2023
Annual Report

Beyond Sustainability:
Forging new frontiers in Sustainable Banking

standard chartered

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A Message From Board Chairperson

A Message from the Board Chairperson

The last financial year saw trends and waves of rising interest rates, high cost of living, geo-political unrest across, Russia – Ukraine and Israel - Hamas, brent oil price increases, reduced price & demand of copper & diamond, as well as supply chain disruptions. As a result, diamond prices have fallen to levels last seen during the Covid-19 lockdowns. However, this was the Group's best performance following the global pandemic. The Group's portfolio continued to show resolve by being one of the most resilient across such challenging emerging markets.

Off the back of the great performance, we stride confidently into 2024, this being the second Year of the Group's refreshed strategy driven by the core principles, "Never Settle" Do the Right Thing" and "Better Together" which have been entrenched in every activity partaken by the bank.

The Board

In June 2023, we bid farewell to Mr. John Yendall Stevens who served on our Board for ten (10) years, following his appointment in 2013. He retired as the Audit Committee Chairperson, handing over the baton to Mr. Solomon Molebatsi Sekwakwa, whose profile appears at page 41 of this report. Furthermore, we welcomed Mrs. Mpho Judith Dimbungu to the Board who forms part of the Audit Committee and brings a wealth of skills and experience.

The Board had an opportunity to leverage and tap on the knowledge from the Group's Regional Management team, accompanied by the local Executive team, through a Board strategy session held in May 2023.

New Laws and Developments

2023 saw a plethora of legislation come into play with notable mention of the 2023 Banking Bill, Data Protection Act of 2018, the Guidelines on Corporate Governance for Group's / Financial Institutions Licensed and Supervised by the Bank of Botswana and various guidelines from different regulators.

2023 Banking Bill:

On the 13th of January 2023, the Banking Bill (Bill No. 1 of 2023) was published in the Government Gazette. This Bill is yet to be passed into law, and once passed, will repeal the existing Banking Act (Cap 46:04) to align with international best practice. The Banking Bill also intends to align the country's regulatory and supervisory standards to the changing nature of both domestic and international financial systems. Moreover, the Banking Bill will bolster the current legal framework by developing an inclusive and innovative banking sector, regulating the corporate governance of banks, deposit taking institutions and capital structures.

Guidelines on Corporate Governance for Group's / Financial Institutions Licensed and Supervised by the Bank of Botswana

The guidelines were implemented by the Central Bank to provide refreshed guidance to all banks within the regulatory ambit of the Central Bank on a range of issues, including but not limited to the continued fit and proper requirement, disqualification, disclosure of interest by a director, offences by directors and associated penalties as provided in the Banking Act. It is worth noting that these guidelines are aligned to and have been merged with the previous 2008 Guidelines on the Appointment of New Directors and Senior Management Officials of Banks and Circular to Banks Regarding Eligibility for Board Membership in Banks.

Data Protection Act, 2018

The Data Protection Act came into effect on the October 15th, 2021, and continues to be under a transition period. This is following the latest publication of September 15th, 2023, where the Ministry of the State President published the Data Protection (Amendment) Act (Period of Processing Personal Data) Order, 2023 extending the data processing compliance transition period to 17 September 2024. In terms of this Order, all data controllers and/or data processors currently processing personal data in Botswana have now been given until September 17th 2024 to ensure compliance with the Data Protection Act, 2018.

Data Protection and Privacy is of paramount importance to us. As a responsible corporate citizen, we are aware that our data is one of our most valuable assets, and protecting this resource is essential in the current data-driven business landscape. We are aware that implementing robust data protection and privacy frameworks, not only protects individuals' or customers' personal data, but also the organisation's data

Economic Update

In 2023 we saw the annual inflation reverting to the Central Group's objective range of 3 – 6% ending the year at 3.5%, following the record high peaks of 12.2% in 2022. We anticipate inflation to remain within this range in 2024.

A Message From Board Chairperson cont.

The Monetary Policy Committee (MPC) has projected that, in addition to the dissipating impact of administered prices, the economy will operate below full capacity in the short term and therefore, not generate demand-driven inflationary pressures. The Monetary Policy rate closed December 2023 at 2.4%

Performance

Despite operating in the turbulent and challenging global economy that we find ourselves in, we have managed to unlock an improved performance whilst remaining loyal to embodying the Group's core principles being "Never Settle" "Do the Right Thing" and "Better Together".

I wish to commend the hard work of the local Management backed by the determined team behind them for delivering a profit before tax of BWP402.7 million representing a 59% year on year increase. In line with our revised strategy, to deliver return on tangible equity of 25% by 2025 we continue to focus on digitization and the introduction of Agent Banking has fostered the migration of branch transactions to these alternative platforms.

