volatility, and sector stress to assess possible impacts on the sector limits and risk appetite
- Single-name exposures were approved
- The overall portfolio health of the lending book, the related loan loss ratios, and related matters were considered
- Deep dives were conducted on the diamond sector, retail and wholesale sector, construction and the manufacturing sector
- Approval of Probability of Default (PD) and Loss Given Default (LGD) sanctioning models
- Capacity and structure of the Credit team

#### 2023 Focus areas

- The Committee's 2023 forward planner was approved on 16 November 2022

Focus will be on the following:

- Insights into emerging industry and sector trends
- Continued monitoring on large and single name exposures
- Training and upskilling of local credit team
- Review of key credit frameworks and policies



## Protecting value through strong governance continued

### Human Resources, Remuneration and Nominations and Committee ("HR Committee")

**Kgotlayarona Ramaphane**
Chairperson

#### Mandate

- The Committee's primary objective is to provide oversight over the recruitment, staffing, and succession planning, as well as performance and compensation of executive management through 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 to the Bank's People Function.
- The Committee has written ToRs approved by the Board, which are in compliance with the relevant regulatory guidelines.

#### Attendees

- Chairperson – Kgotlayarona Ramaphane
- Members – Sari Nikka and Sethunya Makepe-Garebatho
- Mandatory attendees –
  - Managing Director
  - Finance Director
  - People Function Director
- Other invitees:
  - Senior management as and when necessary

#### 2022 Focus areas and material decisions

- 7 meetings held over the year, 1 of which was a meeting for the NEDs only
- Out of Cycle considerations for identified critical employees as a talent retention defense strategy
- Taking additional steps in fair and responsible pay predominantly in respect of fixed remuneration increases for management roles outside of CMC
- Holistic increase in our short-term incentive allocation, particularly for more junior employees,
- Unpacking employee survey with quarterly reporting on targets and progress made

#### 2023 Focus areas

- The Committee's 2023 forward planner was approved on 17 November 2022 and focus will be on the following:
- Attracting and retaining top talent, scarce and critical skills, and mitigating the impact of macro issues and talent competition in the financial services industry
- Responsible remuneration in the context of the market, business performance and stakeholder feedback
- Best-practice disclosure requirements covering broader ESG and specific remuneration matters
- Review of remuneration policy
- Organisational cultural transformation and embedment
- Board recruitment, skills, training and succession

## Remuneration report

As a Board, a holistic Employee Value Proposition (EVP) is key in the recruitment and retention of talent, as well as sustenance of the right culture across the organisation. Although not the only consideration, employee remuneration is a substantial consideration in the EVP and is in fact the largest contributor to the Bank's cost base. It is therefore crucial that remuneration decisions are strategically focused, with a view to ensuring the greatest impact of our investment. This enables prioritisation of our investment, with different emphases over the short and medium term to address critical areas of focus. This is considered within the context of the overall affordability of our remuneration initiatives, in terms of prioritisation. In this regard, balance is required between specific investment in remuneration and retention of executives/key talent/critical skills (both present- and future-focused), while ensuring that our remuneration practices adhere to our commitment to fair and responsible remuneration.

As a Bank, our remuneration framework 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 on the following pillars:

- 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
- Attract, retain and engage high-calibre individuals who have the skills, ambition and talent to deliver our strategy
- Pay for performance by aligning incentive outcomes to performance and value created
- Deliver fair and responsible remuneration, through annual reviews of pay gap metrics, and appropriate decisions that influence our most junior employees to ensure dignified standards of living
- 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

From a non-executive directors' perspective ("NEDs"), Group secretariat, supported by the Group Directors Affairs Committee ("DAC"), as per the Group Governance Framework, 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. The last NED fee increases were approved by shareholders at the 2020 and 2021 AGMs, which were effective from January 2020 to December 2021.

During 2022, the Group engaged an independent company, to assist with conducting market research on board director pay in the Absa Regional Operations ("ARO") markets, including Botswana. Companies considered, included banks and other competitor financial services institutions in Botswana. This research was done through the participation of the identified organisations as well as desktop reviews on the available disclosed remuneration.

The HR Committee and Board considered and deliberated the findings, with the proposed NED fees approved on 2 November 2022, subject to shareholder approval at the 37th AGM. These fees will be payable with effect from January 2022 – December 2023 and generally, bearing in mind inflation, have increased by 12% across board. Additionally, there is a fee proposed for the Lead Independent Director, which the Board appointed in November 2021. Furthermore, the fees consider NED pay for round robin applications, special board meetings, as well as NEDs that are appointed to the Bank's wholly owned subsidiaries. Additional details on the proposed fees can be viewed on the Annexure to the AGM Notice at the end of this report.

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. In considering executive and senior management pay, several fundamental principles guided decision-making, including:

- Overall Group performance
- Relative and absolute Bank performance
- The individual executive's performance, underpinned by balanced scorecards
- An appropriate mix of short-term and long-term remuneration, to ensure alignment with the creation of long-term stakeholder value
- Appropriate consideration of the experience and tenure of executives in their roles, and for more recent appointments, to ensure that there is an appropriate runway to develop into their roles
- Ensuring that we do not have a disproportionate allocation of the short-term incentive pool to more senior levels.
- Market competitiveness of our executive remuneration relative to our peers and other large organisations in our market.





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

- ▲ Revenue increased by 13%, which was materially higher than the prior year at 5%
- ▲ Return on Equity (ROE) of 23%, which was higher than the prior year (2021:20%) and above our Cost of Equity at 12% (2021:11%)
- ▲ Impairment charges of P10mn were significantly lower than prior year (2021: P74.5mn)
- ▲ The Bank maintained stability on its capital position with Common Equity Tier 1 ratio increasing to 17% from 13.4%, remaining comfortably above regulatory requirements.

The Bank delivered a strong performance in 2022, 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 2023 we will continue to examine remuneration outcomes on employee engagement and identify further opportunities to strengthen our frameworks.

### Remuneration of Non – Executive Directors in 2022 is as follows:

| | Board (BWP) | Audit Committee (BWP) | Risk Committee (BWP) | HR Committee (BWP) | Credit Committee (BWP) | Total (BWP) |
|---|---|---|---|---|---|---|
| Director | | | | | | |
| Daniel Neo Moroka (Board Chairperson) | 713 200 | | | | | 713 200 |
| Cosmas Moapare (Lead Independent Director) | 368 800 | 153 000 | | | 46 477 | 568 277 |
| Sethunya Makepe-Garebatho | 248 800 | | 33 750 | 46 583 | | 329 133 |
| Kgotlayarona Ramaphane | 248 800 | | 56 250 | 102 400 | | 407 450 |
| Sari Helena Nikka | 248 800 | 19 235 | 78 750 | 56 400 | | 403 185 |
| Benjamin Monaheng Kodisang | 248 800 | 76 500 | | | 91 853 | 417 153 |
| Thabo Kagiso Matthews | 207 767 | 57 375 | | | 35 665 | 300 807 |
| Total | 2 284 967 | 306 110 | 168 750 | 205 383 | 173 995 | 3 139 205 |

Note: Saviour Mwepu Chibiya is a non-executive director of the Bank and Group nominee, with his remuneration being paid by the Group. Details on his remuneration can be found here: https://www.absa.africa/wp-content/uploads/2023/03/2022-Absa-Group-Limited-Integrated-Report.pdf

### Remuneration of executive management and directors:

**Country Management Committee Remuneration:**

| (BWP) | 2021 | 2022 |
|---|---|---|
| Total CMC Salary | 20 696 938 | 16 708 829 |
| **Average CMC Salary** | **1 592 072** | **1 285 295** |
| Medical aid | 570 987 | 478 531 |
| Pension and retirement benefits | 2 268 139 | 1 693 797 |
| Other employee benefits | 3 927 007 | 3 498 943 |
| **Total Fixed Remuneration** | **27 463 071** | **22 380 100** |
| Total non-deferred cash award | 5 249 512 | 6 638 644 |
| Total deferred cash award | - | - |
| Deferred share award | 449 829 | 361 356 |
| **Total Short-Term Incentives** | **5 699 341** | **7 000 000** |
| **Total Remuneration** | **33 162 412** | **29 380 100** |

## Protecting value through strong governance continued

### Remuneration of executive directors in 2022 is as follows:

| | Cynthia Morapedi (Finance Director) | | Keabetswe Pheko-Moshagane (Managing Director) | |
|---|---|---|---|---|
| **(BWP)** | **2021** | **2022** | **2021** | **2022** |
| Salary | 1 670 657 | 1 903 283 | 3 102 000 | 3 288 120 |
| Medical aid | 53 198 | 55 416 | 45 468 | 44 124 |
| Pension and retirement benefits | 225 539 | 256 943 | 418 770 | 443 896 |
| Other employee benefits | 292 412 | 284 253 | 1 064 452 | 975 721 |
| Total fixed remuneration | 2 241 806 | 2 501 917 | 4 630 690 | 4 753 883 |
| Non-deferred cash award | 450 000 | 400 000 | 1 199 512 | 1 589 326 |
| Deferred share award | - | - | 449 829 | 832 504 |
| Total short-term incentives | 450 000 | 400 000 | 1 649 340 | 2 421 850 |
| Face value of long-term incentive award (on target award) | 890 023 | - | 3 027 288 | 3 350 453 |
| Total awarded remuneration | 3 581 829 | 2 901 917 | 9 307 318 | 10 526 186 |

### Notes:

- The Country Management Committee ("CMC") refers to senior management officials as defined by the BOB Guidelines and are executives reporting to the Managing Director. For the purposes of the remuneration report, this excludes the Managing Director and Finance Director, who are categorised as executive directors in the Board
- Data for a total of 11 CMC individuals were utilised for the averaged senior management remuneration
- All shares referred to, form part of the Absa Group Limited share incentive plans. No shares are awarded for Absa Bank Botswana Limited.

### Categories of remuneration:

- Fixed remuneration: fixed remuneration is inclusive of payments made in respect of salary, medical aid benefits, pension and other monthly benefit, including allowances.
- Variable remuneration: 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 the portion of the short-term incentive award not subject to deferral, paid in cash in March 2022 and March 2023 in respect of prior year performance.
- Deferred share awards: This is the portion of the short-term incentive award that is subject to deferral into Absa Group shares on 50% of the portion that exceeds the equivalent of ZAR1million. Deferred awards were granted in April 2022 for the 2021 short-term incentive award, and granted in April 2023 for 2022 performance.
- Total short-term incentives: 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).
- Face value of long-term incentive award (on-target award): The long-term incentives (LTIP) relate to awards which have future Group performance criteria that will determine the final vesting outcome, in addition to a continued service condition. This is the 'on-target' value of the award. The 2022 LTIP is reported as part of the 2021 total compensation and the 2023 LTIP as part of the 2022 total compensation.
- Total remuneration: total awarded remuneration for 2022 includes the fixed remuneration paid during 2022, the total short-term incentive in respect of prior year performance (consisting of a cash award paid in March 2023 and a deferred share award granted in April 2023), and the face value of the long-term incentive to be granted in April 2023. Amounts disclosed in 2021 follow the same principle.





## Protecting value through strong governance continued

### Management Committees

**Management committees are crucial in the overall governance of the Bank and in support of the execution of the Managing Director's mandate in line with the Board's delegated authority framework. Key management committees are as follows:**

#### 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. NEDs challenge, monitor and approve the strategies and policies recommended by the CMC. The CMC acts as the operational management forum responsible for delivering the Bank's strategy.

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 the Group
- The efficient implementation of business plans; and
- 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;
- Corporate Banking Director;
- Head of Compliance;
- Head of Marketing and Corporate Relations;
- People Function Director; and
- Head of Legal

Standing Invitees to CMC include:

- Chief of Staff and Strategy (Secretary)
- Business Banking Director
- Head of Markets

Other Invitees to CMC are as follows:

- Chief Internal Auditor
- Company Secretary

#### 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)
- Corporate Banking Director
- Retail Banking Director
- Treasurer (alternate chair)
- Finance Director
- Head of Balance Sheet Management (Secretary)
- Chief Risk Officer
- Head of Business Banking
- Chief Credit Officer

## Protecting value through strong governance continued

### Executive risk committee (ERC)

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

- satisfying itself as to the positioning of the Bank's risk profile in relation to Short term plan (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 with the exception of Treasury and Capital which are managed through a different Governance structure.

Membership of the Executive Risk Committee comprises of the following:

- Chief Risk Officer (Chairperson)
- 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
- Corporate Banking Director
- People Function Director
- Treasurer
- Head of Legal
- 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 to:

- 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; and
- Review and recommend proposed placements onto the CMC.

Membership of the Remunerations and Promotions Committee comprises the following:

- Managing Director (Chairperson);
- Finance Director;
- Chief Risk Officer
- People Function Director.

### 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 Absa 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;
- Head of Legal;
- Corporate Banking Director;
- Head of Marketing and Corporate Affairs;
- Retail Director;
- Chief Risk Officer;
- Head of Compliance;
- Retail Director;
- Treasurer; and
- Money Laundering Reporting Officer



# The Absa way code of ethics

*"As management, we will continue to lead, and be guided by our purpose in executing our mandate. The Absa Way Code of Ethics shapes our purpose of empowering Africa's tomorrow, together one story at a time."*

Keabetswe Pheko-Moshagane
Managing Director

As indicated in the King IV applications on page 93 of this report, the Board has approved the Absa Way Code of Ethics and delegated its implementation throughout the Bank to management. As management, we will continue to lead, and be guided by our purpose in executing our mandate. The Absa Way Code of Ethics shapes our purpose of empowering Africa's tomorrow, together one story at a time. The code of ethics details the expected behaviours when engaging with fellow employees, customers, shareholders, government, regulators, business partners, suppliers, competitors and the broader community.

We are deeply committed to helping Botswana and her people unlock their potential and to playing our part in promoting principled behaviour. Financial services providers like Absa safeguard customers' hopes and enable success; without their trust, we cannot exist. To maintain the trust of our customers and other stakeholders, we commit to acting with integrity as outlined in The Absa Way.

We continuously improve by challenging ourselves to find better ways to achieve growth and bring possibilities to life. As our internal policies and standards evolve in response to changing legislation and customer requirements, so will The Absa Way. The foundational principles will, however, remain; that is to act ethical, fair, and sustainable to ensure long-term value for our stakeholders.

## Our 10 target conduct outcomes

1. Our culture places customer interests at the heart of our strategy, planning, decision-making and judgments.
2. Our strategy is to develop long term banking relationships with our customers by providing products and services that meet their needs and do not cause detriment.
3. We do not disadvantage or exploit customers, customer segments, or markets.
4. We pre-emptively identify conduct risks where possible and intervene before they crystallise by managing, escalating and mitigating them promptly.
5. Our products, services and distribution channels are designed, monitored and managed to provide value, accessibility, transparency, and to meet the needs of our customers.
6. We provide banking products and services that meet our customers' expectations and perform as represented. Our representations are accurate and comprehensible, so our customers understand the products and services they are purchasing.
7. We address any customer detriment and dissatisfaction in a timely and fair manner.
8. We safeguard the privacy of personal data and only use it responsibly, and for the purpose collected.
9. We facilitate market integrity and do not wilfully cause distortions nor participate in anti-competitive behaviour.
10. We engage with Regulators constructively, transparently and proactively.

# Annual financial statements for the year ended 31 December 2022

## Directors responsibilities and approval

for the year ended 31 December 2022

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 Limited and its subsidiaries Absa Insurance Services (Pty) Limited and Absa Securities Botswana (Pty) Limited ("the Group") as 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 endeavour 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 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 endeavour 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 114 to 119.

The directors' report on pages 112 to 113 and annual financial statements of the Group and Company which appear on pages 120 to 217 were approved by the Board of Directors on 22nd March 2023 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 2022

The Absa Group Limited (Absa Group) adopted a governance framework for all subsidiaries including Absa Bank Botswana Limited (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 Absa 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:

- 7 Independent non-executive directors
- 1 non-executive director
- 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 2022

**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)
Cosmas Moapare (Lead 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)
Kgotlayarona Ramaphane (Independent Non-executive Director)
Keabetswe Pheko-Moshagane (Executive - Managing Director)
Cynthia Morapedi (Executive - Finance Director)
Thabo Kagiso Matthews (Independent Non-executive Director) Appointed on 15th March 2022
Saviour Mwepu Chibiya (Non-executive Director) - Appointed on 04th April 2022

**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**

Yonta Leburu



## Directors' report (continued)

for the year ended 31 December 2022

**Review of financial results**

The consolidated and separate financial results of Absa Bank Botswana Limited are set out in the attached consolidated and separate financial statements.

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** | 2022 P'000 | 2021 P'000 | 2022 P'000 | 2021 P'000 |
| Profit for the year | 672 080 | 502 592 | 656 178 | 477 329 |
| Total comprehensive income | 667 612 | 490 039 | 651 710 | 464 776 |
| Dividends declared and paid: | | | | |
| -Dividends paid | 236 000 | 175 533 | 236 000 | 175 533 |
| -Interim dividend paid | 103 000 | 83 000 | 103 000 | 83 000 |
| -Dividend declared subsequent to the year end | 342 000 | 236 000 | 342 000 | 236 000 |
| Net assets | 2 901 716 | 2 569 406 | 2 826 451 | 2 510 043 |

**Stated capital**

There were no changes to the stated capital for the year under review. The stated 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**

A final dividend of P342 million was declared on the 22nd of March 2023 subject to regulatory approval. There were no other material events to the understanding of these financial statements that occurred between the financial year end and the date of this report.

**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 2022

EY
Building a better working world

Firm of Chartered Accountants
2nd Floor
Plot 22, Khama Crescent
PO Box 41015
Gaborone, Botswana

Tel: +267 397 4078 / 365 4000
Fax: +267 397 4079
Email: eybotswana@za.ey.com
Partnership registered in Botswana
VAT No: PO3625401112
www.ey.com

Independent Auditor's Report

To the Shareholders of Absa Bank Botswana Limited

Report on the Audit of the Consolidated and Separate Financial Statements

*Opinion*

We have audited the consolidated and separate financial statements of Absa Bank Botswana Limited ("the Company") and its subsidiaries ('the Group') set out on pages 120 - 217, which comprise of the consolidated and separate statements of financial position as at 31 December 2022, 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 excluding the section on Note 46.1 Capital Risk Management marked as "unaudited".

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 2022, 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.

The Key Audit Matter applies to both the audit of the consolidated and separate financial statements.



# Independent Auditor's report (continued)

for the year ended 31 December 2022

EY
Building a better working world

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| Expected credit losses (ECLs) relating to loans and advances (Group and Company)<br><br>The disclosures associated with the key audit matter are set out in the consolidated and separate financial statements in the following notes:<br>• Note 2.16.2 - Expected credit losses on financial assets<br>• Note 4 -Incorporation of forward-looking information into the IFRS 9 modelling<br>• Note 10- Expected credit losses<br>• Note 21 – Loans and advances to customers<br>• Note 22 - Credit risk reconciliation – expected credit loss<br>• Note 46.7 – Credit risk | |
| We identified the audit of expected credit losses (ECL) relating to loans and advances to customers as a key audit matter considering the following:<br>• The Group's loan and advances to customers are material to the consolidated financial statements<br>• The high degree of estimation uncertainty, significant judgements and assumptions applied in estimating ECL on loans and advances to customers<br><br>In particular, we focussed on the following areas of significant judgement and estimation which required the use of specialists, additional audit effort and increased discussions with management during the course of the audit:<br><br>• **Modelled ECL provisions**<br>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.<br>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. | Our audit effort included the following procedures in addressing the key audit matter:<br><br>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.<br><br>• **Modelled ECL provisions**<br>With the assistance of 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).<br>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.<br>The 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 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.<br>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. |

## Independent Auditor's report (continued)

for the year ended 31 December 2022

| | |
|---|---|
| • **Estimation and incorporation of multiple forward-looking macro-economic scenarios**<br>These scenario forecasts are developed by Absa's group economics unit and involve significant judgement. Given the uncertain macroeconomic environment, both locally and internationally, there is complexity in incorporating these scenario forecasts, forward looking information and probability weightings into the estimation of ECL.<br><br>• **Management adjustments Management adjustments are applied to ECL**<br>model outputs where the existing models do not fully incorporate factors which impact on the ECL. Determining the key macroeconomic drivers of credit risk including the relative importance/weighting of each identified factor requires judgement and estimation by management.<br><br>• **Stage 3 ECL provisions assessed on an individual basis**<br>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 applied are by management to:<br>o Determine if the financial asset is credit impaired;<br>o Evaluate the valuation and recoverability of collateral;<br>o Determine the expected future cash flows to be collected; and<br>o Estimate the timing of the future cash flows.<br>• **Disclosures related to credit risk Credit**<br>Credit Risk disclosures are significant as they rely on material data inputs and explain the management judgement, estimates and | • **Estimation and incorporation of multiple forward-looking macro-economic scenarios**<br>We have tested controls over the approval of updated macro-economic forecasts and related ECL impacts. With assistance from 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, considering third party and our own data, to assess the reasonability of the macro-economic management adjustments.<br><br>• **Management adjustments**<br>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.<br>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.<br>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.<br><br>• **Stage 3 ECL provisions assessed on an individual basis**<br>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.<br>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:<br>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 |





## Independent Auditor's report (continued)

for the year ended 31 December 2022

| | |
|---|---|
| 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. | 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.<br>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.<br>o We have utilised our valuation specialists for a sample of more complex valuation assessments.<br><br>• **Disclosures related to credit risk**<br>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. |

*Other Information*

The directors are responsible for the other information. The other information comprises the information included in the 221-page document titled "Absa Bank Botswana Limited Integrated Report 2022" which includes the Directors' responsibilities and approval, the Corporate governance report, the Directors' report and the section marked as "unaudited" in note 46.1 Capital Risk Management, 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. 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 and Separate Financial Statements*

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards, 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 directors are 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 directors

## Independent Auditor's report (continued)

for the year ended 31 December 2022

either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and 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.

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





## Independent Auditor's report (continued)

for the year ended 31 December 2022

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
Firm of Certified Auditors
Practicing member: Bakani Ndwapi (CAP 0010 2023)

30 March 2023
Gaborone

## Consolidated and separate statements of comprehensive income

for the year ended 31 December 2022

| | Notes | Consolidated 2022 P'000 | Consolidated 2021 P'000 | Company 2022 P'000 | Company 2021 P'000 |
|---|---|---|---|---|---|
| Effective interest income | 5 | 1 628 059 | 1 370 771 | 1 628 059 | 1 370 771 |
| Effective interest expense | 6 | (441 302) | (322 367) | (441 302) | (322 367) |
| **Net interest income** | | **1 186 757** | **1 048 404** | **1 186 757** | **1 048 404** |
| Fee and commission income | 7 | 590 272 | 538 367 | 539 896 | 480 976 |
| Fee and commission expense | 7 | (140 061) | (106 196) | (138 542) | (105 128) |
| **Net fee and commission income** | | **450 211** | **432 171** | **401 354** | **375 848** |
| Net trading income | 8 | 213 580 | 164 513 | 213 580 | 164 513 |
| Other income | 9 | 7 485 | 4 113 | 36 008 | 32 299 |
| **Total income** | | **1 858 033** | **1 649 201** | **1 837 699** | **1 621 064** |
| Expected credit losses | 10 | (10 422) | (79 475) | (10 422) | (79 475) |
| **Net operating income** | | **1 847 611** | **1 569 726** | **1 827 277** | **1 541 589** |
| Staff costs | 11 | (471 887) | (445 966) | (471 887) | (445 966) |
| Infrastructure costs | 12 | (163 210) | (142 618) | (163 210) | (142 618) |
| Administration and general expenses | 13 | (332 492) | (321 835) | (330 060) | (322 105) |
| **Operating expenses** | | **(967 589)** | **(910 419)** | **(965 157)** | **(910 689)** |
| Profit before tax | | 880 022 | 659 307 | 862 120 | 630 900 |
| Taxation expense | 14 | (207 942) | (156 715) | (205 942) | (153 571) |
| **Profit for the year** | | **672 080** | **502 592** | **656 178** | **477 329** |
| 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 | | (5 728) | (15 315) | (5 728) | (15 315) |
| Deferred tax | | 1 260 | 2 762 | 1 260 | 2 762 |
| | | **(4 468)** | **(12 553)** | **(4 468)** | **(12 553)** |
| **Total other comprehensive income for the year, net of tax** | | **(4 468)** | **(12 553)** | **(4 468)** | **(12 553)** |
| **Total comprehensive income for the year, net of tax** | | **667 612** | **490 039** | **651 710** | **464 776** |
| Earnings per share | | | | | |
| **Basic and diluted (thebe per share)** | 15 | **78.87** | **58.98** | | |

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





## Consolidated and separate statements of financial position

for the year ended 31 December 2022

| | Notes | Consolidated 2022 P'000 | Consolidated 2021 P'000 | Company 2022 P'000 | Company 2021 P'000 |
|---|---|---|---|---|---|
| Assets | | | | | |
| Cash | 26 | 668 813 | 640 880 | 668 813 | 640 880 |
| Balances at central bank | 16 | 70 604 | 515 501 | 70 604 | 515 501 |
| Trading portfolio assets | 17 | 80 792 | 84 361 | 80 792 | 84 361 |
| Derivative financial instruments | 18 | 129 992 | 27 981 | 129 992 | 27 981 |
| Financial assets at fair value through OCI | 19 | 2 491 369 | 1 968 408 | 2 491 369 | 1 968 408 |
| Loans and advances to banks | 20 | 1 519 259 | 1 183 600 | 1 519 259 | 1 183 600 |
| Due from related parties | 51 | 896 035 | 1 698 453 | 922 598 | 1 726 432 |
| Loans and advances to customers | 21 | 16 347 768 | 14 924 321 | 16 347 768 | 14 924 321 |
| Other receivables | 25 | 204 333 | 121 345 | 199 964 | 120 514 |
| Property, plant and equipment | 23 | 209 497 | 246 141 | 209 497 | 246 141 |
| Intangible assets | 24 | 1 161 | 2 273 | 1 161 | 2 273 |
| Deferred tax assets | 30 | 101 033 | 107 787 | 99 229 | 105 321 |
| Taxation refundable | 39 | 13 873 | - | 9 999 | - |
| Investment in Subsidiary | 53 | - | - | - | - |
| **Total assets** | | **22 734 529** | **21 521 051** | **22 751 045** | **21 545 733** |
| **Equity and liabilities** | | | | | |
| **Liabilities** | | | | | |
| Deposits from banks | 27 | 902 902 | 793 730 | 902 902 | 793 730 |
| Due to related parties | 51 | 197 642 | 317 530 | 301 889 | 412 079 |
| Customer deposits | 28 | 17 004 832 | 16 399 553 | 17 004 832 | 16 399 553 |
| Derivative financial instruments | 18 | 115 113 | 43 151 | 115 113 | 43 151 |
| Other payables | 32 | 389 592 | 409 509 | 385 327 | 408 768 |
| Provisions | 31 | 23 929 | 32 128 | 15 728 | 20 920 |
| Taxation payable | 39 | - | 21 523 | - | 22 968 |
| Debt securities in issue | 34 | 585 827 | 341 078 | 585 827 | 341 078 |
| Subordinated debt | 35 | 612 976 | 593 443 | 612 976 | 593 443 |
| **Total liabilities** | | **19 832 813** | **18 951 645** | **19 924 594** | **19 035 690** |
| **Shareholders' equity** | | | | | |
| Stated capital | 36 | 17 108 | 17 108 | 17 108 | 17 108 |
| General risk reserve | 37 | 126 863 | 133 842 | 118 347 | 118 347 |
| Fair value reserves | 37 | (26 774) | (22 306) | (26 774) | (22 306) |
| Share-based payment reserve | 37 | 7 327 | 3 629 | 7 327 | 3 629 |
| Share capital reserve | 37 | 2 060 | 2 060 | 2 060 | 2 060 |
| Retained income | 37 | 2 775 132 | 2 435 073 | 2 708 383 | 2 391 205 |
| **Total equity attributable to equity holders** | | **2 901 716** | **2 569 406** | **2 826 451** | **2 510 043** |
| **Total equity and liabilities** | | **22 734 529** | **21 521 051** | **22 751 045** | **21 545 733** |

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

## Consolidated and separate statement of changes in equity

for the year ended 31 December 2022

Consolidated

| Figures in Pula | 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 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 '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** |
| | | | | | | | |
| **Balance at 1 January 2022** | **17 108** | **133 842** | **(22 306)** | **3 629** | **2 435 073** | **2 060** | **2 569 406** |
| Profit for the year | - | - | - | - | 672 080 | - | 672 080 |
| Other comprehensive income for the year | - | - | (4 468) | - | - | - | (4 468) |
| **Total comprehensive income for the year** | **-** | **-** | **(4 468)** | **-** | **672 080** | **-** | **667 612** |
| Dividends paid | - | - | - | - | (339 000) | - | (339 000) |
| Recognition of share-based payments | - | - | - | 3 698 | - | - | 3 698 |
| Transfer to retained earnings | - | (6 979) | - | - | 6 979 | - | - |
| **Total transactions with owners** | **-** | **(6 979)** | **-** | **3 698** | **(332 021)** | **-** | **(335 302)** |
| **Balance at 31 December 2022** | **17 108** | **126 863** | **(26 774)** | **7 327** | **2 775 132** | **2 060** | **2 901 716** |
| **Note** | **36** | | | **50** | | | |

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





## Consolidated and separate statement of changes in equity

for the year ended 31 December 2022

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 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 |
| Transfer to retained earnings | - | - | - | - | - | - | - |
| **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** |
| | | | | | | | |
| **Balance at 1 January 2022** | **17 108** | **118 347** | **(22 306)** | **3 629** | **2 391 205** | **2 060** | **2 510 043** |
| Profit for the year | - | - | - | - | 656 178 | - | 656 178 |
| Other comprehensive income for the year | - | - | (4 468) | - | - | - | (4 468) |
| **Total comprehensive income for the year** | **-** | **-** | **(4 468)** | **-** | **656 178** | **-** | **651 710** |
| Dividends paid | - | - | - | - | (339 000) | - | (339 000) |
| Recognition of share-based payments | - | - | - | 3 698 | - | - | 3 698 |
| **Total transactions with owners** | **-** | **-** | **-** | **3 698** | **(339 000)** | **-** | **(335 302)** |
| **Balance at 31 December 2022** | **17 108** | **118 347** | **(26 774)** | **7 327** | **2 708 383** | **2 060** | **2 826 451** |
| **Note** | **36** | | | **50** | | | |

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

## Consolidated and separate statement of cash flows

for the year ended 31 December 2022

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | **31 December** | 31 December | **31 December** | 31 December |
| | | 2022 | 2021 | 2022 | 2021 |
| | Notes | P'000 | P'000 | P'000 | P'000 |
| Cash flows from operating activities | | | | | |
| Cash used in operations | 38 | (365 886) | (249 544) | (380 769) | (278 745) |
| Net increase in loans and advances to customers | | (1 467 287) | (1 027 621) | (1 467 287) | (1 027 621) |
| Interest received | 43 | 1 632 480 | 1 331 084 | 1 632 480 | 1 331 084 |
| Interest paid | 42 | (432 465) | (316 216) | (432 465) | (316 216) |
| Income taxes paid net of refunds | 39 | (240 537) | (123 820) | (236 769) | (117 965) |
| Increase in deposits due to customers | | 621 470 | 497 631 | 621 470 | 497 631 |
| Decrease/(Increase) in amounts due from related parties | | 138 221 | (139 593) | 139 638 | (24 942) |
| Increase in deposits due to other banks | | 109 172 | 240 107 | 109 172 | 240 107 |
| (Decrease)/Increase in amounts due to related parties | | (45 491) | 41 500 | (35 793) | (49 805) |
| Decrease in statutory reserve with the Central Bank | | 150 000 | 60 986 | 150 000 | 60 986 |
| Decrease in derivative financial instruments | | (30 049) | (25 209) | (30 049) | (25 209) |
| **Net cash generated from operating activities** | | **69 628** | **289 305** | **69 628** | **289 305** |
| **Cash flows from investing activities** | | | | | |
| Payments for property plant and equipment | 23 | (16 888) | (23 295) | (16 888) | (23 295) |
| Proceeds from disposal of property plant and equipment | 40 | 568 | 298 | 568 | 298 |
| Purchase of financial instruments held at FVOCI | | (29 498) | (531 188) | (29 498) | (531 188) |
| Proceeds from financial instruments held at FVOCI | | - | 333 621 | - | 333 621 |
| Purchase of trading portfolio assets | | (617 500) | (463 465) | (617 500) | 591 870 |
| Proceeds from disposal of trading portfolio assets | | 625 134 | 591 870 | 625 134 | (463 465) |
| **Net cash used in investing activities** | | **(38 184)** | **(92 159)** | **(38 184)** | **(92 159)** |
| Cash flows from financing activities | | | | | |
| Dividends paid to shareholders | 41 | (339 000) | (258 533) | (339 000) | (258 533) |
| Issuance of debt securities | 34 | 423 400 | 167 087 | 423 400 | 167 087 |
| Redemption of debt securities | 34 | (178 651) | (220 201) | (178 651) | (220 201) |
| Capital payment of lease liabilities | 33 | (30 281) | (26 432) | (30 281) | (26 432) |
| Interest payment of lease liabilities | 33 | (5 495) | (6 151) | (5 495) | (6 151) |
| **Net cash used in financing activities** | | **(130 027)** | **(344 230)** | **(130 027)** | **(344 230)** |
| **Net decrease in cash and cash equivalents** | | **(98 583)** | **(147 084)** | **(98 583)** | **(147 084)** |
| Cash and cash equivalents at the beginning of the year | | 4 445 272 | 4 592 116 | 4 445 272 | 4 592 116 |
| Effect of foreign exchange rate movements on cash and cash equivalents | | (78) | 240 | (78) | 240 |
| **Cash and cash equivalents at the end of the year** | 44 | **4 346 611** | **4 445 272** | **4 346 611** | **4 445 272** |

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





## Summary of significant accounting policies

for the year ended 31 December 2022

### 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 (IFRIC) of the IASB 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 2023 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 2022. 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 consolidated and separated 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, 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 significant accounting policies (continued)

for the year ended 31 December 2022

**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.

**2.4 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 recognised 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 recognised 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 recognised 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 significant accounting policies (continued)

for the year ended 31 December 2022

**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 period over which the underlying service is provided to the customer. Transactional fees such as cash withdrawal 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.

**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 impairment 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 presents 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 are recognised on an undiscounted basis over the period of service that employees are required to work to qualify for the benefits.

**Defined benefit scheme**

In the past the Group operated a defined benefit pension plan for its employees ("the Fund"). The Group has since discontinued this Fund and currently there are no active employees within this Fund. 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.

Deferred defined benefits have been converted to defined contribution based on accrued benefits as at 31 May 2015. Annuities with respect to deferred pensioners have been purchased with effect from 31 May 2015. Consequently, settlement accounting treatment was adopted in 2015 disclosures and thus no defined benefit obligation remains in respect of the defined benefit deferred members.

# Summary of significant accounting policies (continued)

for the year ended 31 December 2022

## 2. Significant accounting policies (continued)

### 2.8 Employee benefits (continued)

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 recognised. 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

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 significant accounting policies (continued)

for the year ended 31 December 2022

## 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 recognised 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

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. Freehold land is not depreciated.

# Summary of significant accounting policies (continued)

for the year ended 31 December 2022

## 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 significant accounting policies (continued)

for the year ended 31 December 2022

## 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 significant accounting policies (continued)

for the year ended 31 December 2022

## 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.
- **Fair value through profit or loss** – 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 significant accounting policies (continued)

for the year ended 31 December 2022

## 2. Significant accounting policies (continued)
## 2.16 Financial instruments (continued)
### 2.16.1 Classification and measurement of financial instruments (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 significant accounting policies (continued)

for the year ended 31 December 2022

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

**Curing of a Distressed Restructure (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).

### 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 significant accounting policies (continued)

for the year ended 31 December 2022

## 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 49.

## 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 are 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.

# Summary of significant accounting policies (continued)

for the year ended 31 December 2022

**2. Significant accounting policies (continued)**
**2.21 Financial guarantees (continued)**

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.

**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)
- Income taxes

**Expected credit losses (ECL) of financial assets**

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.

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.





Summary of significant accounting policies (continued)

for the year ended 31 December 2022

**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).

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:
- 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.

# Summary of significant accounting policies (continued)

for the year ended 31 December 2022

**3. Judgements and estimates (continued)**

**Expected credit losses (ECL) of financial assets (continued)**

Wholesale portfolio (continued)

- **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).

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.







# Summary of significant accounting policies (continued)

for the year ended 31 December 2022



**3. Judgements and estimates (continued)**

**Expected credit losses (ECL) of financial assets (continued)**

Determination of the lifetime of a credit exposure (continued)

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 synchronized 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.

**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.

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.

## Summary of significant accounting policies (continued)

for the year ended 31 December 2022

### 3. Judgements and estimates (continued)

**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.

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.

**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<br>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 |



## Summary of significant accounting policies (continued)

for the year ended 31 December 2022

### 3. Judgements and estimates (continued)

Derivatives (continued)

**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 |
| Debt instruments<br>Derivative | 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.

**Income taxes**

The Group is subject to income taxes and the calculation of the Group's tax charge and liabilities for income taxes necessarily involves a degree of estimation and judgement. There are many transactions and calculations for which the ultimate tax treatment is uncertain or in respect of which the tax authority may indicate disagreement with the Group's treatment and accordingly the final tax charge cannot be determined until resolution has been reached with the tax authority.

The Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes tax liabilities, where appropriate, on the basis of amounts expected to be paid to the tax authority. The carrying amount of any resulting liabilities will be sensitive to the manner in which tax matters are expected to be resolved, and the stage of negotiations or discussion with the tax authority. There may be significant uncertainty around the final outcome of tax proceedings, which in many instances, will only be concluded after a number of years. Management estimates are informed by a number of factors including, inter alia, the progress made in discussions or negotiations with the tax authority, the advice of expert legal counsel, precedent set by the outcome of any previous claims.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the reporting period in which such determination is made. These risks are managed in accordance with the Group's Tax Risk Framework.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and ongoing developments will determine the recognition of deferred tax. The most significant management assumption in determining the deferred tax asset to be recognised is the effect of expected credit losses as it involves a significant level of complexity, judgement and estimation.

## Notes to the consolidated and separate annual financial statements

for the year ended 31 December 2022

### 4. Incorporation of forward-looking information into the IFRS 9 modelling

The Group's impairment models consume macro-economic information to enable the models to provide an output that is based on forward-looking information.