People & Culture

Our people have played a huge role in the commendable performance for 2023. Our success is also anchored in ensuring we have a well constituted Board, a Senior Management team that is adequately skilled and balanced. As the Board we are satisfied that we have the right team in place to continue to deliver on our strategy year on year.

Outlook & Strategy

2023 saw the Bank continue to strive towards a sustainable strategy, espoused in our 5 pillars anchoring our strategy;

i. Optimizing the Distribution model
ii. Enhancing our Brand Visibility
iii. Enhancing the Employee's experience
iv. Delivering a great Client Experience
v. And delivering a sustainable return on tangible equity of 25% by 2025

The Board will review and maintain its oversight of the revised strategy, to ensure that management remains on track year on year. As we confidently stride into 2024, off the back of a sterling performance by the Bank, we expect the strategy to drive the Bank to greater heights whilst focusing on continuously doing better for the shareholder, the workforce, the environment, and of course the customers.

Sustainability

We are committed to delivering a sustainable strategy and steadfast in pursuing our goal of unleashing the full power of the franchise.

Sustainability is at the core of our operations and we are intentional about driving economic growth whilst minimizing the environmental impact of our business and fostering social progress.

Through our ESG initiatives, we prioritize responsible banking practices, support community development projects, and uphold the highest standards of governance. Our commitment to sustainability, not only strengthens our resilience to emerging risks but also enhances our reputation as a trusted and socially responsible financial institution.

By embedding sustainability into our business strategy, we are not only driving long-term value for our shareholders but also contributing to a more sustainable future for Botswana and beyond.

I extend my heartfelt gratitude to our shareholders, employees, clients, and stakeholders for their unwavering support and commitment to Standard Chartered Bank Botswana.

Despite the challenges we have faced, I am proud of our resilience, innovation, and dedication to excellence.

Looking ahead, I am confident that with our talented team, robust strategy, and unwavering focus on sustainability, we will continue to navigate uncertainties, seize opportunities, and drive sustainable growth.

Together, we will shape a brighter future for Standard Chartered Bank Botswana and the communities we serve. Thank you for your trust and partnership.

Doreen C. Khama
Board Chairperson

Chief Executive Officer's Report

Key Performance Indicators

64%

Cost to income ratio improved to 64%, attributed to high-income momentum and implementation of costs efficiency measures.

29%

Return on tangible equity (ROTE) recorded 29%, up 661 bps from prior year.

Financial Performance

The significant year-on-year growth trends gives us confidence that we are making great progress on our strategic priorities and are on track to achieve our medium-term objectives. The broad-based revenue growth resulted in both business segments recording positive year-on-year growth. Consumer, Private & Business Banking (CPBB) continued to be the highest revenue contributor with 62% whilst Corporate, Commercial, & Institutional Banking (CCIB) contributed 38%.

The bank delivered a positive top line growth of 15% over the previous year to P1 billion, this is consistent with our growth trends for the past 3 years. Costs increased from P607 million to P664 million reflecting necessary investment on our people, a higher bonus pay out and salary adjustments. The strong income momentum particularly in CCIB and the Loan Impairment (LI) net release resulted in a remarkable profit before tax of P403 million, 59% growth over 2022.

Underpinned by our careful balance sheet growth approach in the face of a challenging micro-economic environment the Bank achieved its objectives by targeting new business and putting in place a funding plan which was consistently monitored to attract customer deposits which remained flat YoY. Internal and regulatory metrics were carefully managed to maintain a healthy balance sheet; with the closing Capital Adequacy Ratio (CAR) at 19.3% against the Regulatory Minimum Capital Requirement of 12.5%. The Group's liquidity and capital positions remain sound and optimal for the delivery of our strategic objectives for the foreseeable future.

Our solid 2023 performance and increasing profitability are a reflection of the success of our strategy, even as we navigate the current climate of uncertainty and geopolitical tensions.

Strategy Update

Our 2023-25 strategy is delivering exponential profitability and sustainable growth. This solid performance is delivered against five (5) key focus drivers;

- Optimise Distribution Model (Partnerships)
- Brand Visibility
- Enhance Employee Experience
- Deliver client centric solutions
- Achieve 25% RoTE by 2025

This focus is delivered through the Group's strategic pillars – Affluent, Mass Retail, Network & Sustainability and the three enablers of People & Culture, New Ways of Working and Innovation & Technology.

Our evolution to a digital-first model is well underway, through Eazy Pula (Agent Banking) we continue to expand our digital touch points; with 81 sites and expanding even more, our aim is to ensure our clients have the Bank in their hand and in their neighbourhood. The SC Mobile App, our main personal banking distribution channel is continually upgraded with new features to make banking even more seamless for users, 79% of our client base is digitally active, and 96% of all transactions are carried out

Chief Executive Officer's Report cont.

digitally, proof that banking has moved out of banking halls and into the hands of our clients.

Investing is a complex area and even more so when there are multiple challenges such as high inflation and rising risks of global recession, our affluent proposition has assisted clients to navigate these uncertainties, by providing them with personalised wealth advice. This targeted focus resulted in a 49% growth in income under the Affluent segment. Our pivot to wealth creation in partnership with our clients, has seen us ramp up our client education through interactive webinars and in-person financial seminars where clients can connect with and hear from experts on a variety of topics including offshore investments, market outlook, etc. The Group's value proposition of preparing our clients today, for life tomorrow and beyond, presents an opportunity to accelerate growth in this segment by providing relevant and customized solutions, partnerships, and digital investments.

As the only International Bank in the market, our Network remains one of our key competitive advantages and we continue to leverage it to drive growth in Trade corridors and offer tailored financial markets solutions for our clients. During the year under review, backed by our network, we executed a number of structured transactions which contributed 24% to the total segment income. We have continued to cement our place in traditional corridors such as the Chinese trade corridor which grew by 61.70% supported by our RMB product offering. Our aspiration is to become the top network Bank for our clients, leveraging on our international footprint and digital capabilities to serve them as they operate in multiple markets.

Our focus is to deliver easy, everyday banking solutions to our clients in a simple and cost-effective way, with great customer experience. Achieving this requires us to remain client focused, optimize our operating rhythm in organisational agility, and continuously empower our people to improve the way we work. There is continued work to improve efficiencies on the back of process improvements within the operations, focusing on turnaround times and digitising processes. on the Bank continues to deliver training, with the aim of ensuring that colleagues are aware of our product offerings and developments, and thus improving client experience across the Bank.

Great strides have been made with regards to our People agenda. The employee value proposition has been enhanced in line with the fair pay charter – leave has been standardized for all colleagues to 30 days, car allowance was introduced and standardized for all colleagues and lastly all staff regardless of gender are eligible for 20 weeks of parental leave. Over and above this progressive evolution, the development of our people continues to be at the forefront of our initiatives as we build future-ready skills and provide them with a differentiated experience. In September 2023, a new hybrid working model was launched: Future Workplace Now, designed to give staff more flexibility around the way they work whilst enhancing productivity and increasing work life balance. 60% of our staff signed up for initiative and received $700 to assist with setting up their workstations.

A deliberate effort was made to drive the Brand Visibility Pillar and the Bank has done extremely well in this area. Great collaboration was required to ensure that the Bank is fully engaging with the communities within which we operate. Over 25 events / stakeholder engagement initiatives were held throughout the year. A cumulative Public Relations Value (PR Value) of P3.6m for the year 2023 was achieved against a baseline of P2.5m in the previous year. The Bank was also scored favourably on its brand consideration measure an average consideration score of 38% against a 29% market average. To further drive brand visibility and the "Here for Good" messaging in the market, several engagements were held with Government Officials, corporate partners, and key clients from CCIB and CPBB throughout the year. The Group's association with Liverpool Football Club was also revitalised locally, with the return of the SC Cup – a five a side soccer tournament – which saw tournament winners, Debswana head to Liverpool.

Senior Management Changes

Six new executive team members joined the team to assist in driving and supporting the delivery of the strategy in their respective areas of expertise. Shathani Molefe joined us in February 2023 as Head of Compliance, Financial Crime and Conduct (CFCC) and now Chief Compliance Officer (CCO), has been instrumental in ensuring the Banks regulatory compliance and conduct. Charles Kamba holds the Southern Africa Cluster Head of Legal & Company Secretary role taking over from, Luzibo Benza who was acting in the role and has now been appointed Company Secretary. Modiri Modise took over the reins in Financial Markets and is driving growth in that area. Petros Molefe, Country Technology Operations Officer joined the Bank towards the end of the year and will leverage his experience in the Information & Technology and Operations field, to drive efficiencies and the Banks digital agenda.

Outlook

2023 saw the Bank deliver a strong set of financial results with excellent performance in income and profit before tax. This outstanding performance was driven by the focused execution of our ambitious three-year strategy, which is in its second year and proving to be fit for purpose, in this dynamic operating environment.

In the first half of the year, the global economy experienced a slowdown due to geo-political tensions and the tightening of monetary policy across countries to stem inflationary pressures. The second half of the year saw a drastic decrease in local inflation, from highs of 14.6% (August 2022) to average 5.2% in 2023, this was supported by measures taken by both the monetary and fiscal authorities to stabilise and support economic activity. Despite this economic backdrop our business remained resilient as we continue to uphold our commitment and brand promise to our employees, clients and shareholders to be "Here for Good".