As at 31 December 2022, the Group believes that the probability of the baseline scenario presented below is more likely to occur as opposed to 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 2022:

| December 2022 | Consolidated and Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Baseline | | | | Upside | | | | Downside | | | |
| (%) | 2022 | 2023 | 2024 | 2025 | 2022 | 2023 | 2024 | 2025 | 2022 | 2023 | 2024 | 2025 |
| Real GDP | 5.5 | 4.4 | 4.0 | 3.8 | 6.6 | 5.8 | 5.4 | 5.2 | 4.3 | 3.0 | 3.0 | 2.7 |
| CPI | 12.3 | 6.2 | 3.9 | 3.6 | 11.9 | 4.9 | 2.4 | 2.2 | 13.0 | 8.0 | 5.5 | 5.4 |
| Policy rate | 2.78 | 2.65 | 2.87 | 3.43 | 2.78 | 2.65 | 2.68 | 2.99 | 2.84 | 3.90 | 4.59 | 5.09 |

| December 2021 | Consolidated and Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 |

#### 4.1 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 | | | |
|---|---|---|---|---|
| | 2022 P'000 | % change | 2021 P'000 | % change |
| **ECL allowance on stage 1 and stage 2 loans and advances to customers** | **249 831** | | **301 575** | |
| Baseline | 99 932 | 150 | 120 630 | 150 |
| Upside | 74 949 | 233 | 90 473 | 233 |
| Downside | 74 949 | 233 | 90 473 | 233 |

### 5. Effective interest income

| | Consolidated and Company | |
|---|---|---|
| | 2022 P'000 | 2021 P'000 |
| Financial assets at fair value through OCI | 70 761 | 53 030 |
| Loans to related parties (note 51) | 31 525 | 3 275 |
| Loans and advances to banks | 1 582 | 2 758 |
| Loans and advances to customers | 1 524 191 | 1 311 708 |
| **Total interest income** | **1 628 059** | **1 370 771** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 6. Effective interest expense

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2022 P'000 | 2021 P'000 | 2022 P'000 | 2021 P'000 |
| Deposits from banks | (11 951) | (9 720) | (11 951) | (9 720) |
| Customer deposits | (358 344) | (240 732) | (358 344) | (240 732) |
| Debt securities in issue | (23 122) | (31 215) | (23 122) | (31 215) |
| Subordinated debt* | (34 495) | (23 857) | (34 495) | (23 857) |
| Interest on lease liabilities | (5 495) | (6 151) | (5 495) | (6 151) |
| Loans from related parties | (7 895) | (10 692) | (7 895) | (10 692) |
| **Total interest expense** | **(441 302)** | **(322 367)** | **(441 302)** | **(322 367)** |

**Includes related party interest expense of P 27 744 thousand (2021: P 17 643 thousand). The total interest paid to related parties of P25 639 thousand (2021: P28 335 thousand) disclosed in note 51 includes interest from subordinated debt and interest from loans from related parties.*

### 7. Net fee and commission income

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2022 P'000 | 2021 P'000 | 2022 P'000 | 2021 P'000 |
| **Fee and commission income at a point in time** | | | | |
| Insurance commissions | 50 376 | 55 717 | - | - |
| Interchange fees | 231 804 | 198 085 | 231 804 | 198 085 |
| Withdrawal fees | 14 878 | 27 818 | 14 878 | 27 818 |
| Application banking fees | 63 403 | 55 661 | 63 403 | 55 661 |
| | **360 461** | **337 281** | **310 085** | **281 564** |
| **Fee and commission income over time** | | | | |
| Maintenance charges | 102 635 | 101 363 | 102 635 | 101 363 |
| Service fees | 126 183 | 99 092 | 126 183 | 99 092 |
| | **228 818** | **200 455** | **228 818** | **200 455** |
| **Fee and commission income** | **589 279** | **537 736** | **538 903** | **482 019** |
| Foreign exchange gains | 993 | 631 | 993 | 631 |
| **Fee and commission income** | **590 272** | **538 367** | **539 896** | **482 650** |
| **Fee and commission expense** | | | | |
| Inter-bank transaction fees | (140 061) | (106 196) | (137 895) | (105 128) |
| Commission expenses | - | - | (647) | (1 674) |
| **Fee and commission expense** | **(140 061)** | **(106 196)** | **(138 542)** | **(106 802)** |
| **Net fee and commission income** | **450 211** | **432 171** | **401 354** | **375 848** |

### 8. Net trading income

| | Consolidated and Company | |
|---|---|---|
| | 2022 P'000 | 2021 P'000 |
| Trading income exchange gain | 41 060 | 46 052 |
| Net movement from financial assets measured at fair value | (437) | 234 |
| Treasury sales activities | 125 865 | 102 200 |
| Market making activities | 49 616 | 20 300 |
| Exchange gains and losses | (2 524) | (4 273) |
| **Net trading income** | **213 580** | **164 513** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2022 P'000 | 2021 P'000 | 2022 P'000 | 2021 P'000 |
| 9. | **Other income** | | | | |
| | Gain on disposal of property and equipment | 568 | 298 | 568 | 298 |
| | Rental income | 4 476 | 3 815 | 4 476 | 3 815 |
| | Management fee income* | - | - | 28 523 | 28 186 |
| | Insurance recoveries | 2 441 | - | 2 441 | - |
| | **Total other income** | **7 485** | **4 113** | **36 008** | **32 299** |

**Management fee income includes management fee income received from the Bank's subsidiary Absa Insurance Services (Proprietary) Limited.*

| | | Consolidated and Company | |
|---|---|---|---|
| | | 2022 P'000 | 2021 P'000 |
| 9.1 | **Minimum lease receivable** | | |
| | Future minimum rentals receivable under non-cancellable operating leases as at 31 December are as follows: | | |
| | Within 1 year | 4 279 | 3 589 |
| | After 1 year but less than 5 years | 21 394 | 14 357 |
| | More than 5 years | 5 462 | 7 179 |
| | **Total rental income** | **31 135** | **25 125** |

| | | Consolidated and Company | |
|---|---|---|---|
| | | 2022 P'000 | 2021 P'000 |
| 10. | **Expected credit losses** | | |
| | Stage 3 expected losses | (62 747) | (78 414) |
| | Stage 2 expected losses | 55 257 | (103 761) |
| | Stage 1 expected losses | (26 173) | 80 594 |
| | **Expected credit loss expense** | **(33 663)** | **(101 581)** |
| | Recoveries of loans and advances to customers previously written off | 23 241 | 22 106 |
| | **Statement of comprehensive income charge** | **(10 422)** | **(79 475)** |

| | | Consolidated and Company | |
|---|---|---|---|
| | | 2022 P'000 | 2021 P'000 |
| 11. | **Staff costs** | | |
| | Salaries and current services costs | (335 988) | (317 039) |
| | Training costs | (6 252) | (4 247) |
| | Staff medical costs | (23 005) | (21 781) |
| | Leave pay | (2 955) | (990) |
| | Allowances* | (36 734) | (35 069) |
| | Staff welfare | (20 081) | (23 814) |
| | Pension cost – defined contribution plan contributions | (41 564) | (40 007) |
| | Cash-settled share-based payments | (178) | (382) |
| | Equity-settled share-based payments | (5 130) | (2 637) |
| | **Total staff costs** | **(471 887)** | **(445 966)** |
| | **Average number of employees during period** | **1 035** | **1 069** |

**Consists mainly of payroll related allowances.*



## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2022 P'000 | 2021 P'000 | 2022 P'000 | 2021 P'000 |
| 12. | **Infrastructure costs** | | | | |
| | Property maintenance costs | (14 638) | (12 935) | (14 638) | (12 935) |
| | Equipment maintenance costs | (24 172) | (19 774) | (24 172) | (19 774) |
| | Depreciation of property plant and equipment | (40 312) | (43 110) | (40 312) | (43 110) |
| | Right of use depreciation | (30 314) | (30 090) | (30 314) | (30 090) |
| | Short term and low value assets leases* | (6 550) | (6 352) | (6 550) | (6 352) |
| | Amortisation of intangible assets | (1 119) | (1 538) | (1 119) | (1 538) |
| | Software licensing and other information technology | (46 105) | (28 819) | (46 105) | (28 819) |
| | **Total infrastructure costs** | **(163 210)** | **(142 618)** | **(163 210)** | **(142 618)** |

*Operating lease rentals amounting to P 4 310 thousand (2021: P 3 409 thousand) was reclassified to short term and low value leases to reflect the appropriate nature of these expenses.

| | | Consolidated | | Company | |
|---|---|---|---|---|---|
| | | 2022 P'000 | 2021 P'000 | 2022 P'000 | 2021 P'000 |
| 13. | **Administrative and general expenses** | | | | |
| | **Auditors' remuneration:** | | | | |
| | Audit related services | (4 706) | (4 700) | (4 706) | (4 700) |
| | | **(4 706)** | **(4 700)** | **(4 706)** | **(4 700)** |
| | Consultancy legal and professional fees | (52 020) | (50 447) | (52 020) | (50 447) |
| | Marketing advertising and sponsorship | (17 682) | (11 834) | (17 682) | (11 834) |
| | Travel and accommodation | (3 915) | (1 760) | (3 915) | (1 760) |
| | Cash-in-transit | (19 659) | (19 093) | (19 659) | (19 093) |
| | Directors' fees | (3 140) | (2 115) | (3 140) | (2 115) |
| | Donations | (2 060) | (1 064) | (2 060) | (1 064) |
| | Stationery and postage | (14 395) | (15 226) | (14 395) | (15 226) |
| | Telephone | (14 090) | (14 671) | (14 090) | (14 671) |
| | | **(126 961)** | **(116 210)** | **(126 961)** | **(116 210)** |
| | **Included as part of the administrative and general are expenses incurred with related parties** | | | | |
| | Administrative and management fees charged | (100 930) | (94 020) | (100 930) | (94 290) |
| | Transitional service costs – recharges by related parties | (29 110) | (22 416) | (29 110) | (22 416) |
| | Transitional service costs – related party balances | - | - | - | - |
| | Recoveries | 544 | (1 501) | 544 | (1 501) |
| | **Total related party expenses (note 51)** | **(129 496)** | **(117 937)** | **(129 496)** | **(118 207)** |
| | Transitional service costs – other non-related party | - | (2 381) | - | (2 381) |
| | Security expenses | (13 831) | (12 949) | (13 831) | (12 949) |
| | Withholding and vat expenses | (48 287) | (40 545) | (48 287) | (40 545) |
| | Other costs – general non-related party | (9 211) | (27 113) | (6 779) | (27 113) |
| | | **(200 825)** | **(200 925)** | **(198 393)** | **(201 195)** |
| | **Total administrative and general expenses** | **(332 492)** | **(321 835)** | **(330 060)** | **(322 105)** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

| | Consolidated 2022 P'000 | Consolidated 2021 P'000 | Company 2022 P'000 | Company 2021 P'000 |
|---|---|---|---|---|
| **14. Taxation expense** | | | | |
| **14.1 Income tax recognised in profit or loss** | | | | |
| **Current tax** | | | | |
| Normal tax – current year | (179 194) | (152 461) | (175 370) | (147 399) |
| Prior year (under)/over provision | (20 734) | 1 356 | (23 220) | 1 356 |
| | **(199 928)** | **(151 105)** | **(198 590)** | **(146 043)** |
| **Deferred tax** | | | | |
| Movement in deferred tax asset – current year | (10 382) | (3 021) | (9 720) | (4 855) |
| Prior year over/(under) provision | 2 368 | (2 589) | 2 368 | (2 673) |
| | **(8 014)** | **(5 610)** | **(7 352)** | **(7 528)** |
| **Total income tax recognised in the current year** | **(207 942)** | **(156 715)** | **(205 942)** | **(153 571)** |

**14.2 Reconciliation between operating profit and tax expense**

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 of 22% applicable to the profits of the consolidated entities and the company as follows:

| | Consolidated 2022 P'000 | Consolidated 2021 P'000 | Company 2022 P'000 | Company 2021 P'000 |
|---|---|---|---|---|
| Profit before tax | 880 022 | 659 307 | 862 120 | 630 900 |
| Income tax expense calculated at 22% (2021: 22%) | 193 605 | 145 048 | 189 666 | 138 798 |
| Tax on non-deductible expenses | 2 640 | 482 | 2 093 | 482 |
| Effect of deferred tax not recognised | (6 669) | 9 952 | (6 669) | 12 974 |
| Prior year under/(over) provision-current tax | 20 734 | (1 356) | 23 220 | (1 356) |
| Prior year under provision-deferred tax | (2 368) | 2 589 | (2 368) | 2 673 |
| **Income tax expense recognised in profit or loss** | **207 942** | **156 715** | **205 942** | **153 571** |
| **Effective tax rate** | **23.63%** | **23.77%** | **23.89%** | **24.34%** |
| **Reconciliation or breakdown of non-deductible expenses** | | | | |
| Penalties and fines | 5 213 | - | 5 213 | - |
| Donations | 4 303 | 2 192 | 4 303 | 2 192 |
| Other expenses | 2 486 | - | - | - |
| **Total non-deductible differences** | **12 002** | **2 192** | **9 516** | **2 192** |
| **Tax on non-deductible expenses at 22%** | **2 640** | **482** | **2 093** | **482** |

| | Consolidated and Company 2022 Thebe | Consolidated and Company 2021 Thebe |
|---|---|---|
| **15. Earnings per share** | | |
| Basic earnings per share | 78.87 | 58.98 |
| | **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 2022 (31 December 2021: Nil).





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

| | Consolidated and Company 2022 P'000 | Consolidated and Company 2021 P'000 |
|---|---|---|
| **16. Balances at central bank** | | |
| Current account | 4 604 | 165 530 |
| Primary reserve requirement | - | 150 000 |
| Repurchase agreement | - | 199 971 |
| Standing deposit facility | 66 011 | - |
| Gross balances at central bank | 70 615 | 515 501 |
| Expected credit losses | (11) | - |
| **Carrying value** | **70 604** | **515 501** |

The minimum statutory reserve with the Bank of Botswana is calculated at 2.5% (2021: 2.5%) of the average local currency customer deposits. This is calculated on a monthly basis using deposits from two months earlier. With a view to providing flexibility, the Bank of Botswana implemented "reverse averaging" in the determination of the Primary Reserve Requirement (PRR), under which the commercial banks can fulfil this statutory requirement on an average basis over the maintenance period rather than daily. As at the year end the PRR (primary statutory reserve) was nil. However, the bank was in compliance with the central bank PRR limit, as this is assessed on an average basis (the bank's average PRR balance was P 339 million).

| | Consolidated and Company 2022 P'000 | Consolidated and Company 2021 P'000 |
|---|---|---|
| **17. Trading portfolio assets** | | |
| Debt securities | 80 792 | 84 361 |
| **Trading portfolio assets** | **80 792** | **84 361** |
| **Maturity analysis** | | |
| Between 1-2 years | - | - |
| Between 2- 5 years | 80 798 | 83 435 |
| Between 5-10 years | - | 493 |
| **Total** | **80 798** | **83 928** |
| Fair value adjustment | (6) | 433 |
| **Trading portfolio assets** | **80 792** | **84 361** |

| 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** | | | | |
| **2022** | | | | |
| **Foreign exchange derivatives** | | | | |
| Forward foreign exchange | 9 020 | 9 278 | 16 036 | 19 722 |
| Currency swap | 831 623 | 1 079 555 | 113 696 | 95 023 |
| Over the counter options bought and sold | 181 | 455 | 260 | 368 |
| **Foreign exchange derivatives** | **840 824** | **1 089 288** | **129 992** | **115 113** |
| **Total derivatives** | **840 824** | **1 089 288** | **129 992** | **115 113** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

| 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)** | | | | |
| 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** |

| | Consolidated and Company 2022 P'000 | 2021 P'000 |
|---|---|---|
| **19. Financial assets at fair value through other comprehensive income** | | |
| **Bank of Botswana certificates** | | |
| Less than 1 month | 618 262 | 299 989 |
| 1-3 months | 578 432 | 399 816 |
| 3-12 months | 533 653 | 531 090 |
| **Total** | **1 730 347** | **1 230 895** |
| **Treasury bonds** | | |
| Less than 1 year | 455 277 | - |
| 1- 5 years | 224 408 | 622 763 |
| Over 6 years | 81 659 | 115 588 |
| **Total** | **761 344** | **738 351** |
| **Debt securities** | | |
| Over 5 years | 80 | 80 |
| **Total** | **80** | **80** |
| **Total gross amount financial assets at FV through OCI** | **2 491 771** | **1 969 326** |
| Expected credit losses | (402) | (918) |
| **Total carrying amount financial assets at FV through OCI** | **2 491 369** | **1 968 408** |

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 P428 million (2021: P430 million) have been pledged as collateral for 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.

| | Consolidated and Company 2022 P'000 | 2021 P'000 |
|---|---|---|
| **20. Loans and advances to banks** | | |
| Current accounts | 882 586 | 701 588 |
| Fixed term | 636 715 | 482 112 |
| | **1 519 301** | **1 183 700** |
| Expected credit losses | (42) | (100) |
| **Total carrying amount of loans and advances to banks** | **1 519 259** | **1 183 600** |

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.



## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

| | Consolidated and Company 2022 P'000 | 2021 P'000 |
|---|---|---|
| **21. Loans and advances to customers** | | |
| Mortgages | 2 240 281 | 2 254 187 |
| Personal and term loans | 5 263 930 | 4 831 136 |
| Credit cards | 449 918 | 451 329 |
| Instalment credit agreement | 609 653 | 555 458 |
| Overdrafts | 1 304 098 | 967 117 |
| Foreign currency loans | 1 343 362 | 1 372 737 |
| Scheme loans | 5 750 841 | 5 160 592 |
| **Gross loans and advances to customers** | **16 962 083** | **15 592 556** |
| **Less: Expected credit losses** | | |
| Stage 3 | (364 484) | (366 660) |
| Stage 2 | (66 638) | (169 395) |
| Stage 1 | (183 193) | (132 180) |
| **Allowance for impairment** | **(614 315)** | **(668 235)** |
| **Net loans and advances to customers** | **16 347 768** | **14 924 321** |
| **Loans and advances to customers-sector analysis** | | |
| Private individual | 11 229 656 | 10 413 846 |
| Other financial institutions | 933 731 | 989 993 |
| Parastatals | 104 613 | 125 916 |
| Business | 4 694 083 | 4 062 801 |
| **Total loans** | **16 962 083** | **15 592 556** |
| **Expected credit losses – sector analysis** | | |
| Private individual | | |
| Stage 3 | (292 611) | (292 123) |
| Stage 2 | (41 354) | (112 571) |
| Stage 1 | (158 456) | (100 228) |
| | **(492 421)** | **(504 922)** |
| **Other financial institutions** | | |
| Stage 3 | - | - |
| Stage 2 | (7) | (5) |
| Stage 1 | (4 945) | (3 170) |
| **Total** | **(4 952)** | **(3 175)** |
| **Parastatals** | | |
| Stage 3 | - | - |
| Stage 2 | (350) | (10) |
| Stage 1 | (264) | (459) |
| **Total** | **(614)** | **(469)** |
| **Business** | | |
| Stage 3 | (71 873) | (74 537) |
| Stage 2 | (24 927) | (56 809) |
| Stage 1 | (19 528) | (28 323) |
| **Total** | **(116 328)** | **(159 669)** |
| **Total expected credit losses** | **(614 315)** | **(668 235)** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 |
|---|---|---|---|---|---|---|---|
| 2022 | | | | | | | |
| **Financial assets at fair value through OCI** | | | | | | | |
| Stage 1 | 918 | - | - | - | (516) | - | 402 |
| **Total expected credit losses** | **918** | **-** | **-** | **-** | **(516)** | **-** | **402** |
| **Balances with central bank** | | | | | | | |
| Stage 1 | - | - | - | - | 11 | - | 11 |
| **Total expected credit losses** | **-** | **-** | **-** | **-** | **11** | **-** | **11** |
| **Loans and advances to banks** | | | | | | | |
| Stage 1 | 100 | - | - | - | (58) | - | 42 |
| **Total expected credit losses** | **100** | **-** | **-** | **-** | **(58)** | **-** | **42** |
| **Loans and advances to customers** | | | | | | | |
| Stage 1 | 132 180 | 64 281 | (3 223) | (2 718) | (7 327) | - | 183 193 |
| Stage 2 | 169 395 | (60 117) | 4 617 | (27 914) | (19 343) | - | 66 638 |
| Stage 3 | 366 660 | (4 164) | (1 394) | 30 632 | 66 089 | (93 339) | 364 484 |
| **Total expected credit losses** | **668 235** | **-** | **-** | **-** | **39 419** | **(93 339)** | **614 315** |
| **Provisions for undrawn facilities and guarantees** | | | | | | | |
| Stage 1 | 6 486 | - | - | - | (4 804) | - | 1 682 |
| Stage 2 | 772 | - | - | - | (217) | - | 555 |
| Stage 3 | - | - | - | - | (172) | - | (172) |
| **Total expected credit losses** | **7 258** | **-** | **-** | **-** | **(5 193)** | **-** | **2 065** |
| **Loans to Absa Group companies** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Stage 1** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total expected credit losses** | **676 511** | **-** | **-** | **-** | **33 663** | **(93 339)** | **616 835** |

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 movements for the increase in impairment in some stages, in some cases where the impairment reduced, these would have been driven by improved portfolio quality and model benefits for some corporate clients moving to lower stages. The gross impairment charge before recovery is P33 663 thousand (refer note 10). The total write-off during the year amounts to P 93 339 thousand. Also refer to note 2.16.2 for accounting policy for curing of distressed assets.





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 |
|---|---|---|---|---|---|---|---|
| **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)** | **-** | **-** |
| | **667 023** | **-** | **-** | **-** | **101 584** | **(92 096)** | **676 511** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 22. Credit risk reconciliation- Gross loans

| Consolidated and Company | Stage 1 Gross Carrying amount P'000 | Stage 1 ECL P'000 | Stage 2 Gross Carrying amount P'000 | Stage 2 ECL P'000 | Stage 3 Gross Carrying amount P'000 | Stage 3 ECL P'000 | Total Gross Carrying amount P'000 | Total ECL P'000 | Net Carrying amount P'000 |
|---|---|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | | | |
| **Balance at January 2022** | **13 274 078** | **(132 181)** | **1 656 017** | **(169 395)** | **662 461** | **(366 659)** | **15 592 556** | **(668 235)** | **14 924 321** |
| New assets originated | 3 359 951 | (62 492) | 125 073 | (2 032) | 145 426 | (66 236) | 3 630 450 | (130 760) | 3 499 690 |
| Payments and assets derecognised | (1 749 661) | 69 820 | (68 174) | 21 375 | (443 088) | 93 485 | (2 260 923) | 184 680 | (2 076 243) |
| Transfer stage 1 | (561 693) | (64 281) | 350 912 | 60 117 | 210 781 | 4 164 | - | - | - |
| Transfer stage 2 | 616 363 | 3 223 | (722 110) | (4 617) | 105 747 | 1 394 | - | - | - |
| Transfer stage 3 | 10 337 | 2 718 | 431 | 27 914 | (10 768) | (30 632) | - | - | - |
| **Balance at 31 December 2022** | **14 949 375** | **(183 193)** | **1 342 149** | **(66 638)** | **670 559** | **(364 484)** | **16 962 083** | **(614 315)** | **16 347 768** |
| **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 | (3 078 631) | 177 535 | (1 358 470) | (112 202) | (93 825) | 21 440 | (4 530 926) | 86 773 | (4 444 153) |
| Transferred to stage 1 | (1 126 476) | (77 615) | 1 018 750 | 71 384 | 107 726 | 6 231 | - | - | - |
| Transferred to stage 2 | 140 235 | 7 019 | (214 946) | (7 770) | 74 711 | 751 | - | - | - |
| Transferred to stage 3 | 5 329 | 2 941 | 725 | 37 632 | (6 054) | (40 573) | - | - | - |
| **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** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 - 2022** | | | | | | | |
| Balance at beginning of the year | 306 946 | - | 9 960 | 166 241 | 103 497 | 168 431 | 755 075 |
| Additions | 1 314 | - | 1 430 | 6 121 | 8 023 | 17 094 | 33 982 |
| Disposals | - | - | (109) | (1 627) | (8 799) | - | (10 535) |
| **Balance at end of the year** | **308 260** | **-** | **11 281** | **170 735** | **102 721** | **185 525** | **778 522** |
| **Accumulated depreciation - 2022** | | | | | | | |
| Balance at beginning of the year | (223 523) | - | (5 670) | (147 116) | (63 417) | (69 208) | (508 934) |
| Depreciation | (14 137) | - | (1 509) | (10 963) | (13 703) | - | (40 312) |
| Right of use asset depreciation | - | - | - | - | - | (30 314) | (30 314) |
| Disposals | - | - | 109 | 1 627 | 8 799 | - | 10 535 |
| **Balance at end of the year** | **(237 660)** | **-** | **(7 070)** | **(156 452)** | **(68 321)** | **(99 522)** | **(569 025)** |
| **Carrying amount at end of year** | **70 600** | **-** | **4 211** | **14 283** | **34 400** | **86 003** | **209 497** |
| **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 | 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** | **99 223** | **246 141** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 24. Intangible assets

| Consolidated and Company | software 2022 P'000 | software 2021 P'000 |
|---|---|---|
| **Cost** | | |
| Balance at beginning of the year | 26 694 | 25 600 |
| Transfer from PPE | 7 | 1 094 |
| **Balance at end of the year** | **26 701** | **26 694** |
| | | |
| **Accumulated amortisation** | | |
| Balance at beginning of the year | (24 421) | (22 883) |
| Amortisation charge (note 12) | (1 119) | (1 538) |
| **Balance at end of the year** | **(25 540)** | **(24 421)** |
| | | |
| **Carrying amount at end of year** | **1 161** | **2 273** |

### 25. Other receivables

| | Consolidated 2022 P'000 | Company 2022 P'000 | Consolidated 2021 P'000 | Company 2021 P'000 |
|---|---|---|---|---|
| **Financial** | | | | |
| Settlement accounts | 39 865 | 39 865 | 9 185 | 9 185 |
| Clearing accounts | 23 782 | 23 782 | 16 533 | 16 533 |
| Card transactions | 64 582 | 64 582 | 37 167 | 37 167 |
| Other receivables | 19 427 | 15 058 | 10 868 | 10 037 |
| | **147 656** | **143 287** | **73 753** | **72 922** |
| | | | | |
| **Non-financial** | | | | |
| Prepayments | 18 689 | 18 689 | 8 635 | 8 635 |
| Staff fair value | 37 988 | 37 988 | 38 957 | 38 957 |
| | 56 677 | 56 677 | 47 592 | 47 592 |
| **Other receivables** | **204 333** | **199 964** | **121 345** | **120 514** |
| | | | | |
| **Break up of current and non-current assets** | | | | |
| Current | 172 983 | 168 614 | 82 398 | 81 567 |
| Non-current | 31 350 | 31 350 | 38 947 | 38 947 |
| | **204 333** | **199 964** | **121 345** | **120 514** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

| | Consolidated and Company 2022 P'000 | 2021 P'000 |
|---|---|---|
| **26. Cash** | | |
| Local currency (Pula) | 618 255 | 603 328 |
| Foreign currency | 50 558 | 37 552 |
| **Cash** | **668 813** | **640 880** |
| | | |
| **26.1 FOREIGN CURRENCY** | | |
| USD | 20 697 | 15 206 |
| ZAR | 24 204 | 18 923 |
| GBP | 1 465 | 1 252 |
| EURO | 3 851 | 1 970 |
| Other | 341 | 201 |
| **Total** | **50 558** | **37 552** |
| | | |
| **27. Deposits from banks** | | |
| Fixed deposits accounts | 853 938 | 593 612 |
| Current accounts | 48 964 | 200 118 |
| **Deposits from banks** | **902 902** | **793 730** |

The fixed terms deposits are short term deposits due to banks with an average maturity period of 1- 3 months. The carrying amount of both fixed and current approximates its fair value.

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

| | Consolidated and Company 2022 P'000 | 2021 P'000 |
|---|---|---|
| **28. Customer deposits** | | |
| Cheque account deposits | 4 540 171 | 4 314 825 |
| Savings and transmission accounts | 5 727 440 | 6 507 908 |
| Fixed deposits accounts | 6 737 221 | 5 576 820 |
| **Customer deposits** | **17 004 832** | **16 399 553** |
| Interest bearing deposits | 12 374 198 | 12 084 728 |
| Non- interest-bearing deposits | 4 630 634 | 4 314 825 |
| | **17 004 832** | **16 399 553** |
| **Maturity analysis** | | |
| On demand | 10 772 099 | 10 823 831 |
| Maturing within one year | 5 680 082 | 4 975 339 |
| Maturing after one year | 552 651 | 600 383 |
| | **17 004 832** | **16 399 553** |
| **Category analysis of customer deposits** | | |
| Pula | 2 686 857 | 2 634 440 |
| Foreign currency | 1 943 777 | 1 680 385 |
| **Current account** | **4 630 634** | **4 314 825** |
| Pula | 5 028 689 | 5 470 604 |
| Foreign currency | 698 751 | 1 038 402 |
| **Savings account** | **5 727 440** | **6 509 006** |
| Pula | 6 445 869 | 5 267 943 |
| Foreign currency | 200 889 | 307 779 |
| **Term deposits** | **6 646 758** | **5 575 722** |
| | **17 004 832** | **16 399 553** |
| **Sector analysis of customer deposits** | | |
| Private individuals | 4 800 610 | 4 864 551 |
| Other financial institutions | 5 441 515 | 4 147 637 |
| Parastatals | 1 654 970 | 691 656 |
| Business | 4 412 185 | 5 606 504 |
| Local government | 677 958 | 1 011 322 |
| Central government | 17 594 | 77 883 |
| | **17 004 832** | **16 399 553** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 2022 | 2021 |
|---|---|---|
| Discount rate | 8.00% | 8.00% |
| Change in pensions | 2.50% | 2.50% |
| Expected return on plan assets | 8.0% | 4.50% |

| | 2022 P'000 | 2021 P'000 |
|---|---|---|
| **Defined benefits plans:** | | |
| Interest on obligation | (6 735) | (5 411) |
| Interest income on assets | 6 735 | 5 411 |
| Interest cost on irrecoverable surplus | - | - |
| **Amounts recognised in profit or loss** | **-** | **-** |
| **Actuarial gain financial assumptions:** | | |
| Assumption adjustment on liabilities | - | (2 292) |
| Experience adjustment on liabilities | 3 070 | (31 151) |
| Experience adjustment on assets | (3 070) | - |
| Return on plan assets | - | 33 443 |
| **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 2022 P'000 | 2021 P'000 |
|---|---|---|
| Present value of funded defined benefit obligation | (87 311) | (87 830) |
| Fair value of plan assets | 87 311 | 87 830 |
| **Deficit** | - | - |
| Restrictions on asset recognised | - | - |
| **Net liability arising from defined benefit obligation** | **-** | **-** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 | |
|---|---|---|
| | 2022 P'000 | 2021 P'000 |
| Opening defined benefit obligation | (87 830) | (125 037) |
| Interest expense | (6 735) | (5 411) |
| Actuarial gains - financial assumption | (3 000) | 33 443 |
| Benefits paid | 9 405 | 9 175 |
| Experience (gain) / loss | (2 151) | - |
| **Closing defined benefit obligation** | **(90 311)** | **(87 830)** |
| Movements in the present value of the plan assets in the current year were as follows: | | |
| Opening fair value of plan assets | 87 830 | 125 037 |
| Interest income | 6 735 | 5 411 |
| Actuarial gains- financial assumption | 3 000 | (33 443) |
| Experience (gain) / loss | 2 151 | - |
| Benefits paid | (9 405) | (9 175) |
| **Closing fair value of plan assets** | **90 311** | **87 830** |
| 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 |
|---|---|---|---|---|
| 2022 | | | | |
| **Pensioner liability** | **90 311** | **96 951** | **87 309** | **93 026** |
| **2021** | | | | |
| **Pensioner liability** | **87 830** | **96 700** | **86 731** | **92 464** |

DR – Discount Rate





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 30. Deferred tax assets

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2022 P'000 | 2021 P'000 | 2022 P'000 | 2021 P'000 |
| Deferred tax balances | | | | |
| The net deferred tax asset at the end of the year is as follows: | | | | |
| **Deferred tax assets** | **101 033** | **107 787** | **99 229** | **105 321** |

### 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 |
|---|---|---|---|---|
| 2022 | | | | |
| Property plant and equipment | 9 666 | 1 740 | - | 11 406 |
| Trading portfolio assets | (3 362) | 2 368 | - | (994) |
| Receivables | (1 144) | (2 964) | - | (4 108) |
| Expected credit losses | 95 361 | (16 359) | - | 79 002 |
| Other liabilities | 10 480 | (1 467) | - | 9 013 |
| Financial assets at fair value through OCI | (3 214) | 8 668 | 1 260 | 6 714 |
| | **107 787** | **(8 014)** | **1 260** | **101 033** |

| 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 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** |

| 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 |
|---|---|---|---|---|
| 2022 | | | | |
| Property plant and equipment | 9 666 | 1 740 | - | 11 406 |
| Trading portfolio assets | (3 362) | 2 369 | - | (993) |
| Receivables | (1 144) | (2 964) | - | (4 108) |
| Expected credit losses | 95 361 | (16 359) | - | 79 002 |
| Other liabilities | 8 014 | (806) | - | 7 208 |
| Financial assets at fair value through OCI | (3 214) | 8 668 | 1 260 | 6 714 |
| | **105 321** | **(7 352)** | **1 260** | **99 229** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 |
|---|---|---|---|---|
| **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 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** |

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)

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| Consolidated | Recognised in profit or loss P'000 | Recognised in OCI P'000 | Total movement P'000 | Recognised in profit or loss P'000 | Recognised in OCI P'000 | Total movement P'000 |
| Property plant and equipment | 1 740 | - | 1 740 | 1 452 | - | 1 452 |
| Trading portfolio assets | 2 368 | - | 2 368 | (3 362) | - | (3 362) |
| Receivables | (2 964) | - | (2 964) | (816) | - | (816) |
| Expected credit losses | (16 359) | - | (16 359) | (223) | - | (223) |
| Other liabilities | (1 467) | - | (1 467) | 6 213 | - | 6 213 |
| Financial assets at fair value through OCI | 8 668 | 1 260 | 9 928 | (8 874) | 2 762 | (6 112) |
| | **(8 014)** | **1 260** | **(6 754)** | **(5 610)** | **2 762** | **(2 848)** |

| | 2022 | | | 2021 | | |
|---|---|---|---|---|---|---|
| Company | Recognised in profit or loss P'000 | Recognised in OCI P'000 | Total movement P'000 | Recognised in profit or loss P'000 | Recognised in OCI P'000 | Total movement P'000 |
| Property plant and equipment | 1 740 | - | 1 740 | 1 452 | - | 1 452 |
| Receivables | (2 964) | - | (2 964) | (3 362) | - | (3 362) |
| Trading portfolio assets | 2 369 | | 2 369 | (816) | | (816) |
| Expected credit losses | (16 359) | - | (16 359) | (223) | - | (223) |
| Other liabilities | (806) | - | (806) | 4 295 | - | 4 295 |
| Financial assets at fair value through OCI | 8 668 | 1 260 | 9 928 | (8 874) | 2 762 | (6 112) |
| | **(7 352)** | **1 260** | **(6 092)** | **(7 528)** | **2 762** | **(4 766)** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 31. Provisions

| Consolidated | 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 2022 | 10 181 | 3 482 | 11 207 | 7 258 | 32 128 |
| Provisions recognised during the year | - | - | (11 088) | (13 884) | (24 972) |
| Provisions paid during the year | - | - | 8 082 | 8 691 | 16 773 |
| **Balance at 31 December 2022** | **10 181** | **3 482** | **8 201** | **2 065** | **23 929** |
| Balance at 1 January 2021 | 10 181 | - | 15 049 | 12 598 | 37 828 |
| Provisions made 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** |

| Company | Fees refundable P'000 | Litigation provisions P'000 | Provision for undrawn facilities and guarantees P'000 | Total P'000 |
|---|---|---|---|---|
| Balance at 1 January 2022 | 10 181 | 3 481 | 7 258 | 20 920 |
| Provisions recognised during the year | - | - | (13 883) | (13 883) |
| Provisions paid during the year | - | - | 8 691 | 8 691 |
| **Balance at 31 December 2022** | **10 181** | **3 482** | **2 066** | **15 728** |
| Balance at 1 January 2021 | 10 181 | - | 12 598 | 22 779 |
| Provisions made during the year | - | 3 961 | (5 340) | (1 378) |
| Provisions paid during the year | - | (480) | - | (480) |
| **Balance at 31 December 2021** | **10 181** | **3 481** | **7 258** | **20 920** |

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.

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 consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 32. Other payables

| | Consolidated 2022 P'000 | Consolidated 2021 P'000 | Company 2022 P'000 | Company 2021 P'000 |
|---|---|---|---|---|
| **Financial liabilities** | | | | |
| Trade payables | 8 459 | 7 687 | 9 093 | 7 687 |
| Lease liability | 99 593 | 109 959 | 99 593 | 109 959 |
| Accrued expenses | 35 841 | 48 408 | 31 767 | 48 498 |
| Card transactions | 40 554 | 24 597 | 40 554 | 24 597 |
| Settlement accounts | 110 469 | 68 519 | 110 469 | 68 519 |
| Other liabilities | 5 488 | 6 164 | 5 527 | 6 164 |
| Clearing accounts | 6 656 | 52 004 | 6 656 | 52 004 |
| | **307 060** | **317 338** | **303 659** | **317 428** |
| **Non-financial liabilities** | | | | |
| Value added taxation | 16 328 | 30 730 | 15 464 | 29 899 |
| Withholding tax | 27 011 | 26 368 | 27 011 | 26 368 |
| Staff related accruals | 39 193 | 34 541 | 39 193 | 34 541 |
| Cash-settled share-based payments | - | 532 | - | 532 |
| | **82 532** | **92 171** | **81 668** | **91 340** |
| **Total** | **389 592** | **409 509** | **385 327** | **408 768** |

Other liabilities include sundry bills payable and liability control account.

### 33. Lease liabilities

| | Consolidated and Company 2022 P'000 | Consolidated and Company 2021 P'000 |
|---|---|---|
| **Leases as lessee** | | |
| **Movement in lease liability** | | |
| Opening balance | 109 959 | 91 260 |
| New leases | 7 104 | 26 441 |
| Modifications | 12 811 | 18 690 |
| Interest expense | 5 495 | 6 151 |
| Payment of capital | (30 281) | (26 432) |
| Payment of interest | (5 495) | (6 151) |
| | **99 593** | **109 959** |
| **Maturity analysis of lease liabilities** | | |
| Less than one year | 7 159 | 1 755 |
| Between one and five years | 75 125 | 69 205 |
| More than five years | 17 309 | 38 999 |
| | **99 593** | **109 959** |



## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 34. Debt securities in issue

| | Consolidated and Company 2022 P'000 | Consolidated and Company 2021 P'000 |
|---|---|---|
| Floating rate medium term notes | 585 827 | 341 078 |
| | **585 827** | **341 078** |

**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 2022 the Bank issued new notes with nominal value of P423 million (2021: P178 million) and redeemed notes with nominal a value P179 million (2021: P220 million).