We remain conscious of the external macroeconomic headwinds, both globally and locally; we anticipate measured upward adjustments in the monetary policy and decelerated growth in the economy, reflecting the weakened diamond outlook. We will therefore continue seek to diversify our income streams by enhancing our customer value proposition which will keep us top of mind and deepen our clients' relationships across the broader portfolio. The Bank focused on ecosystem collaboration cross its consumer and corporate segments which resulted in significant wins in 2023, this deliberate strategy will continue into 2024. While we continue to enhance our digital capabilities, we will also drive our affluent proposition and leverage our strength as the go to Bank for mining and sustainable finance advisory services, aligning to the national priorities for 2024/25.

In 2024, we will continue to be guided by our three-year strategy; The Bank anticipates a sustainable financial performance in 2024 supported by our colleagues who have diligently served our clients and are relentless in their pursuit of executing the strategy.

The Board and the Management Team would like to thank Shareholders for their support and feedback throughout the years. Furthermore, we value the immense commitment, trust and support of our clients and look forward to continuing to partner into 2024.

Mpho Masupe
Chief Executive Officer

"...Our focus is to deliver easy, everyday banking solutions to our clients in a simple and cost-effective way, with great customer experience..."

Management Team

Mpho Masupe
Chief Executive Officer

Tapiwa Butale
Chief Financial Officer

Jared Obongo
Chief Risk Officer

Bame Moremong
Head, Corporate Affairs, Brand & Marketing

Moses Rutahigwa
Head, Consumer, Private and Business Banking

Asuquo Nkposong
Head, Corporate, Commercial and Institutional Banking

Shathani Molefe
Chief Compliance Officer

Petros Molefe
Chief Technology & Operations Officer

Kenneth Mbaiwa
Head, Human Resources

Modiri Modise
Head, Financial Markets & Financial Markets Sales

Neo Kwape
Head, Internal Audit

Charles Kamba
Head, Legal

Luzibo Benza
Company Secretary

Review of Segments and functions

Moses Rutahigwa
Head, Consumer, Private and Business Banking

Consumer, Private and Business Banking

Segment performance

Consumer, Private and Business Banking (CPBB) serves individuals and small businesses.

We are a digital-first bank for the affluent and emerging affluent that harnesses technology to offer payments, financing and wealth management solutions to our clients.

We leverage our international expertise to provide tailored investment advisory and products that enable our clients to grow and protect their wealth. We also support our small business clients with their business banking needs by providing them access to international market linkages.

We are committed to providing end-to-end digital capabilities to our clients that are convenient, affordable, and efficient.

Our 2023 Strategic Priorities

- Deliver double-digit Return on Tangible Equity (RoTE) thereby providing more value to our stakeholders.
- Be the leading bank for the Affluent and emerging affluent, differentiated by its international footprint and expertise and using this to provide best in class local and international banking services.
- Focus on our areas of our strength and optimise where needed to ensure maintain and build profitable product and client segments
- Digitize and automate end-to-end to drive growth and create exceptional client experiences
- Drive efficient and continuously improve the way we work for process simplification and operational excellence.

Progress so far;

- Income from affluent and business client segments grew by 49% and 25% respectively in 2023 driven by focused product approach and a strong wealth offering.
- We have added local bonds and treasury bills to our retail wealth offering enabling clients to diversify their investment portfolios with more local options.
- Launched Eazy Pula, our agent banking platform and ended the year with 81 agent locations, well placed across all the districts of Botswana.
- We are now processing 95% of transactions through non-branch channels and digital adoption reached 80% up from 75% the previous year.
- We added another layer of security for our clients transacting online by introducing SC Mobile Key; a soft token (PIN) embedded in the Mobile app and first in the market.
- The operating environment has remained well controlled with very good audit outcomes and no material operational losses.

Performance highlights

- Income grew 6% year-on-year with return on tangible equity growing to 20.5%, the highest position since 2015 mainly driven by strong performance of Retail products
- Costs were well managed and flat year-on-year while cost income ratio improved by 400bps.
- Business profits were up 84% with loan impairment well controlled.
- Customer deposits grew by 6% while assets were relatively flat year-on-year.

Performance Highlights

20.5% ↑

Income grew 6% year-on-year with return on tangible equity growing to 20.5%, the highest position since 2015 mainly driven by strong performance of Retail products.

400bps ↑

Costs were well managed and flat year-on-year while cost income ratio improved by 400bps.

84% ↑

Business profits were up 84% with loan impairment well controlled.

6% ↑

Customer deposits grew by 6% while assets were relatively flat year-on-year.

Asuquo Nkposong
Head, Corporate, Commercial and Institutional Banking

Corporate Commercial and Institutional Banking

Corporate, Commercial and Institutional Banking (CCIB) is focused on specific client segments. These are Banks and Non-bank financial institutions, Government and Government Related Enterprises, Multinational Corporates and Development Organizations.

We provide a suite of investment banking services including lending, trade finance, cash management, securities services, financial markets, risk management, debt capital markets, corporate finance and advisory to our local, inbound and outbound clients in Botswana.