Consolidated and Company

| Issuance date | Principal (P '000) | Balance (P '000) | 2022 Interest Rate % | Interest basis | Redemption date | Stock code |
|---|---|---|---|---|---|---|
| 14/11/2018 | 97 410 | 98 227 | 6.51% | Floating | 14/11/2023 | Listed |
| 09/05/2019 | 2 000 | 2 018 | 5.51% | Floating | 10/05/2024 | Unlisted |
| 03/06/2019 | 3 000 | 3 013 | 6.51% | Floating | 03/06/2024 | Unlisted |
| 24/06/2019 | 1 500 | 1 501 | 4.75% | Floating | 24/06/2024 | Unlisted |
| 28/06/2019 | 4 200 | 4 202 | 6.00% | Floating | 28/06/2024 | Unlisted |
| 01/11/2019 | 6 000 | 6 062 | 5.00% | Floating | 01/11/2024 | Unlisted |
| 27/01/2020 | 2 000 | 2 054 | 5.00% | Floating | 27/01/2025 | Unlisted |
| 29/01/2020 | 1 000 | 1 027 | 5.00% | Floating | 29/01/2025 | Unlisted |
| 05/02/2020 | 5 000 | 5 127 | 5.00% | Floating | 05/02/2025 | Unlisted |
| 02/03/2020 | 2 500 | 2 551 | 5.00% | Floating | 03/03/2025 | Unlisted |
| 02/04/2020 | 3 000 | 3 046 | 5.00% | Floating | 02/04/2025 | Unlisted |
| 08/04/2020 | 3 000 | 3 042 | 5.50% | Floating | 08/04/2025 | Unlisted |
| 05/06/2020 | 7 000 | 7 031 | 5.00% | Floating | 04/06/2025 | Unlisted |
| 05/06/2020 | 3 000 | 3 013 | 5.00% | Floating | 05/06/2023 | Unlisted |
| 21/12/2021 | 13 100 | 13 134 | 7.35% | Floating | 17/12/2024 | Unlisted |
| 09/03/2022 | 47 000 | 48 154 | 8.81% | Floating | 06/09/2023 | Unlisted |
| 14/04/2022 | 64 200 | 64 463 | 8.81% | Floating | 14/04/2023 | Unlisted |
| 09/05/2022 | 100 000 | 102 683 | 8.00% | Fixed | 09/06/2027 | Unlisted |
| 28/06/2022 | 5 000 | 5 003 | 6.85% | Floating | 28/06/2023 | Unlisted |
| 21/07/2022 | 19 000 | 19 292 | 7.90% | Floating | 21/07/2023 | Unlisted |
| 27/07/2022 | 5 000 | 5 067 | 7.50% | Floating | 21/07/2023 | Unlisted |
| 05/08/2022 | 8 000 | 8 089 | 7.50% | Floating | 07/08/2023 | Unlisted |
| 12/08/2022 | 18 000 | 18 168 | 7.25% | Floating | 14/08/2023 | Unlisted |
| 17/08/2022 | 7 000 | 7 061 | 7.20% | Floating | 17/08/2023 | Unlisted |
| 05/09/2022 | 100 000 | 102 452 | 7.65% | Floating | 06/09/2027 | Unlisted |
| 07/09/2022 | 4 200 | 4 219 | 7.00% | Floating | 07/09/2023 | Unlisted |
| 27/09/2022 | 6 000 | 6 003 | 5.65% | Floating | 27/09/2023 | Unlisted |
| 15/11/2022 | 40 000 | 40 125 | 7.15% | Floating | 15/11/2023 | Unlisted |
| | **577 110** | **585 827** | | | | |

There were no defaults on the above debt securities during the year.

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 34. Debt securities in issue (continued)

Consolidated and Company

| Issuance date | Principal (P '000) | Balance (P '000) | 2021 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** | | | | |

As at 31 December 2021 there were no defaults on the above debt securities.





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 35. Subordinated debt

Consolidated and Company

| | Initial call date | Interest rate | Maturity | 2022 P'000 | 2021 P'000 |
|---|---|---|---|---|---|
| Subordinated debt from Absa Group Limited | 21/02/2022 | 7.46% | 21/01/2032 | 253 753 | 254 836 |
| Subordinated debt issued through medium term program – third party | 15/11/2018 | 7.51% | 14/11/2028 | 103 582 | 103 399 |
| Subordinated debt from Absa Group Limited | 18/03/2020 | 7.47% | 18/03/2025 | 255 641 | 235 208 |
| | | | | **612 976** | **593 443** |

**Interest rates:**

| | |
|---|---|
| Subordinated debt from Absa Group Limited | Interest rate at 4.81% plus Monetary Policy Rate effective April 2022. |
| Subordinated debt issued through medium term program – third party | Interest rate at 4.86% plus Monetary Policy Rate effective April 2022. |
| Subordinated debt from Absa Group Limited | Interest rate at 2.96% plus 3-month SOFR effective December 2022. Previously it was 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 stated capital is 852 161 250 shares at no par value (2021: 852 161 250).

All issued shares are fully paid. There were no shares issued during the current year (2021: none). There were no changes to authorised share capital during the current year (2021: none).

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 2022 P'000 | 2021 P'000 |
|---|---|---|
| 852 161 250 (2021: 852 161 250) shares of no par value | 17 108 | 17 108 |
| | **17 108** | **17 108** |

# Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 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 and is non - distributable.

**General risk reserve**
The general risk reserve comprises of the following:

- A general risk reserve for the bank which 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).

- A reserve relating to Absa Insurance Services (Pty) Ltd 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 the cumulative total profit 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 consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2022 P'000 | 2021 P'000 | 2022 P'000 | 2021 P'000 |
| **38. Cash used in operations** | | | | |
| **Profit after tax for the period** | 672 080 | 502 592 | 656 178 | 477 329 |
| **Adjustments for:** | | | | |
| Income tax expense | 207 942 | 156 715 | 205 942 | 153 571 |
| Net interest income | (1 186 757) | (1 048 404) | (1 186 757) | (1 048 404) |
| Gain on disposal of property plant and equipment | (568) | (298) | (568) | (298) |
| Net gain arising on foreign exchange gains and losses | (603) | (1 598) | (603) | (1 598) |
| Net gain arising on financial assets measured at fair value through profit or loss | (4 065) | (5 515) | (4 065) | (5 515) |
| Expected credit losses | 33 663 | 101 581 | 33 663 | 101 581 |
| Depreciation | 70 626 | 73 200 | 70 626 | 73 200 |
| Amortisation | 1 119 | 1 089 | 1 119 | 1 089 |
| **Cash used in operations before working capital changes** | **(206 563)** | **(220 638)** | **(224 465)** | **(249 045)** |
| **Changes in working capital** | | | | |
| Movement in other receivables | (82 988) | 31 430 | (79 450) | 32 261 |
| Movement in other payables | 1 068 | 14 952 | (2 457) | 9 484 |
| Movement in provisions | (3 006) | (360) | - | 3 483 |
| Movement in amounts owing to related parties | (74 397) | (74 928) | (74 397) | (74 928) |
| **Total changes in working capital** | **(159 323)** | **(28 906)** | **(156 304)** | **(29 700)** |
| **Cash used in operations** | **(365 886)** | **(249 544)** | **(380 769)** | **(278 745)** |

| | Consolidated | | Company | |
|---|---|---|---|---|
| | 2022 P'000 | 2021 P'000 | 2022 P'000 | 2021 P'000 |
| **39. Taxation** | | | | |
| Opening balance | (21 523) | 5 762 | (22 968) | 5 110 |
| Current year tax charge | (179 194) | (152 461) | (175 370) | (147 399) |
| Tax paid | 240 537 | 123 820 | 236 769 | 117 965 |
| Prior year under provision | (20 734) | 1 356 | (23 220) | 1 356 |
| Fines and penalties (included in administrative and general expenses | (5 213) | - | (5 212) | - |
| **Tax refundable/(payable) at the reporting date** | **13 873** | **(21 523)** | **9 999** | **(22 968)** |
| **39.1 Reconciliation of tax paid** | | | | |
| Payments during the year | 240 537 | 123 820 | 236 769 | 117 965 |
| **Total tax paid** | **240 537** | **123 820** | **236 769** | **117 965** |

| | 2022 P'000 | 2021 P'000 |
|---|---|---|
| **40. Proceeds on disposal of property, plant and equipment** | | |
| Disposal proceeds | 568 | 298 |
| | **568** | **298** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

| | 2022 P'000 | 2021 P'000 |
|---|---|---|
| **41. Dividends paid** | | |
| Prior year final year dividend paid during the current year | 236 000 | 175 533 |
| Interim dividend paid | 103 000 | 83 000 |
| | **339 000** | **258 533** |
| **42. Interest paid** | | |
| Interest expense per profit and loss | (441 302) | (322 367) |
| IFRS 16 interest expense and other accrued interest | 8 837 | 6 151 |
| | **(432 465)** | **(316 216)** |
| **43. Interest received** | | |
| Interest received per profit and loss | 1 628 059 | 1 370 771 |
| Accrued interest | 4 421 | (39 687) |
| | **1 632 480** | **1 331 084** |
| **44. Cash and cash equivalents** | | |
| Current account (note 16) | 4 604 | 165 530 |
| Repurchase agreements (note 16) | - | 199 971 |
| Standing deposit (note 16) | 66 011 | - |
| Cash (note 26) | 668 813 | 640 880 |
| Loans and advances to banks (note 20) | 1 519 301 | 1 183 700 |
| Bank of Botswana notes (note 19) | 1 196 694 | 699 805 |
| Loans and advances from related parties* | 891 188 | 1 555 386 |
| Loans and advances from related parties* | 1 555 386 | 1 401 021 |
| | **4 346 611** | **4 445 272** |

*The balance above only includes cash items from note 51 and excludes non-cash items.





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 45. Financial instruments

### 45.1. Categories of financial instruments

Consolidated

| 2022 | 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 | - | - | 668 813 | - | 668 813 |
| Cash and balances at central bank | - | - | 70 604 | - | 70 604 |
| Trading portfolio assets | 80 792 | - | - | - | 80 792 |
| Balances with related companies | - | - | 896 035 | - | 896 035 |
| Loans and advances to banks | - | - | 1 519 259 | - | 1 519 259 |
| Derivative financial instruments | 129 992 | - | - | - | 129 992 |
| Financial assets at fair value through OCI | - | 2 491 369 | - | - | 2 491 369 |
| Loans and advances to customers | - | - | 16 347 768 | - | 16 347 768 |
| Other assets | - | - | 147 656 | 382 241 | 529 897 |
| **Total** | **210 784** | **2 491 369** | **19 650 135** | **382 241** | **22 734 529** |
| **Liabilities as per Statement of Financial Position** | | | | | |
| Deposits from banks | - | - | 902 902 | - | 902 902 |
| Balances due to related companies | - | - | 197 642 | - | 197 642 |
| Derivative financial instruments | 115 113 | - | - | - | 115 113 |
| Deposits due to customers | - | - | 17 004 832 | - | 17 004 832 |
| Debt securities in issue | - | - | 585 827 | - | 585 827 |
| Other liabilities | - | - | 307 060 | 106 461 | 413 521 |
| Subordinated debt | - | - | 612 976 | - | 612 976 |
| **Total** | **115 113** | **-** | **19 611 239** | **106 461** | **19 832 813** |

| 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 due to 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** |

# Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 45. Financial instruments (continued)

### 45.1. Categories of financial instruments (continued)

Company

| 2022 | 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 | - | - | 668 813 | - | 668 813 |
| Cash and balances at central bank | - | - | 70 604 | - | 70 604 |
| Trading portfolio assets | 80 792 | - | - | - | 80 792 |
| Balances with related companies | - | - | 922 598 | - | 922 598 |
| Loans and advances to banks | - | - | 1 519 259 | - | 1 519 259 |
| Derivative financial instruments | 129 992 | - | - | - | 129 992 |
| Financial assets at fair value through OCI | - | 2 491 369 | - | - | 2 491 369 |
| Loans and advances to customers | - | - | 16 347 768 | - | 16 347 768 |
| Other assets | - | - | 143 287 | 376 563 | 519 850 |
| **Total** | **210 784** | **2 491 369** | **19 672 329** | **376 563** | **22 751 045** |
| **Liabilities as per Statement of Financial Position** | | | | | |
| Deposits from banks | | | 902 902 | | 902 902 |
| Balances due to related companies | - | - | 301 889 | - | 301 889 |
| Derivative financial instruments | 115 113 | - | - | - | 115 113 |
| Deposits due to customers | - | - | 17 004 832 | - | 17 004 832 |
| Debt securities in issue | - | - | 585 827 | - | 585 827 |
| Other liabilities | - | - | 303 659 | 97 396 | 401 055 |
| Subordinated debt | - | - | 612 976 | - | 612 976 |
| **Total** | **115 113** | **-** | **19 712 085** | **97 396** | **19 924 594** |

| 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 due to 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** |





# Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 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% (2021: 12.5%) which is above the Basel Committee minimum guideline of 8%.

The Group has complied with all externally imposed capital requirements through the year.

| | Consolidated and Company | |
|---|---|---|
| Unaudited | 2022 P'000 | 2021 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 | 126 863 | 133 842 |
| Other reserves | (19 447) | (16 617) |
| Retained earnings | 2 775 132 | 2 435 072 |
| Proposed dividends | - | (236 000) |
| Less: Intangible assets | (1 161) | (2 273) |
| **Total Tier 1 Capital** | **2 900 555** | **2 333 192** |
| **Tier 2 Capital** | | |
| Subordinated redeemable debt | 607 596 | 487 570 |
| Unencumbered general provisions | 185 228 | 189 502 |
| **Total Tier 2 Capital** | **792 824** | **677 072** |
| **Total regulatory capital** | **3 693 379** | **3 010 264** |
| **Risk weighted assets** | | |
| Credit Risk weighted assets | 14 818 250 | 15 160 162 |
| Market risk weighted assets | 334 470 | 230 903 |
| Operational risk weighted assets | 1 671 574 | 1 602 644 |
| **Total risk weighted assets** | **16 824 294** | **16 993 709** |
| **Capital adequacy ratio** | **21.95%** | **17.71%** |

Tier 1 (or core) capital ratio (Basel Committee guide: minimum 4%) was 17.24% at year-end (2021: 13.70%).

# Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 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 consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 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 2022 | | |
| | Average P'000 | High P'000 | Low P'000 |
| Interest rate risk | 225 | 480 | 61 |
| Foreign currency risk | 621 | 1 083 | 61 |
| | **846** | **1 563** | **122** |

| | 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** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**46. Risk management (continued)**

**46.3 Market risk (continued)**

| | Consolidated and Company 2022 Interest rates Average | Interest rates High | Interest rates Low | 2021 Interest rates Average | Interest rates High | Interest rates Low |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| **Loans and advances to banks:** | | | | | | |
| BWP | 1.79% | 3.00% | 1.00% | 1.20% | 3.00% | 1.00% |
| USD | 0.19% | 1.00% | 0.00% | 0.05% | 0.08% | 0.00% |
| ZAR | 3.00% | 3.00% | 3.00% | 2.88% | 3.25% | 2.50% |
| **Bank of Botswana certificates** | | | | | | |
| 7 day | 1.97% | 2.65% | 1.11% | 1.07% | 1.10% | 1.04% |
| 1 month | 2.76% | 3.18% | 2.34% | - | - | - |
| 91 day | - | - | - | - | - | - |
| **Loans and advances:** | | | | | | |
| Corporate | 5.76% | 8.75% | 2.50% | 5.76% | 9.75% | 2.50% |
| Retail | 12.30% | 23.75% | 5.75% | 13.70% | 24.25% | 5.75% |
| Staff | 4.70% | 6.25% | 3.00% | 3.50% | 3.75% | 3.25% |
| **Balances with related parties** | | | | | | |
| USD | 1.71% | 4.20% | 0.05% | 0.15% | 0.28% | 0.05% |
| ZAR | 4.88% | 6.60% | 3.45% | 3.14% | 3.30% | 3.05% |

| | Consolidated and Company 2022 Interest rates Average | Interest rates High | Interest rates Low | 2021 Interest rates Average | Interest rates High | Interest rates Low |
|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | |
| **Deposits due to customers:** | | | | | | |
| Corporate | 0.20% | 5.35% | 0.10% | 0.30% | 4.35% | 0.10% |
| Retail | 2.50% | 3.25% | 0.00% | 1.96% | 3.25% | 0.00% |
| Staff | 1.43% | 3.25% | 0.00% | 1.96% | 3.25% | 0.00% |
| **Deposits from banks:** | | | | | | |
| BWP | 2.14% | 3.25% | 1.25% | 2.97% | 5.00% | 1.00% |
| USD | 1.01% | 4.40% | 0.00% | 0.09% | 0.20% | 0.00% |
| **Balances with related parties** | | | | | | |
| USD | 7.47% | 4.77% | 2.92% | 2.86% | 2.93% | 2.93% |
| ZAR | 6.39% | 8.73% | 5.00% | 5.07% | 5.36% | 4.75% |
| **Medium term notes** | 6.73% | 7.83% | 5.00% | 5.50% | 6.00% | 4.56% |
| **Floating rate notes** | 6.28% | 8.81% | 4.65% | 4.90% | 6.18% | 4.04% |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**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$17million. 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$50million 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 consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**46. Risk management (continued)**

**46.4 Foreign currency risk (continued)**

**Market risk regulatory capital calculations (Trading and Banking Books) (continued)**

| | | | Consolidated | | | | |
|---|---|---|---|---|---|---|---|
| 2022 | BWP P'000 | USD P'000 | ZAR P'000 | GBP P'000 | EUR P'000 | Other P'000 | Total P'000 |
| **ASSETS** | | | | | | | |
| Cash | 618 255 | 20 697 | 24 204 | 1 465 | 3 851 | 341 | 668 813 |
| Balances at the Central Bank | 70 604 | - | - | - | - | - | 70 604 |
| Trading portfolio assets | 80 792 | - | - | | | - | 80 792 |
| Derivative financial instruments | 129 992 | - | - | - | - | - | 129 992 |
| Financial assets at fair value through OCI | 1 981 358 | 510 011 | - | - | - | - | 2 491 369 |
| Loans and advances to banks | 547 295 | 736 248 | - | - | 233 073 | 2 643 | 1 519 259 |
| Due from related companies | 691 | 790 597 | 102 214 | - | - | 2 533 | 896 035 |
| Loans and advances to customers | 15 004 251 | 1 214 169 | 129 325 | 11 | 11 | 1 | 16 347 768 |
| Other receivables | 204 333 | - | - | - | - | - | 204 333 |
| **Total assets** | **18 637 571** | **3 271 722** | **255 743** | **1 476** | **236 935** | **5 518** | **22 408 965** |
| **Liabilities** | | | | | | | |
| Deposits from banks | 897 059 | 440 | - | - | 2 582 | 2 821 | 902 902 |
| Due to related companies | 9 420 | - | 185 905 | - | - | 2 317 | 197 642 |
| Customer deposits | 14 161 417 | 2 419 561 | 236 473 | 145 425 | 41 956 | - | 17 004 832 |
| Derivative financial instruments | 115 113 | - | - | - | - | - | 115 113 |
| Other payables | 389 592 | - | - | - | - | - | 389 592 |
| Debt securities in issue | 330 821 | 255 006 | - | - | - | - | 585 827 |
| Subordinated debt | 357 335 | 255 641 | - | - | - | - | 612 976 |
| **Total liabilities** | **16 260 757** | **2 930 648** | **422 378** | **145 425** | **44 538** | **5 138** | **19 808 884** |
| **Net position** | **2 376 814** | **341 074** | **(166 635)** | **(143 949)** | **192 397** | **380** | **2 600 081** |

| | | | 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 | 73 752 |
| **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** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**46. Risk management (continued)**

**46.4 Foreign currency risk (continued)**

| | | | Company | | | | |
|---|---|---|---|---|---|---|---|
| 2022 | BWP P'000 | USD P'000 | ZAR P'000 | GBP P'000 | EUR P'000 | Other P'000 | Total P'000 |
| **ASSETS** | | | | | | | |
| Cash | 618 255 | 20 697 | 24 204 | 1 465 | 3 851 | 341 | 668 813 |
| Balances at the Central Bank | 70 604 | - | - | - | - | - | 70 604 |
| Trading portfolio assets | 80 792 | - | - | | | - | 80 792 |
| Derivative financial instruments | 129 992 | - | - | - | - | - | 129 992 |
| Financial assets at fair value through OCI | 1 981 358 | 510 011 | - | - | - | - | 2 491 369 |
| Loans and advances to banks | 547 295 | 736 248 | - | - | 233 073 | 2 643 | 1 519 259 |
| Due from related companies | 31 072 | 790 597 | 100 929 | - | - | - | 922 598 |
| Loans and advances to customers | 15 004 251 | 1 214 169 | 129 325 | 11 | 11 | 1 | 16 347 768 |
| Other receivables | 199 964 | - | - | - | - | - | 199 964 |
| **Total assets** | **18 663 583** | **3 271 722** | **254 458** | **1 476** | **236 935** | **2 985** | **22 431 159** |
| **LIABILITIES** | | | | | | | |
| Deposits from banks | 897 059 | 440 | - | - | 2 582 | 2 821 | 902 902 |
| Due to related companies | 113 667 | - | 185 905 | - | - | 2 317 | 301 889 |
| Customer deposits | 14 161 417 | 2 419 561 | 236 473 | 145 425 | 41 956 | - | 17 004 832 |
| Derivative financial instruments | 115 113 | - | - | - | - | - | 115 113 |
| Other payables | 385 327 | - | - | - | - | - | 385 327 |
| Debt securities in issue | 330 821 | 255 006 | - | - | - | - | 585 827 |
| Subordinated debt | 357 335 | 255 641 | - | - | - | - | 612 976 |
| **Total liabilities** | **16 360 739** | **2 930 648** | **422 378** | **145 425** | **44 538** | **5 138** | **19 908 866** |
| **Net position** | **2 302 844** | **341 074** | **(167 920)** | **(143 949)** | **192 397** | **(2 153)** | **2 522 293** |

| | | | 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 | 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** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 | |
|---|---|---|
| | 2022<br>P'000 | 2021<br>P'000 |
| 5% movement in US Dollar/BWP exchange rate (P'000) | (8 447) | 2 550 |
| As a percentage of total shareholders' equity | -0.29% | 0.10% |
| 5% movement in ZAR/BWP exchange rate (P'000) | 77 704 | (13 077) |
| As a percentage of total shareholders' equity | 2.67% | -0.51% |
| 5% movement in GBP/BWP exchange rate (P'000) | (7 197) | (2 631) |
| As a percentage of total shareholders' equity | -0.25% | -0.10% |
| 5% movement in EUR/BWP exchange rate (P'000) | 9 620 | 699 |
| As a percentage of total shareholders' equity | 0.33% | 0.03% |

**Sensitivity analysis**

A reasonably possible strengthening of the US dollar ZAR GBP EUR against all other countries as at 31 December 2022 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.