Our coverage model allows us to offer our clients world class service experience and deliver efficiencies leveraging on our state-of-the-art system and network capabilities.

Our Strategic priorities:

- Be the leading digital banking platform by leveraging technology to improve client experience
- Continuous investment in our people' focussing on improving our diversity mix, investing in frontline training, and internal talent development
- Generate high-quality returns by growing 'capital-lite' income, driving balance sheet velocity and improving funding quality
- Strengthen our risk and controls. This remains key to containing loan impairments
- Accelerate our sustainable finance offering to our clients through product innovation and enabling transition to a low carbon future
- 'Diversifying our client base" for sustainable growth. This would strengthen our top line growth by rebalancing the portfolio into a more targeted profile of clients and reduce income volatility.

Progress Update:

- Client segmentation embedded with ongoing penetration into key target names and industries.
- S2B2 NextGen platform launched providing world class digital banking to our clients. Migration of full client base to digital only transactions improving service quality and ease of interaction with the Bank.
- Income growth and quality on an upward trajectory across all lines with contribution of capital lite income holding steady despite challenging macroeconomic conditions.
- A strong discipline on costs and asset origination, as well as enhanced controls achieved improved trading results. Total segment costs down year on year.
- Resilient performance driven by diversified product suite and expanded client solutions.

Outlook

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

Our clients remain at the centre of our strategy and our investments into new products and technology are yielding results in improved client experience. We are excited about the capabilities of our enhanced Straight2Bank platform, "S2B NextGen". This has allowed us to introduce differentiated services to our clients such as our unique multi-bank liquidity management feature. We have also converted traditional manual transactions to digital improving efficiency and experience for our clients.

Finally, we are committed to sustainable finance, delivering on our ambitions to increase support and funding for financial products and services that have a positive impact on our communities, the environment and support sustainable economic growth. We have progressed several marquee transactions and look to introduce these to the market in due course.

Performance Highlights

BWP 219.1 million

Underlying profit before tax of BWP 219.1 million up 43% from BWP 153.3 million in the prior year

Good balance sheet quality with loans and advances up 148% year on year and credit impairments contained.

BWP 395 million

Underlying operating income of BWP 395 million up 95% year on year. This was primarily driven by transaction banking leveraging our strong cash management solutions, migration to digital trade financing, differentiated and high yielding derivative solutions and strong security services offering.

Kenneth Mbaiwa
Head, Human Resources

Employee Experience

People and Culture

Diversity differentiates us. Delivering our Purpose rests on how we continue to invest in our people, the employee experience we further enhance, and the culture we strengthen. We recognise that our workforce is key to driving our performance and productivity and that the diversity of our people, cultures and network sets us apart. To lead the way in addressing the evolving needs of our clients and advances in technology, we are developing a workforce that is future-ready, and are co-creating with our employees to build an inclusive, innovative and client-centric culture that drives ambition, action and accountability. Here is how we add value:

- Embedding our refreshed approach to performance, reward and recognition that puts greater focus on ambition, collaboration, and innovation
- Increasing re-skilling and upskilling towards future roles and work, aligned with our business strategy and workforce's aspirations
- Strengthening leadership capability through modernised development programmes and measurement platforms
- Focusing on wellbeing to enhance resilience, productivity and performance, as well as offering progressive, purpose-led benefits
- Further embedding flexible working across the bank, with over 200 employees in the bank now on agreed flexi-working arrangements
- As a high performing organization and human centric bank, we support work-life balance through a wellbeing strategy that look at financial, mental, physical and social wellbeing

Ways of Working

We drive client-centricity with a focus on speed to value for our clients. We are improving our operating rhythm and organisational agility while empowering our people to continuously improve the way we work. We continue strong progress on:

- Simplifying and transforming the way we invest, operate and execute
- Harnessing operational efficiencies to help us continue the drive of commerce and prosperity in our markets
- Enhancing the way we deliver and manage change across the Bank, anchored around simplifying our processes end-to-end.

How we serve and engage

By engaging employees and fostering a positive experience for them, we can better serve our clients and deliver on our Purpose. A culture of inclusion and ambition enables us to unlock innovation, make better decisions, deliver our business strategy, live our valued behaviours and embody our brand promise. We proactively assess and manage people-related risks, such as, capacity, capability and culture, as part of our Risk Management Framework.

Employee Interests

Translating our here for good brand promise and Purpose of driving commerce and prosperity through our unique diversity into our colleagues' day-to-day experience is critical to us remaining an employer of choice in Botswana.

The research we have on our Employee Value Proposition (EVP) tells us that our existing and potential employees want to: have interesting and impactful jobs; innovate within a diverse set of markets and for a spectrum of clients; cultivate a brand that sustainably drives commerce and offers enriching careers and development; and be supported by great people leaders. They want these elements to be anchored in competitive rewards and a positive work–life balance. The employment proposition is a key input to our People Strategy which supports the delivery of our business strategy.

Enhancing experience and inclusion through progressive, purpose-led benefits

Taking an intersectional approach to diversity, inclusion and wellbeing, we have continued to introduce progressive, purpose-led benefits. Going beyond our minimum standard for maternity leave, all colleagues, irrespective of gender, relationship status, or how a child comes to permanently join their family, are now eligible for a minimum of 20 weeks of paid parental leave.

We are also expanding medical benefits to make comprehensive coverage accessible for menopause-related treatments to all colleagues and their partners, including access to specialised medical practitioners and prescription.

This is in addition to the existing support for managing menopause symptoms through flexible working options, paid leave for treatment, workspace adjustments and access to menopause counselling. We believe that such benefits continue to be critical levellers for gender equality, encouraging women's participation in the workforce and LGBT+ inclusion, aligning to our Lifting Participation Stand.

Listening to employees

Frequent feedback from employee surveys helps us identify and close gaps between colleagues' expectations and their experience. In addition to our annual survey, colleague sentiment is captured more frequently, through a rolling culture survey and through surveys at key moments for our employees, such as when they join us, when they leave, and when they return

Human Resources cont.

to work after parental leave. In addition to leveraging inputs from employee surveys, the Board and Management Team also engage with and listen to the views of colleagues through interactive sessions

Strengthening our culture of high performance

As a way to achieve our strategic ambitions, we continue to embed our refreshed approach to managing, recognising and rewarding performance. We are strengthening a culture of ambition, action and accountability by increasing the frequency of performance and development conversations and emphasising the importance of two-way feedback.
We are placing greater focus on recognising outperformance that is driven by collaboration and innovation, and are encouraging more aspiration during goal-setting and flexibility in reward decisions (supported by the removal of formulaic performance decisions starting 2022).

Developing skills of future strategic value and enabling careers

To keep pace with technological innovation, evolving customer expectations and the changing world of work, we are adopting a 'skills-led' approach – accelerating the development of future skills among our workforce and bringing in greater agility to how skills are deployed to areas of opportunity across the Group.
We are helping employees build the skills needed for high performance today, to reskill and upskill for tomorrow, and to be global citizens who understand the changing nature of the world in which we operate.
This includes helping them strengthen a combination of human and technical skills, as well as building a culture of continuous learning that empowers them to grow and follow their aspirations.

Since 2020, the average hours invested by employees in personal development has increased by 23.9 per cent to 26.8 hours in 2023.

Remuneration & Wellbeing

The Bank provides a balanced, fair, fixed and performance-related pay structure with a wide range of benefits and resources that support colleagues' financial, mental, physical, and social wellbeing. Below is the executive management compensation:

Executive Management Remuneration

Annual Total Base Salary	P 17,817,810.12
Annual Total Gross Salary	P 21,523,532.52
Short Term Incentive	P 4,908,421.74
Long Term Incentive	P 128,036.00

Key People Metrics

420	**100%**	**20**	**30**
Total number of employees – 420	**Permanent Employees – 100%**	**Parental Leave – 20 weeks**	**Annual leave – 30 days for all**
54%	**P2.1mil**	**65hrs**	**2.3%**
Flexi working employee - 54%	**Training total spend – P2.1mil**	**Average learning hours – 65 hours**	**Annual Attrition – 2.3%**

Jared Obongo
Chief Risk Officer

Chief Risk Officer's Review

Managing Risk

The Bank shall take measured risks to meet its strategic priorities within Board of Directors approved risk appetite limits, management action triggers, and reasonable risk profile.

The global, regional, and local economies witnessed substantial slowdown in Real Gross Domestic Product in 2023 compared to 2022. The operating environment remained challenging. The impact of increasing interest rates, inflated cost of living, geo-political uncertainty, Russia-Ukraine war, Israel-Hamas war, brent oil price increase, reduced price & demand of copper & diamond, and supply chain disruptions posed challenges to the credit portfolios and other principal risks.

Specifically:

- Monetary policy rate cut of 25bps in 2023 compressed net interest margin, holding other factors constant.
- BWP-USD depreciation reduced the Group's profit on financial account consolidation basis.
- Few corporate clients were put on early alerts monitoring on purely precautionary basis due to volatility of price and demand of diamond.
- Low level of non-funded income contribution in 2023 exposed the Bank to interest sensitive assets/ instruments.
- Botswana Household credit degrown at 4.3% in 2023 compared to 4.7% in 2022 while business credit grew at 12.6% against 7.4% in the same period.