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 46. Risk management (continued)

### 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 | | | | | | |
|---|---|---|---|---|---|---|---|
| 2022 | 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 | - | - | - | - | - | 668 813 | 668 813 |
| Balances at central banks | - | - | - | - | - | 70 604 | 70 604 |
| Trading portfolio assets | - | - | - | 80 792 | - | - | 80 792 |
| Derivative financial instruments | 129 992 | - | - | - | - | - | 129 992 |
| Fair value through OCI Investments | 109 909 | - | 1 620 036 | 679 685 | 81 739 | - | 2 491 369 |
| Loans and advances to banks | 1 519 259 | - | - | - | - | - | 1 519 259 |
| Due from related parties | 896 035 | - | - | - | - | - | 896 035 |
| Loans and advances to customers | 2 705 519 | 18 967 | 1 543 565 | 2 375 265 | 10 345 797 | (641 345) | 16 347 768 |
| Other receivables | - | - | - | - | - | 147 656 | 147 656 |
| | **5 360 714** | **18 967** | **3 163 601** | **3 135 742** | **10 427 536** | **245 728** | **22 352 288** |

| | Consolidated | | | | | | |
|---|---|---|---|---|---|---|---|
| 2022 | 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 | 902 902 | - | - | - | - | - | 902 902 |
| Due to related parties | - | - | - | 197 642 | - | - | 197 642 |
| Customer accounts | 7 498 046 | 2 120 490 | 2 293 474 | 551 642 | 1 009 | 4 540 171 | 17 004 832 |
| Derivative financial instruments | 115 113 | - | - | - | - | - | 115 113 |
| Debt securities in issue | - | 585 827 | - | - | - | - | 585 827 |
| Subordinated debt | - | 612 976 | - | - | - | - | 612 976 |
| Other payables | - | - | - | - | - | 307 060 | 307 060 |
| | **8 516 061** | **3 319 293** | **2 293 474** | **749 284** | **1 009** | **4 847 231** | **19 726 352** |
| **Interest rate sensitivity gap** | **(3 155 347)** | **(3 300 326)** | **870 127** | **2 386 458** | **10 426 527** | **(4 601 503)** | **2 625 936** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 |
| **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** |

| | | | | 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 |
| 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** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 46. Risk management (continued)

### 46.5 Interest rate risk (continued)

| | | | | Company | | | |
|---|---|---|---|---|---|---|---|
| 2022 | 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 | - | - | - | - | - | 668 813 | 668 813 |
| Balances at central banks | - | - | - | - | - | 70 604 | 70 604 |
| Trading portfolio assets | - | - | - | 80 792 | - | - | 80 792 |
| Derivative financial instruments | 129 992 | - | - | - | - | - | 129 992 |
| Fair value through OCI Investments | 109 909 | - | 1 620 036 | 679 685 | 81 739 | - | 2 491 369 |
| Loans and advances to banks | 1 519 259 | - | - | - | - | - | 1 519 259 |
| Due from related parties | 922 598 | - | - | - | - | - | 922 598 |
| Loans and advances to customers | 2 705 519 | 18 967 | 1 543 565 | 2 375 265 | 10 345 797 | (641 345) | 16 347 768 |
| Other receivables | - | - | - | - | - | 143 287 | 143 287 |
| | **5 387 277** | **18 967** | **3 163 601** | **3 135 742** | **10 427 536** | **241 359** | **22 374 482** |

| | | | | Company | | | |
|---|---|---|---|---|---|---|---|
| 2022 | 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 | 902 902 | - - | | - | - | - | 902 902 |
| Due to related parties | - | - | - | 301 889 | - | - | 301 889 |
| Customer accounts | 7 498 046 | 2 120 490 | 2 293 474 | 551 642 | 1 009 | 4 540 171 | 17 004 832 |
| Derivative financial instruments | 115 113 | - | - | - | - | - | 115 113 |
| Debt securities in issue | - | 585 827 | - | - | - | - | 585 827 |
| Subordinated debt | - | 612 976 | - | - | - | - | 612 976 |
| Other payables | - | - | - | - | - | 303 659 | 303 659 |
| | **8 516 061** | **3 319 293** | **2 293 474** | **853 531** | **1 009** | **4 843 830** | **19 827 198** |
| **Interest rate sensitivity gap** | **(3 128 784)** | **(3 300 326)** | **870 127** | **2 282 211** | **10 426 527** | **(4 602 471)** | **2 547 284** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 46. Risk management (continued)

### 46.5 Interest rate risk (continued)

| 2021 | Up to 1 month P'000 | 1 - 3 months P'000 | 3 - 12 months P'000 | Company 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** |

| 2021 | Up to 1 month P'000 | 1 - 3 months P'000 | 3 - 12 months P'000 | Company 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** |

### 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
- 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.



## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 46. Risk management (continued)

### 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.

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.

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 46. Risk management (continued)

### 46.7.1. Maximum credit risk exposure

Consolidated

| 2022 | 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 | 70 604 | 70 604 | - | - |
| Loans and advances to banks | 1 519 301 | 1 519 301 | - | - |
| Financial assets at fair value through OCI | 2 491 771 | 2 491 771 | - | - |
| Loans and advances to customers | 16 962 083 | 14 949 375 | 1 342 149 | 670 559 |
| Due from related parties | 896 035 | 896 035 | - | - |
| **Total gross maximum exposure to credit risk (excluding derivatives)** | **21 939 794** | **19 927 086** | **1 342 149** | **670 559** |
| Expected credit losses | (614 770) | (183 095) | (67 192) | (364 483) |
| **Total net exposure to credit risk as disclosed on the statement of financial position** | **21 325 024** | **19 743 991** | **1 274 957** | **306 076** |
| Assets not subject to IFRS 9 ECL requirements | 1 027 264 | - | - | - |
| **Total financial assets** | **22 352 288** | **19 743 991** | **1 274 957** | **306 076** |
| | | | | |
| Gross off balance sheet exposures | **3 339 473** | **3 339 473** | **-** | **-** |
| Expected credit losses and provision | (2 065) | (2 065) | - | - |
| **Net off balance sheet exposures** | **3 337 408** | **3 337 408** | **-** | **-** |

The write-off amount for the year is P93 339 thousand (2021: P92 096 thousand) refer to note 22.

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** | **-** | **-** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 46. Risk management (continued)

### 46.7 Credit risk (continued)

### 46.7.1. Maximum credit risk exposure (continued)

Company

| 2022 | 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 | 70 604 | 70 604 | - | - |
| Loans and advances to banks | 1 519 301 | 1 519 301 | - | - |
| Financial assets at fair value through OCI | 2 491 771 | 2 491 771 | - | - |
| Loans and advances to customers | 16 962 083 | 14 949 375 | 1 342 149 | 670 559 |
| Due from related parties | 922 598 | 922 598 | - | - |
| **Total gross maximum exposure to credit risk (excluding derivatives)** | **21 966 357** | **19 953 649** | **1 342 149** | **670 559** |
| Expected credit losses | (614 770) | (183 095) | (67 192) | (364 483) |
| **Total net exposure to credit risk as disclosed on the statement of financial position** | **21 351 587** | **19 770 554** | **1 274 957** | **306 076** |
| Assets not subject to IFRS 9 ECL requirements | 1 022 895 | - | - | - |
| **Total financial assets** | **22 374 482** | **19 770 554** | **1 274 957** | **306 076** |
| | | | | |
| Gross off balance sheet exposures | 3 339 473 | 3 339 473 | - | - |
| Expected credit losses and provision | (2 065) | (2 065) | - | - |
| **Net off balance sheet exposures** | **3 337 408** | **3 337 408** | **-** | **-** |

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.

Company

| **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 | 1 726 432 | 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 consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**46. Risk management (continued)**
**46.7 Credit risk (continued)**

**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 | |
|---|---|---|
| | 2022 P'000 | 2021 P'000 |
| Asset financing- movable property | 4 036 | 1 008 |
| Residential property | 82 682 | 16 500 |
| **Balance at the end of the reporting period** | **86 718** | **17 508** |
| **Forced sale value of repossessed assets** | **110 417** | **17 271** |

The policy for financial assets that are written off but still subject to enforcement activity is disclosed under note 2.16.2. Repossessed properties are maintained off balance sheet with the respective loan recognised to the extent of discounted fair value of collateral held. The repossessed assets are not recognised on the statement of financial position as title or ownership of the assets never transfers to the Group (refer note 2.16.3).

Growth

The loans and advances to customers experienced growth of 8.78% year on year (2021:7%). 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 consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**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 |
| 2022 | | | | | | |
| **On-statement of financial position exposure** | | | | | | |
| Balances at central bank | 70 604 | - | - | - | - | 70 604 |
| Financial assets at fair value OCI | 2 491 771 | - | - | - | - | 2 491 771 |
| Trading portfolio assets | 80 792 | - | - | - | - | 80 792 |
| Due from related parties | 896 035 | - | - | - | - | 896 035 |
| Loans and advances to banks | 1 519 259 | - | - | - | - | 1 519 259 |
| Derivative financial assets | 129 992 | - | - | - | - | 129 992 |
| Loans and advances to customers | 16 962 083 | (583 241) | (2 327 527) | (348 101) | (9 968) | 13 693 246 |
| Other receivables | 147 656 | - | - | - | - | 147 656 |
| **Total exposures subject to credit risk** | **22 298 192** | **(583 241)** | **(2 327 527)** | **(348 101)** | **(9 968)** | **19 029 355** |
| **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** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**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 |
| 2022 | | | | | | |
| **On-statement of financial position exposure** | | | | | | |
| Balances at central bank | 70 604 | - | - | - | - | 70 604 |
| Financial assets at fair value OCI | 2 491 396 | - | - | - | - | 2 491 396 |
| Trading portfolio assets | 80 792 | - | - | - | - | 80 792 |
| Due from related parties | 922 598 | - | - | - | - | 922 598 |
| Loans and advances to banks | 1 519 259 | - | - | - | - | 1 519 259 |
| Derivative financial assets | 129 992 | - | - | - | - | 129 992 |
| Loans and advances to customers | 16 962 083 | (583 241) | (2 327 527) | (348 101) | (9 968) | 13 693 246 |
| Other receivables | 143 287 | - | - | - | - | 143 287 |
| **Total exposures subject to credit risk** | **22 320 011** | **(583 241)** | **(2 327 527)** | **(348 101)** | **(9 968)** | **19 051 174** |
| **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** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**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 | 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 |
|---|---|---|---|---|---|---|---|---|---|
| 2022 | | | | | | | | | |
| Private individuals | 11 237 720 | - | - | - | - | - | - | - | 11 237 720 |
| Mining companies | 178 341 | - | - | - | - | - | - | - | 178 341 |
| Parastatals | 104 613 | - | - | - | - | - | - | - | 104 613 |
| Private sector | 4 507 678 | - | - | - | - | - | - | - | 4 507 678 |
| Financial institutions | 933 731 | 1 519 301 | 896 035 | 129 992 | 70 615 | 2 491 771 | 80 792 | 147 656 | 6 269 893 |
| **Gross exposure** | **16 962 083** | **1 519 301** | **896 035** | **129 992** | **70 615** | **2 491 771** | **80 792** | **147 656** | **22 298 245** |
| **Expected credit losses*** | **(614 315)** | **(42)** | **-** | **-** | **(11)** | **(402)** | **-** | **-** | **(614 770)** |
| **Net exposure** | **16 347 768** | **1 519 259** | **896 035** | **129 992** | **70 604** | **2 491 369** | **80 792** | **147 656** | **21 683 475** |
| **2021** | | | | | | | | | |
| Private individuals | 10 416 530 | - | - | - | - | - | - | - | 10 416 530 |
| Mining companies | 224 399 | - | - | - | - | - | - | - | 224 399 |
| Parastatals | 125 916 | - | - | - | - | - | - | - | 125 916 |
| Private sector | 3 835 718 | - | - | - | - | - | - | - | 3 835 718 |
| Financial institutions | 989 993 | 1 183 700 | 1 698 453 | 27 981 | 515 501 | 1 969 326 | 84 361 | 73 753 | 6 543 068 |
| **Gross exposure** | **15 592 556** | **1 183 700** | **1 698 453** | **27 981** | **515 501** | **1 969 326** | **84 361** | **73 753** | **21 145 631** |
| **Expected credit losses*** | **(668 235)** | **(100)** | **-** | **-** | **-** | **(918)** | **-** | **-** | **(669 253)** |
| **Net exposure** | **14 924 321** | **1 183 600** | **1 698 453** | **27 981** | **515 501** | **1 968 408** | **84 361** | **73 753** | **20 476 378** |

* Refer to Note 21 for an analysis of expected credit losses by sector.

# Notes to the consolidated and separate annual financial statements (continued)
for the year ended 31 December 2022

## 46. Risk management (continued)
## 46.7 Credit risk (continued)
### 46.7.4 Credit exposure by industry (continued)

| Company | Loans and advances to customers P'000 | Loans and advances to banks P'000 | Balances with related companies P'000 | 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 |
|---|---|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | | | |
| Private individuals | 11 237 720 | - | - | - | - | - | - | - | 11 237 720 |
| Mining companies | 178 341 | - | - | - | - | - | - | - | 178 341 |
| Parastatals | 104 613 | - | - | - | - | - | - | - | 104 613 |
| Private sector | 4 507 678 | - | - | - | - | - | - | - | 4 507 678 |
| Financial institutions | 933 731 | 1 519 301 | 922 598 | 129 992 | 70 615 | 2 491 771 | 80 792 | 143 287 | 6 292 087 |
| **Gross exposure** | **16 962 083** | **1 519 301** | **922 598** | **129 992** | **70 615** | **2 491 771** | **80 792** | **143 287** | **22 320 439** |
| **Expected credit losses*** | **(614 315)** | **(42)** | **-** | **-** | **(11)** | **(402)** | **-** | **-** | **(614 770)** |
| **Net exposure** | **16 347 768** | **1 519 259** | **922 598** | **129 992** | **70 604** | **2 491 369** | **80 792** | **143 287** | **21 705 669** |
| **2021** | | | | | | | | | |
| Private individuals | 10 416 530 | - | - | - | - | - | - | - | 10 416 530 |
| Mining companies | 224 399 | - | - | - | - | - | - | - | 224 399 |
| Parastatals | 125 916 | - | - | - | - | - | - | - | 125 916 |
| Private sector | 3 835 718 | - | - | - | - | - | - | - | 3 835 718 |
| Financial institutions | 989 993 | 1 183 700 | 1 726 432 | 27 981 | 515 501 | 1 969 326 | 84 361 | 73 753 | 6 571 047 |
| **Gross exposure** | **15 592 556** | **1 183 700** | **1 726 432** | **27 981** | **515 501** | **1 969 326** | **84 361** | **73 753** | **21 173 610** |
| **Expected credit losses*** | **(668 235)** | **(100)** | **-** | **-** | **-** | **(918)** | **-** | **-** | **(669 253)** |
| **Net exposure** | **14 924 321** | **1 183 600** | **1 726 432** | **27 981** | **515 501** | **1 968 408** | **84 361** | **73 753** | **20 504 357** |

* Refer to Note 21 for an analysis of expected credit losses by sector.