Corporate, Commercial and Institutional Banking (CCIB)

Our CCIB credit portfolio remained resilient with overall good asset quality, as evidenced by our largely investment grade corporate portfolio (31 December 2023: 71 per cent, 31 December 2022: 82 per cent). We actively tracked geopolitical risks to enable us to act should the need materialize. We closely monitored vulnerable sectors and identified clients that may face difficulties on account of increased interest rates, foreign exchange movements, commodity volatility or increased prices of essential goods.

Consumer, Private and Business Banking (CPBB)

The CPBB credit portfolio remained alert to the risks of the uncertain economic outlook but continued to demonstrate resilience. Overall, delinquencies have improved, 30+% delinquency recorded 1.05% as at Dec 2023 compared to 1.16% same period in 2022. Our delinquency volume improved significantly mainly due to enhanced collections coverage and resolution rates. For both our secured and unsecured consumer credit portfolios, we continued to monitor customer affordability across our key sectors and dynamically adjusted origination criteria, portfolio management and collections strategies, as appropriate.

Treasury Risk

Our liquidity and capital risks are managed to ensure a strong and resilient balance sheet that supports sustainable growth. We continued to enhance our Treasury Risk framework to incorporate the lessons from recent market events as well as horizon risks. Liquidity remained resilient across the Bank. Capital ratios remained within the Risk Appetite corridor and above regulatory limits in 2023 with Common Equity Tier 1 (CET 1) ending the year at 7% against regulatory limit of 4.5% and Tier 1 at 12% against regulatory limit of 7.5%. Capital Adequacy Ratio (CAR) ended at 19% against temporary CAR relief of 12.5%, and slightly above the risk appetite ceiling of 18.5%. The improved performance on CAR was on the back of the robust performance during the year and the Risk Weighted Asset efficiency measures. Statutory liquidity remained at adequate levels; Liquid Asset Ratio (LAR) closed the year at 19.5% against regulatory limit of 10%. We maintained a resilient liquidity position throughout the period.

The Risk function remains actively engaged in providing independent review and challenge to internal and regulatory stress tests and recovery and resolution capabilities.

Risk Performance Summary

Asset quality is resilient. The percentage of investment-grade corporate net exposure remained high at 71 per cent (31 December 2022: 82 per cent). However, the Bank remained vigilant of persistent challenging conditions in key sectors of the economy. In 2023, we saw a $97m increase in Early Alerts exposure (31 December 2022: $0m), driven by inflows of two corporate clients being put on Early Alert on a purely precautionary basis due to volatility in the price and demand of diamond.

Our Retail portfolio is largely unsecured however lending is mainly to stable segments that have demonstrated good performance over the years particularly Government and key Quasi Government schemes.

An update on our risk management approach

Our Enterprise Risk Management Framework (ERMF) outlines how we manage risk across the Bank. It gives us the structure to manage existing risks effectively in line with our Bank Risk Appetite, as well as allowing for holistic risk identification. The ERMF also sets out the roles and responsibilities and the minimum governance requirements for the management of Principal Risks.

In revisions made in the ERMF in 2023, effective 12 March 2024, the concepts of Integrated Risk Types (IRTs) and IRT Owner roles were discontinued. Oversight on existing IRTs, i.e., Climate Risk, Digital Asset and Third-Party Risk, is achieved through the Risk Type Frameworks (RTFs) and dedicated policies.

Chief Risk Officer's Review cont.

The subject matter experts, as the policy owners for these risks, provide overall governance and ensure a holistic view of how risks are monitored and managed across the Principal Risk Types (PRTs).

Principal Risk Types

PRTs are risks inherent in our strategy and business model. These are formally defined in our ERMF, which provides a structure for monitoring and controlling these risks through the Risk Appetite Statement. We will not compromise compliance with our Risk Appetite in order to pursue revenue growth or higher returns.

The table below provides an overview of the Group's PRTs and their corresponding risk appetite statements.

Risk Types	Risk Appetite Statement
Credit Risk	The Bank manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors.
Traded Risk	The Bank should control its financial markets and activities to ensure that market and counterparty credit risk losses do not cause material damage to the Group's franchise.
Treasury Risk	The Bank should maintain sufficient capital, liquidity, and funding to support its operations, and an interest rate profile ensuring that the reductions in earnings or value from movements in interest rates impacting banking book items does not cause material damage to the Group's franchise. In addition, the Bank should ensure its Pension plans are adequately funded.
Operational and Technology Risk	The Bank aims to control operational and technology risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the Group's franchise.
Financial Crime Risk	The Bank has no appetite for breaches in laws and regulations related to Financial Crime, recognising that whilst incidents are unwanted, they cannot be entirely avoided.
Compliance Risk	The Bank has no appetite for breaches in laws and regulations related to regulatory non-compliance; recognising that whilst incidents are unwanted, they cannot be entirely avoided.
Information and Cyber Security Risk	The Bank aims to mitigate and control ICS risks to ensure that incidents do not cause the Bank material harm, business disruption, financial loss or reputational damage – recognising that whilst incidents are unwanted, they cannot be entirely avoided.
Reputational and Sustainability Risk	The Bank aims to protect the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed with the appropriate level of management and governance oversight. This includes a potential failure to uphold responsible business conduct in striving to do no significant environmental and social harm.