# Notes to the consolidated and separate annual financial statements (continued)
for the year ended 31 December 2022

## 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 | 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 |
|---|---|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | | | |
| Botswana | 16 962 083 | 547 337 | - | 129 992 | 70 615 | 2 491 771 | 80 792 | 147 656 | 20 430 246 |
| South Africa | - | - | 896 035 | - | - | - | - | - | 896 035 |
| UK | - | - | - | - | - | - | - | - | - |
| Europe | - | 233 073 | - | - | - | - | - | - | 233 073 |
| Other | - | 2 643 | - | - | - | - | - | - | 2 643 |
| USA | - | 736 248 | - | - | - | - | - | - | 736 248 |
| **Gross exposure** | **16 962 083** | **1 519 301** | **896 035** | **129 992** | **70 615** | **2 491 771** | **80 792** | **147 656** | **22 298 245** |
| **Expected credit losses** | **(614 315)** | **(42)** | **-** | **-** | **(11)** | **(402)** | **-** | **-** | **(614 770)** |
| **Net Exposure** | **16 347 768** | **1 519 259** | **896 035** | **129 992** | **70 604** | **2 491 369** | **80 792** | **147 656** | **21 683 475** |
| **2021** | | | | | | | | | |
| Botswana | 15 592 556 | 431 880 | - | 27 981 | 515 501 | 1 969 326 | 84 361 | 73 753 | 18 695 358 |
| South Africa | - | 27 | 1 698 453 | - | - | - | - | - | 1 698 480 |
| UK | - | 144 974 | - | - | - | - | - | - | 144 974 |
| Europe | - | 220 135 | - | - | - | - | - | - | 220 135 |
| Other | - | 2 336 | - | - | - | - | - | - | 2 336 |
| USA | - | 384 348 | - | - | - | - | - | - | 384 348 |
| **Gross Exposure** | **15 592 556** | **1 183 700** | **1 698 453** | **27 981** | **515 501** | **1 969 326** | **84 361** | **73 753** | **21 145 631** |
| **Expected credit losses** | **(668 235)** | **(100)** | **-** | **-** | **-** | **(918)** | **-** | **-** | **(669 253)** |
| **Net Exposure** | **14 924 321** | **1 183 600** | **1 698 453** | **27 981** | **515 501** | **1 968 408** | **84 361** | **73 753** | **20 476 378** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**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 | 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 |
|---|---|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | | | |
| Botswana | 16 962 083 | 547 337 | - | 129 992 | 70 615 | 2 491 771 | 80 792 | 143 287 | 20 425 877 |
| South Africa | - | - | 922 598 | - | - | - | - | - | 922 598 |
| UK | - | - | - | - | - | - | - | - | - |
| Europe | - | 233 073 | - | - | - | - | - | - | 233 073 |
| Other | - | 2 643 | - | - | - | - | - | - | 2 643 |
| USA | - | 736 248 | - | - | - | - | - | - | 736 248 |
| **Gross Exposure** | **16 962 083** | **1 519 301** | **922 598** | **129 992** | **70 615** | **2 491 771** | **80 792** | **143 287** | **22 320 439** |
| **Expected credit losses** | **(614 315)** | **(42)** | **-** | **-** | **(11)** | **(402)** | **-** | **-** | **(614 770)** |
| **Net Exposure** | **16 347 768** | **1 519 259** | **922 598** | **129 992** | **70 604** | **2 491 369** | **80 792** | **143 287** | **21 705 669** |
| **2021** | | | | | | | | | |
| Botswana | 15 592 556 | 431 880 | - | 27 981 | 515 501 | 1 969 326 | 84 361 | 72 922 | 18 694 527 |
| South Africa | - | 27 | 1 726 432 | - | - | - | - | - | 1 726 459 |
| UK | - | 144 974 | - | - | - | - | - | - | 144 974 |
| Europe | - | 220 135 | - | - | - | - | - | - | 220 135 |
| Other | - | 2 336 | - | - | - | - | - | - | 2 336 |
| USA | - | 384 348 | - | - | - | - | - | - | 384 348 |
| **Gross Exposure** | **15 592 556** | **1 183 700** | **1 726 432** | **27 981** | **515 501** | **1 969 326** | **84 361** | **72 922** | **21 172 779** |
| **Expected credit losses** | **(668 235)** | **(100)** | **-** | **-** | **-** | **(918)** | **-** | **-** | **(669 253)** |
| **Net Exposure** | **14 924 321** | **1 183 600** | **1 726 432** | **27 981** | **515 501** | **1 968 408** | **84 361** | **72 922** | **20 503 526** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**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 2022 | P'000 2021 |
|---|---|---|
| Private individuals | 395 949 | 398 295 |
| Mining companies | 504 944 | 92 397 |
| Parastatals | 292 469 | 50 814 |
| Private sector | 1 762 332 | 1 974 717 |
| Financial institutions | 383 779 | 458 922 |
| **Gross Exposure** | **3 339 473** | **2 975 145** |
| Expected credit losses | (2 065) | (7 258) |
| **Net exposure** | **3 337 408** | **2 967 887** |

### 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 t4he 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.

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**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 |
|---|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash | 668 813 | - | - | - | - | 668 813 | - | 668 813 |
| Balances at central banks | 70 604 | - | - | - | - | 70 604 | - | 70 604 |
| Trading portfolio assets | - | - | - | 80 792 | - | 80 792 | - | 80 792 |
| Fair Value through OCI Investments | 109 909 | - | 1 620 036 | 679 685 | 81 739 | 2 491 369 | - | 2 491 369 |
| Loans and advances to banks | 1 519 259 | - | - | - | - | 1 519 259 | - | 1 519 259 |
| Due from related parties | 896 035 | - | - | - | - | 896 035 | - | 896 035 |
| Loans and advances to customers | 2 743 299 | 18 967 | 1 543 565 | 2 375 265 | 9 704 452 | 16 385 548 | (37 780) | 16 347 768 |
| Other assets | - | - | 147 656 | - | - | 147 656 | - | 147 656 |
| **Total assets** | **6 007 919** | **18 967** | **3 311 257** | **3 135 742** | **9 786 191** | **22 260 076** | **(37 780)** | **22 222 296** |

| 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 |
|---|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | | |
| **Liabilities** | | | | | | | | |
| Due to related parties | - | - | - | 198 299 | - | 198 299 | (657) | 197 642 |
| Customer accounts | 7 498 046 | 2 575 543 | 2 716 911 | 623 594 | 4 541 180 | 17 955 274 | (950 442) | 17 004 832 |
| Debt Securities in issue | - | 588 027 | - | - | - | 588 027 | (2 200) | 585 827 |
| Subordinated debt | - | 618 305 | - | - | - | 618 305 | (5 329) | 612 976 |
| Deposits from banks | 902 902 | - | - | - | - | 902 902 | - | 902 902 |
| Other payables | 307 060 | - | - | - | - | 307 060 | - | 307 060 |
| **Total liabilities** | **8 708 008** | **3 781 875** | **2 716 911** | **821 893** | **4 541 180** | **20 569 867** | **(958 628)** | **19 611 239** |
| **Off balance sheet** | **3 339 473** | **-** | **-** | **-** | **-** | **3 339 473** | **-** | **3 339 473** |
| **Total liabilities exposure** | **12 047 481** | **3 781 875** | **2 716 911** | **821 893** | **4 541 180** | **23 909 340** | **(958 628)** | **22 950 712** |
| **Liquidity gap (excluding derivatives)** | **(6 039 562)** | **(3 762 908)** | **594 346** | **2 313 849** | **5 245 011** | **(1 649 264)** | **(920 848)** | **(728 416)** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**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** | | | | | | | | |
| **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 |
| | **5 954 704** | **1 939 205** | **717 950** | **5 488 461** | **7 032 872** | **21 133 192** | **(43 915)** | **21 089 277** |

| 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** | **20 046 411** | **(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** | **23 021 556** | **(1 283 739)** | **21 737 817** |
| **Liquidity gap (excluding derivatives)** | **(11 111 173)** | **107 648** | **(1 736 809)** | **3 927 150** | **6 924 820** | **(1 888 364)** | **1 239 824** | **(648 540)** |

# Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**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 |
|---|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | | |
| **Assets** | | | | | | | | |
| Cash | 668 813 | - | - | - | - | 668 813 | - | 668 813 |
| Balances at central banks | 70 604 | - | - | - | - | 70 604 | - | 70 604 |
| Trading portfolio assets | - | - | - | 80 792 | - | 80 792 | - | 80 792 |
| Fair Value through OCI Investments | 109 909 | - | 1 620 036 | 679 685 | 81 739 | 2 491 369 | - | 2 491 369 |
| Loans and advances to banks | 1 519 259 | - | - | - | - | 1 519 259 | - | 1 519 259 |
| Due from related parties | 922 598 | - | - | - | - | 922 598 | - | 922 598 |
| Loans and advances to customers | 2 743 299 | 18 967 | 1 543 565 | 2 375 265 | 9 704 452 | 16 385 548 | (37 780) | 16 347 768 |
| Other assets | - | - | 143 287 | - | - | 143 287 | - | 143 287 |
| | **6 034 482** | **18 967** | **3 306 888** | **3 135 742** | **9 786 191** | **22 282 270** | **(37 780)** | **22 244 490** |

| 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 | - | - | - | 302 546 | - | 302 546 | (657) | 301 889 |
| Customer accounts | 7 498 046 | 2 575 543 | 2 716 911 | 623 594 | 4 541 180 | 17 955 274 | (950 442) | 17 004 832 |
| Debt Securities in issue | - | 588 027 | - | - | - | 588 027 | (2 200) | 585 827 |
| Subordinated debt | - | 618 305 | - | - | - | 618 305 | (5 329) | 612 976 |
| Deposits from banks | 902 902 | - | - | - | - | 902 902 | - | 902 902 |
| Other payables | 303 659 | - | - | - | - | 303 659 | - | 303 659 |
| **Total liabilities** | **8 704 607** | **3 781 875** | **2 716 911** | **926 140** | **4 541 180** | **20 670 713** | **(958 628)** | **19 712 085** |
| **Off balance sheet** | **3 339 473** | **-** | **-** | **-** | **-** | **3 339 473** | **-** | **3 339 473** |
| **Total liabilities exposure** | **12 044 080** | **3 781 875** | **2 716 911** | **926 140** | **4 541 180** | **24 010 186** | **(958 628)** | **23 051 558** |
| **Liquidity gap (excluding derivatives)** | **(6 009 598)** | **(3 762 908)** | **589 977** | **2 209 602** | **5 245 011** | **(1 727 916)** | **(920 848)** | **(807 068)** |





# Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

**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** | | | | | | | | |
| **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** |

| 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)** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 46. Risk management (continued)
### 46.8 Liquidity risk (continued)

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 |
| **2022** | | |
| **Gross settled:** | | |
| Derivative financial assets | 840 824 | 840 824 |
| Derivative financial liabilities | 1 089 288 | 1 089 288 |
| **2021** | | |
| **Gross settled:** | | |
| Derivative financial assets | 3 304 675 | 3 304 675 |
| Derivative financial liabilities | 4 251 250 | 4 251 250 |

**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.

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.





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 46. Risk management (continued)
### 46.8 Liquidity risk (continued)

**Stress liquidity risk (continued)**

| | Consolidated and Company | |
|---|---|---|
| | 2022 | 2021 |
| **At 31 December** | | |
| Foreign currency | (4)% | (6)% |
| Local currency | 33% | 35% |
| **Average for the period** | | |
| Foreign currency | (3)% | (6)% |
| Local currency | 34% | 38% |
| **Maximum for the period** | | |
| Foreign currency | (2)% | (4)% |
| Local currency | 37% | 41% |
| **Minimum for the period** | | |
| Foreign currency | (4)% | (9)% |
| Local currency | 32% | 34% |

### 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 consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 47. Fair value of financial instruments not held at fair value (continued)

| | 2022 | | 2021 | |
|---|---|---|---|---|
| Consolidated | Carrying amount P'000 | Fair value P'000 | Carrying amount P'000 | Fair value P'000 |
| **Financial Assets** | | | | |
| Cash | 668 813 | 668 813 | 640 880 | 640 880 |
| Balances at central bank | 70 604 | 70 604 | 515 501 | 515 501 |
| Due from related companies | 896 035 | 896 035 | 1 698 453 | 1 698 453 |
| Loans and advances to banks | 1 519 259 | 1 519 259 | 1 183 600 | 1 183 600 |
| Loans and advances to customers | 16 347 768 | 16 347 768 | 14 924 321 | 14 924 321 |
| Other receivables | 147 656 | 147 656 | 73 753 | 73 753 |
| **Total** | **19 650 135** | **19 650 135** | **19 036 508** | **19 036 508** |
| **Financial liabilities** | | | | |
| Deposits from banks | 902 902 | 902 902 | 793 730 | 793 730 |
| Due to related companies | 197 642 | 197 642 | 317 530 | 317 530 |
| Deposits due to customers | 17 004 832 | 17 004 832 | 16 399 553 | 16 399 553 |
| Debt securities in issue | 585 827 | 588 027 | 341 078 | 458 473 |
| Other payables | 307 060 | 307 060 | 317 338 | 317 338 |
| Subordinated debt | 612 976 | 618 305 | 593 443 | 593 443 |
| **Total** | **19 611 239** | **19 618 768** | **18 762 672** | **18 880 067** |

| | 2022 | | 2021 | |
|---|---|---|---|---|
| Company | Carrying amount P'000 | Fair value P'000 | Carrying amount P'000 | Fair value P'000 |
| **Financial Assets** | | | | |
| Cash | 668 813 | 668 813 | 640 880 | 640 880 |
| Balances at central bank | 70 604 | 70 604 | 515 501 | 515 501 |
| Due from related companies | 922 598 | 922 598 | 1 726 432 | 1 726 432 |
| Loans and advances to banks | 1 519 259 | 1 519 259 | 1 183 600 | 1 183 600 |
| Loans and advances to customers | 16 347 768 | 16 347 768 | 14 924 321 | 14 924 321 |
| Other receivables | 143 287 | 143 287 | 72 922 | 72 922 |
| **Total** | **19 672 329** | **19 672 329** | **19 063 656** | **19 063 656** |
| **Financial liabilities** | | | | |
| Deposits from banks | 902 902 | 902 902 | 793 730 | 793 730 |
| Due to related companies | 301 889 | 301 889 | 412 079 | 412 079 |
| Deposits due to customers | 17 004 832 | 17 004 832 | 16 399 553 | 16 399 553 |
| Debt securities in issue | 585 827 | 588 027 | 341 078 | 458 473 |
| Other payables | 303 659 | 303 659 | 317 428 | 317 428 |
| Subordinated debt | 612 976 | 618 305 | 593 443 | 511 971 |
| **Total** | **19 712 085** | **19 719 614** | **18 857 311** | **18 893 234** |



## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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:

| Category of asset/liability | Valuation techniques applied | Significant unobservable inputs | 2022 Range of unobservable inputs applied | 2021 |
|---|---|---|---|---|
| Loans and advances to banks and customers | Discounted cash flow and/or yield for debt instruments | Credit spreads | 0.04% to 3.21% | 1.4% to 3.7% |
| 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% | 8.5% |
| **Trading and hedging portfolio assets and liabilities** | | | | |
| Debt instruments | Discounted cash flow models | Credit spreads | 0.31% - 4.02% | 0.04% - 4.55% |
| Derivative assets | - | - | - | - |
| Deposits due to customers | Discounted cash flow models | Absa Group Limited's funding spreads (greater than 5 years) | 1.15% - 1.58% | 1.15%-1.6% |
| Debt securities in issue | Discounted cash flow models | Funding curves (greater than 5 years) | 1.15% - 1.58% | 1.15%-1.6% |

**Please refer note 3 for details of valuation in relation to Level 2.*

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 |
|---|---|---|---|---|
| **2022** | | | | |
| **Financial assets** | | | | |
| Cash | 668 813 | - | - | 668 813 |
| Balances at central bank | 70 604 | - | - | 70 604 |
| Balances with related parties | - | 896 035 | - | 896 035 |
| Loans and advances to banks | - | 1 519 259 | - | 1 519 259 |
| Loans and advances to customers | - | - | 16 347 768 | 16 347 768 |
| | **739 417** | **2 415 294** | **16 347 768** | **19 502 479** |
| **Financial liabilities** | | | | |
| Deposits from banks | - | 902 902 | - | 902 902 |
| Balances due to related parties | - | 197 642 | - | 197 642 |
| Deposits due to customers | - | 17 004 832 | - | 17 004 832 |
| Debt securities in issue | - | 585 827 | - | 585 827 |
| Subordinated debt | - | 612 976 | - | 612 976 |
| | **-** | **19 304 179** | **-** | **19 304 179** |

| 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 due to 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 due to 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** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 |
|---|---|---|---|---|
| **2022** | | | | |
| **Financial assets** | | | | |
| Cash | 668 813 | - | - | 668 813 |
| Balances at central bank | 70 604 | - | - | 70 604 |
| Balances with related parties | - | 922 598 | - | 922 598 |
| Loans and advances to banks | - | 1 519 259 | - | 1 519 259 |
| Loans and advances to customers | - | - | 16 347 768 | 16 347 768 |
| | **739 417** | **2 441 857** | **16 347 768** | **19 529 042** |
| **Financial liabilities** | | | | |
| Deposits from banks | - | 902 902 | - | 902 902 |
| Balances due to related parties | - | 301 889 | - | 301 889 |
| Deposits due to customers | - | 17 004 832 | - | 17 004 832 |
| Debt securities in issue | - | 585 827 | - | 585 827 |
| Subordinated debt | - | 612 976 | - | 612 976 |
| | **-** | **19 408 426** | **-** | **19 408 426** |

| 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 due to 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** |

# Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 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 |
|---|---|---|---|
| **2022** | | | |
| **Recurring fair value measurements** | | | |
| **Financial assets** | | | |
| Derivative financial instruments | - | 129 992 | 129 992 |
| Trading portfolio assets | - | 80 792 | 80 792 |
| | **-** | **210 784** | **210 784** |
| **Fair value through other comprehensive income** | | | |
| Treasury bills and other eligible bills | 1 730 347 | - | 1 730 347 |
| Treasury bonds | 761 424 | - | 761 424 |
| | **2 491 771** | **-** | **2 491 771** |
| **Financial liabilities** | | | |
| **Fair value through profit or loss** | | | |
| Derivative financial instruments | - | 115 113 | 115 113 |
| | **-** | **115 113** | **115 113** |

| Consolidated and Company | Level 1 P'000 | Level 2 P'000 | Total P'000 |
|---|---|---|---|
| **2021** | | | |
| **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 - Held for trading | | | |
| Derivative financial instruments | - | 43 151 | 43 151 |
| | **-** | **43 151** | **43 151** |





# Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 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 |

## 49. Segmental reporting

The Group comprises the following main business segments:

- Corporate and Investment Banking (CIB)
- Retail Business Banking and Other (RBB)
- Islamic banking

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.

**Islamic Banking:** This is a new segment of the business and started operations towards the end of the year 2022. Other reconciling items

# Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 49. Segmental reporting (continued)

**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 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.

| Consolidated | Retail and Business Banking P'000 | Corporate and Investment Banking P'000 | Islamic Banking P'000 | Other P'000 | Total P'000 |
|---|---|---|---|---|---|
| **2022** | | | | | |
| **ASSETS** | | | | | |
| Derivative financial instruments | - | 129 992 | - | - | 129 992 |
| Fair value through OCI | 2 491 369 | - | - | - | 2 491 369 |
| Loans and advances to customers | 12 115 158 | 4 132 624 | 99 986 | - | 16 347 768 |
| Trading portfolio assets | - | 80 792 | - | - | 80 792 |
| Other assets | - | - | - | 3 684 608 | 3 684 608 |
| **Total** | **14 606 527** | **4 343 408** | **99 986** | **3 684 608** | **22 734 529** |
| **Liabilities** | | | | | |
| Customer accounts | 10 411 822 | 6 492 769 | 100 241 | - | 17 004 832 |
| Derivative financial instruments | - | 115 113 | - | - | 115 113 |
| Debt securities in issue | 585 827 | - | - | - | 585 827 |
| Subordinated debt | 612 976 | - | - | - | 612 976 |
| Other liabilities | - | - | - | 1 514 065 | 1 514 065 |
| **Total** | **11 610 625** | **6 607 882** | **100 241** | **1 514 065** | **19 832 813** |

| Consolidated | Retail and Business Banking P'000 | Corporate and Investment Banking P'000 | Islamic 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** |





# Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 49. Segmental reporting (continued)

### 49.1 Statement of financial position (continued)

| Company | Retail and Business Banking P'000 | Corporate and Investment Banking P'000 | Islamic Banking P'000 | Other P'000 | Total P'000 |
|---|---|---|---|---|---|
| **2022** | | | | | |
| **Assets** | | | | | |
| Derivative financial instruments | - | 129 992 | - | - | 129 992 |
| Fair value through OCI | 2 491 369 | - | - | - | 2 491 369 |
| Loans and advances to customers | 12 115 158 | 4 132 624 | 99 986 | - | 16 347 768 |
| Trading portfolio assets | - | 80 792 | - | - | 80 792 |
| Other assets | - | - | - | 3 701 124 | 3 701 124 |
| **Total** | **14 606 527** | **4 343 408** | **99 986** | **3 701 124** | **22 751 045** |
| **Liabilities** | | | | | |
| Customer accounts | 10 411 822 | 6 492 769 | 100 241 | - | 17 004 832 |
| Derivative financial instruments | - | 115 113 | - | - | 115 113 |
| Debt securities in issue | 585 827 | - | - | - | 585 827 |
| Subordinated debt | 612 976 | - | - | - | 612 976 |
| Other liabilities | - | - | - | 1 605 846 | 1 605 846 |
| **Total** | **11 610 625** | **6 607 882** | **100 241** | **1 605 846** | **19 924 594** |

| Company | Retail and Business Banking P'000 | Corporate and Investment Banking P'000 | Islamic 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** |

# Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 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 | |
|---|---|---|
| | 2022 P'000 | 2021 P'000 |
| **Employee expenses** | | |
| Equity-settled share-based payments | (2 192) | (2 203) |
| Cash-settled share-based payments | (178) | (382) |
| **Total expense recognised as employee costs** | **(2 370)** | **(2 585)** |

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 consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 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 |
|---|---|---|---|---|---|
| **2022** | | | | | |
| **Equity Settled** | | | | | |
| Long term incentive plan (LTIP) | 171 175 | 38 478 | (57 606) | (11 489) | 140 558 |
| Joiners share value plan (JSVP) | - | - | - | - | - |
| Share value plan (SVP) | 2 323 | 3 336 | - | (1 237) | 4 422 |
| Share value plan cliff (SVP) | 19 302 | 16 237 | | | 35 539 |

| 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 |

| 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 | |
|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| **Equity Settled** | | | | | | |
| Long term incentive plan (LTIP) | 154 | - | 1 | 1 | 191 | 135 |
| Joiners Share Value Plan (JSVP) | - | - | - | - | - | - |
| Share value plan (SVP) | 86 | 95 | 1 | 1 | - | - |
| Share value plan cliff (SVP) | | - | 2 | 3 | 191 | 153 |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 Securities Botswana (Pty) Limited, which is licensed as a security investment and market maker.

| 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 |
|---|---|---|---|---|---|---|---|
| 2022 | | | | | | | |
| **Shareholders** | | | | | | | |
| Absa Group Limited | - | (100 930) | - | (31 683) | (229 910) | (16) | (29 110) |
| | **-** | **(100 930)** | **-** | **(31 683)** | **(229 910)** | **(16)** | **(29 110)** |
| **Other** | | | | | | | |
| Absa Bank Limited | - | - | 31 525 | (3 519) | - | - | - |
| Other Absa Group Limited subsidiaries | - | - | - | (437) | - | 560 | - |
| **Total** | **-** | **-** | **31 525** | **(3 956)** | **-** | **560** | **-** |

**The net recovery is an income of P 544 thousand (refer note 13).*

| 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 |
|---|---|---|---|---|---|---|---|
| 2021 | | | | | | | |
| **Shareholders** | | | | | | | |
| Absa Group Limited | - | (94 020) | - | (17 643) | (175 533) | (1 872) | (22 416) |
| **Total** | **-** | **(94 020)** | **-** | **(17 643)** | **(175 533)** | **(1 872)** | **(22 416)** |
| **Other** | | | | | | | |
| Absa Bank Limited | - | - | 3 275 | (10 692) | - | - | - |
| Other Absa Group Limited subsidiaries | - | - | - | - | - | 371 | - |
| | **-** | **-** | **3 275** | **(10 692)** | **-** | **371** | **-** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 |
|---|---|---|---|---|---|---|---|
| 2022 | | | | | | | |
| **Shareholders** | | | | | | | |
| Absa Group Limited | - | (100 930) | - | (31 683) | (229 910) | (16) | (29 110) |
| | **-** | **(100 930)** | **-** | **(31 683)** | **(229 910)** | **(16)** | **(29 110)** |
| **Other** | | | | | | | |
| Absa Bank Limited | - | - | 31 525 | (3 519) | - | - | - |
| Other Absa Group Limited subsidiaries | - | - | - | (438) | - | 560 | - |
| Absa Insurance Services | 28 523 | - | - | - | - | - | - |
| | **28 523** | **-** | **31 525** | **(3 957)** | **-** | **560** | **-** |

**The net recovery is an income of P544 thousand (refer note 13).*

| 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) | - | (17 643) | (175 533) | (1 872) | (22 416) |
| | **-** | **(94 290)** | **-** | **(17 643)** | **(175 533)** | **(1 872)** | **(22 416)** |
| **Other** | | | | | | | |
| Absa Bank Limited | | - | 3 275 | (10 692) | - | - | - |
| Other Absa Group Limited subsidiaries | - | - | - | - | - | 371 | - |
| Absa Insurance Services | 28 186 | - | - | - | - | - | - |
| | **28 186** | **-** | **3 275** | **(10 692)** | **-** | **371** | **-** |

** The net recovery is an expense of P1 501 thousand (refer note 13).*

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 |
|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | |
| **Shareholder** | | | | | | | |
| Absa Group Limited | 2 521 | - | 2 521 | 995 | - | 995 | 509 394 |
| | **2 521** | **-** | **2 521** | **995** | **-** | **995** | **509 394** |
| **Other related parties** | | | | | | | |
| Absa Bank Limited | - | 890 492 | 890 492 | 97 518 | 70 977 | 168 495 | - |
| Other Absa Group Limited subsidiaries | 2 326 | 696 | 3 022 | 7 806 | 20 346 | 28 152 | - |
| | **2 326** | **891 188** | **893 514** | **105 324** | **91 323** | **196 647** | **-** |
| **Total** | **4 847** | **891 188** | **896 035** | **106 319** | **91 323** | **197 642** | **509 394** |

**Related party balances included in derivatives**

| | Assets P'000 | Liabilities P'000 |
|---|---|---|
| **2022** | | |
| **Absa Group Limited** | 104 052 | 7 713 |
| | 104 052 | 7 713 |

| 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** | | | | | | | |
| **Shareholders** | | | | | | | |
| 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** |

**Related party balances included in derivatives**

| | Assets P'000 | Liabilities P'000 |
|---|---|---|
| **2021** | | |
| **Absa Group Limited** | 14 251 | 23 442 |
| | **14 251** | **23 442** |





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 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 |
|---|---|---|---|---|---|---|---|
| **2022** | | | | | | | |
| **Shareholder** | | | | | | | |
| Absa Group Limited | 2 521 | - | 2 521 | 995 | - | 995 | 509 394 |
| | **2 521** | **-** | **2 521** | **995** | **-** | **995** | **509 394** |
| | - | | | | | | |
| **Other related parties** | | | | | | | |
| Absa Bank Limited | - | 890 492 | 890 492 | 97 518 | 70 977 | 168 495 | - |
| Other Absa Group Limited subsidiaries | 809 | 696 | 1 505 | 1 591 | 18 952 | 20 543 | - |
| Absa Insurance Services (subsidiary) | 28 080 | - | 28 080 | 110 462 | 1 394 | 111 856 | - |
| | **28 889** | **891 188** | **920 077** | **209 571** | **91 323** | **300 894** | **-** |
| **Total** | **31 410** | **891 188** | **922 598** | **210 566** | **91 323** | **301 889** | **509 394** |

**Related party balances included in derivatives**

| | Assets P'000 | Liabilities P'000 |
|---|---|---|
| **2022** | | |
| **Absa Group Limited** | 104 052 | 7 713 |
| | 104 052 | 7 713 |

| 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** | | | | | | | |
| **Shareholders** | | | | | | | |
| 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 | 93 255 | 1 295 | 94 550 | - |
| | **56 922** | **1 668 433** | **1 725 355** | **98 704** | **156 503** | **255 207** | **-** |
| **Total** | **57 999** | **1 668 433** | **1 726 432** | **255 576** | **156 503** | **412 079** | **490 044** |

**Related party balances included in derivatives**

| | Assets P'000 | Liabilities P'000 |
|---|---|---|
| **2021** | | |
| **Absa Group Limited** | 14 251 | 23 442 |
| | **14 251** | **23 442** |

## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 51. Related parties (continued)

**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.

| 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 |
|---|---|---|---|---|---|---|
| **2022** | | | | | | |
| **Directors compensation** | | | | | | |
| Non-executive directors | (3 140) | - | - | - | - | (3 140) |
| Executive directors | (8 101) | (701) | (2 290) | 31 | - | (11 061) |
| | **(11 241)** | **(701)** | **(2 290)** | **31** | **-** | **(14 201)** |
| **Key management compensation** | | | | | | |
| Key management | (25 299) | (1 788) | (804) | 67 | - | (27 824) |
| | **(36 540)** | **(2 489)** | **(3 094)** | **98** | **-** | **(42 025)** |

| 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)** |

**Other transactions**

During the year, the Group paid P 291 thousand (2021: P97 thousand) to Keodav Properties Proprietary Limited in which Mr Neo Moroka is both director and shareholder, towards provision of services.
Sethunya Dorothy Makepe-Garebatho owns 100 000 (2021: 100 000) shares which makes up approximately 0.012 percent of the company's total shares.





## Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

### 51. Related parties (continued)

**Other transactions (continued)**

| Consolidated and Company | 2022 P'000 | 2021 P'000 |
|---|---|---|
| **Amounts owed by related parties** | | |
| Non-executive directors | 208 | 445 |
| Executive directors | 5 900 | 5 285 |
| | **6 108** | **5 730** |

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.

### 52. Capital commitments and contingencies

| | Consolidated and Company 2022 P'000 | Consolidated and Company 2021 P'000 |
|---|---|---|
| **Capital commitments** | | |
| Commitments in respect of capital expenditure: | | |
| Authorised and contracted for | 5 748 | 27 347 |
| | **5 748** | **27 347** |
| **Contingent liabilities** | | |
| Undrawn commitments to customers | 2 825 864 | 2 644 870 |
| Letters of credit | 292 470 | 19 489 |
| Guarantees | 221 139 | 310 786 |
| **Gross contingent liabilities** | **3 339 473** | **2 975 145** |
| Expected credit losses | (2 065) | (7 258) |
| | **3 337 408** | **2 967 887** |

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 2022 LC's valued at Nil were recognised on balance sheet under other liabilities. (2021: Nil)

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 1 000 ordinary shares of no par value at P100.

# Notes to the consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 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 2022. 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:

| | |
|---|---|
| Amendments to IAS 16 | Proceeds before intended use<br>The impact of this standard was not material. |
| Amendments to IAS 37 | Onerous Contracts – Cost of Fulfilling a Contract<br>The impact of this standard was not material. |
| IFRS Standards 2018-2020 cycle | Narrow scope amendments<br>The impact of these amendments was not material. |
| Amendments to IAS 1 and IFRS practice statement 2 | Disclosure of accounting policies<br>The impact of these amendments was not material. |

## 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 |
|---|---|
| IFRS 17 Insurance Contracts | 01 Jan 2023 |
| Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2 | 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 AIS 12 | 01 Jan 2023 |
| Classification of Liabilities as Current or Non-current | 01 Jan 2022 |
| (Amendments to IAS 1) | 01 Jan 2024 |
| Lease Liability in a Sale and Leaseback (Amendments to IFRS 16) | 01 Jan 2024 |
| Non-current Liabilities with Covenants (Amendments to IAS 1) | 01 Jan 2024 |

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 consolidated and separate annual financial statements (continued)

for the year ended 31 December 2022

## 55. Shareholders' information

| Standard | 2022 No. of Ordinary shares held | 2022 % holding | Ranking |
|---|---|---|---|
| Absa Group Limited | 577,964,146 | 67.82% | 1 |
| FNB Botswana Nominees Re: BIFM - BPOPF Act MEM & DP EQ | 81,535,850 | 9.57% | 2 |
| FNBB Nominees Re: Vunani BPOPF | 37,163,115 | 4.36% | 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 MLF | 12,951,829 | 1.52% | 6 |
| Stanbic Nominees Botswana Re: Bifm PLEF | 12,214,639 | 1.43% | 7 |
| Stanbic Nominees Botswana Re: Ninety-One DPF (Local EQ) | 8,898,564 | 1.04% | 8 |
| SCBN (Pty) Ltd Re: Bifm 028914400011 UB DC PF | 7,267,860 | 0.85% | 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 | 4,334,623 | 0.51% | 11 |
| Stanbic Nominees Botswana Re: Nintey-One Bw Managed Fund | 3,576,521 | 0.42% | 12 |
| Stanbic Nominees Botswana Re Bpopf Wt Pro Port MCP | 3,045,654 | 0.36% | 13 |
| SCBN (Pty) Ltd Re: Bifm Wuc Staff Pension Fund | 2,866,537 | 0.34% | 14 |
| FNBBN (Pty) Ltd Re: Ninety-One Bobdcspf | 2,617,775 | 0.31% | 15 |
| Stanbic Nominees Botswana Re: Bifm Burs Employee PF | 2,482,772 | 0.29% | 16 |
| FNBBN (Pty) Ltd Re: Kgori Capital Alexander Forbes RF | 2,039,200 | 0.24% | 17 |
| SCBN (Pty) Ltd Re: VFM Managed Prudential Fund | 1,969,450 | 0.23% | 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 | 1,588,597 | 0.19% | 20 |
| Others | 48,958,376 | 5.75% | |
| **Total Shareholding** | **852,161,252** | **100%** | |

## 56. Events after the reporting date

A final dividend of P342 million was declared on the 22nd of March 2023 subject to regulatory approval. With effect from 1st January 2023, Bank of Botswana withdrew some of the COVID-19 relief measures introduced on 1st April 2020. These did not have any material impact on the 2022 financial statements but will affect the bank's liquidity structure going forward.

At the date of finalisation of the annual financial statements there were no other 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 2022

### Annual General Meeting of the Shareholders of Absa Bank Botswana Limited

**Notice is hereby given that the 37th Annual General Meeting of shareholders of Absa Bank Botswana Limited will be held at Avani Hotel, 4727 Chuma Drive, Gaborone on Thursday June 29 2023 at/or about 10.30am for the following purpose[1] :**

1. The adoption of the Annual Financial Statements for the year ended 31 December 2022 together with the Directors' and Independent Auditor's reports thereon.
2. To approve the declared interim dividend of 12.09 thebe per share and final dividend of 40 thebe per share, for the year ended 31 December 2022.
3. To re- elect as a director, Daniel Neo Moroka, who retires by rotation in accordance with the Constitution, and who being eligible, offers himself for re- election.
4. To re- elect as a director, Kgotlayarona Ramaphane, who retires by rotation in accordance with the Constitution, and who being eligible, offers himself for re- election.
5. To re- elect as a director, Sethunya Makepe-Garebatho, who retires by rotation in accordance with the Constitution, and who being eligible, offers herself for re- election.
6. To approve the remuneration of the Directors for the ensuing year.
7. To approve the remuneration of the Auditors, EY Botswana, for the year ended 31 December 2022.
8. To approve the appointment of Auditors, KPMG Botswana, for the ensuing year.
9. 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 2022 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**

**Yonta Leburu**
Company Secretary

*Registered office*

5th Floor
Building 4 Prime Plaza, Plot 74358
Central Business District
Gaborone
Botswana

[1] 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 2022

### Annual General Meeting of the Shareholders of Absa Bank Botswana Limited

**Resolution 3.** To re- elect as a director Daniel Neo Moroka, who retires by rotation in accordance with the Constitution, and who being eligible, offers himself for re- election.

#### Daniel Neo Moroka Profile
Neo is a seasoned executive and strategic leader with forty years of experience spanning across the corporate industry locally and regionally, as well as the public sector in Botswana. His corporate experience includes financial services, retail and wholesale, oil and gas, mining, as well as the trade sectors.

He is currently the resident director of the De Beers Group of Companies and Chairman of De Beers Global Sightholder Sales in Botswana. Having joined De Beers in 2010, he is responsible for the overall strategic direction and governance of the companies in Botswana as well as for the management of the relationship between De Beers and the Government of Botswana.

His extensive leadership and corporate governance experience has seen him leading organisations such as BP Botswana, BP Zambia and BP Southern Africa, while having served on the boards of listed entities such as Funeral Services Group and Sefalana Holdings. Early on in his career, Neo worked across different portfolios in the banking sector and subsequently served as a Non-Executive Director for Bank of Botswana, Barclays Bank of Botswana and the National Development Bank. He is a former politician who served as the Minister of Trade and Industry from 2004 to 2009 in the Government of Botswana.

He holds a Bsc (Magna Cum Laude) 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. Neo is also an associate of the Botswana Institute of Banking and Finance and a member of the Institute of Directors, South Africa.

**Resolution 4.** To re- elect as a director Kgotlayarona Ramaphane, who retires by rotation in accordance with the Constitution, and who being eligible, offers himself for re- election.

#### Kgotlayarona Ramaphane Profile
Kgotlayarona is a seasoned executive with 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). Prior to this, he was the PEEPA Head of Performance Monitoring, 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. Kgotlayarona is also a qualified PRINCE2 Project Management Practitioner and a Corporate Governance Practitioner.

**Resolution 5.** To re- elect as a director Sethunya Makepe-Garebatho, who retires by rotation in accordance with the Constitution, and who being eligible, offers herself for re- election.

#### Sethunya Makepe-Garebatho
Sethunya is a seasoned executive, with a forte in labour law and employee relations and has more than 26 years of experience that has seen her 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, which is a Human Resource and Consultancy practice that Sethunya founded in 2002.

Sethunya's experience on various boards and board committees of companies and other organisations has enhanced her corporate governance, risk management and leadership experience. 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, Master of Science 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.

## Annexure to the notice to shareholders (continued)

for the year ended 31 December 2022

**Resolution 6.** To approve the remuneration of the Directors for the ensuing year.

Non-Executive Director fees per annum are proposed as follows:

- Round robin applications, ad hoc board meetings and subsidiary boards are paid per application/sitting.
- All other fees are paid per annum as indicated. The fees are paid to directors in arrears, per month.

| Membership | Board / Committee | |
|---|---|---|
| Chairman | Board | BWP 692,000 per annum ("PA") |
| Lead Independent Director | Board | BWP 120 000 PA |
| Member | Board | BWP 227 600 PA |
| Member | Board Round Robin Application | BWP2600 per application |
| Member | Special/Adhoc Board Meeting | BWP 3100 per hour capped at 6 hours |
| Board Committees | **Audit**<br>• Chairperson<br>• Member | <br>BWP 153 000PA<br>BWP 76 500 PA |
| | **Risk**<br>• Chairperson<br>• Member | <br>BWP 90 000 PA<br>BWP 45 000 PA |
| | **Human Resources, Remuneration and Nominations**<br>• Chairperson<br>• Member | <br>BWP 90 000 PA<br>BWP 44 000 PA |
| | **Credit**<br>• Chairperson<br>• Member | <br>BWP 90 000 PA<br>BWP 44 000 PA |
| Subsidiary Boards | All Non-Executive Directors | BWP2100 per hour capped at 6 hours |

**Resolution 7:** To approve the remuneration of the Auditors, Ernst and Young Botswana, for the year ended 31 December 2022.

Ernst and Young Botswana paid BWP5 580 500.00 for the year ended 31 December 2022.

**Resolution 9.** To approve, by special resolution, any substantial gifts made by the Company.

**Sponsorships**

1. GIMC Jazz Festival – BWP300 000
2. Forbes Africa – BWP620 348
3. Botswana Football League – BWP380 000
4. Career Elevation Conference – BWP200 000
5. Business Botswana – BWP150 000.

**Donations**

1. Lephoi Centre - BWP266 475
2. F.G. Mogae Scholarship Fund – BWP278 185
3. Hackathon and Incubation Program - BWP360 763.



## Proxy form

for the year ended 31 December 2022

### 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 37th Annual General Meeting of the Company to be held at Avani Hotel, 4727 Chuma Drive, Gaborone on Thursday 29 June 2023 at 10:30hrs, 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 | | | |
| Ordinary resolution 7 | | | |
| Ordinary resolution 8 | | | |
| Special resolution 1 | | | |

As witness my hand this_____________ day of __________________2023

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.