In addition to the PRTs, the Bank has defined the following Risk Appetite statement for Climate Risk: "The Bank aims to measure and manage financial and non-financial risks arising from climate change, and reduce emissions related to our own activities and those related to the financing of clients in alignment with the Paris Agreement."

Topical and Emerging Risks (TERs)

Emerging Risks refer to unpredictable and uncontrollable outcomes from certain events which may have the potential to adversely impact our business. Topical Risks refer to themes that may have emerged but are still evolving rapidly.

Below is a summary of the TERs, and the mitigating actions we are taking based on our current knowledge and assumptions. This reflects the latest internal assessment as performed by senior management.

The TER list is not exhaustive and there may be additional risks which could have an adverse effect on the Bank. There are some horizon risks that, although not highly likely at present, could evolve into a threat in the future and we are therefore monitoring them. These include future pandemics and the world's preparedness for them, and other potential cross-border conflicts. Our mitigation approach for these risks may not eliminate them but demonstrates the Group's awareness and attempt to reduce or manage the risks. As certain risks develop and materialize over time, management will take appropriate steps to mitigate them based on their materiality on the Bank.

Macroeconomic and geopolitical considerations

There is interconnectedness between risks due to the importance of US Dollar financing conditions for global markets, the global or concentrated nature of key supply chains for energy, food, semi-conductors and rare metals, and the direct influence of geopolitics on geoeconomics.

The Bank is exposed to these risks directly through investments, infrastructure, and staff, and indirectly through its clients. Whilst the main impacts are financial, other ramifications may exist such as reputational, compliance or operational considerations.

Expanding array of global tensions and new geopolitical order

Global power dynamics have shifted, with different political and economic alliances beginning to create a multipolar power system. This has been accelerated by the war in Ukraine and conflicts in the Middle East. Whilst the Bank has limited direct exposure to Russia, Ukraine, or Israel, it may be impacted by second order effects on its clients and markets for agricultural commodities, oil, or gas.

The positioning of 'middle powers' is complex and evolving and could tip the geopolitical scales. The negotiating power of exporters of energy and other natural resources has expanded and can shape global markets, as they can use global divisions to raise their own profile. One such example is the envisaged expansion of BRICS to seek a counterweight to Western power axes.

US-China tensions remain, with protectionist measures imposed by both sides. Tariffs, embargos, sanctions, new taxes such as that on carbon, and restrictions on technology exports and investments, are being used to achieve goals beyond just economic. Further economic or political actions could escalate distrust and accelerate the decoupling of trade links, leading to increasingly inefficient production and inflation pressures.

Despite attempts to become more pragmatic, several potential flashpoints remain. A push by China to increase RMB trade and establish RMB as a secondary global reserve currency presents new business opportunities but also potential disruption to the balance of power.

With many elections due across the world including Botswana in the next twelve months, there is uncertainty over the political direction of domestic and foreign policy. There is a risk of short-term political expediency taking precedence over long-term strategic decision making.

There is an ongoing threat of terrorism, with unpredictability exacerbated by the wider range of ideologies at play. Cyber warfare by state related actors could also be used to disrupt infrastructure or institutions in rival countries.

A more complex and less integrated global political and economic landscape has the potential to challenge cross border business models, but also provides new business opportunities.

Persistent high inflation and interest rates

Although rate cuts have been signalled by the Federal Reserve, global rates could remain elevated for longer. Structurally higher spending and continued supply disruptions increase the probability of inflation remaining sticky. During 2023, the International Monetary Fund (IMF) and World Trade Organization lowered their initial forecasts for trade growth and increased that of inflation in 2024, suggesting that several economies will walk a fine line between recession and stagflation. Concern for the credit environment spans both commercial and retail lending, with price inflation and the cliff effects of energy, mortgage and debt re-pricing ultimately leading to higher defaults. This is visible in bond markets with yields widening markedly and prone to high volatility.

Drives to de-risk supply chains combined with no obvious resolution to ongoing conflicts continue to disrupt supply chains. This complicates efforts to combat inflation as supply constrained markets dent the effectiveness of monetary policy.

Economic slowdown in China

Given China's importance to global trade and in particular main consumer of our diamond, a slowdown would

Chief Risk Officer's Review cont.

have wider implications across the supply chain, especially for its trading partners, as well as to countries which rely on it for investment, such as those in Africa. However, opportunities arise from the diversification of intra-Asia trade and other global trade routes, and growth acceleration in South Asia, especially India.

Supply chain issues and material shortages

Demand and supply imbalances in global supply chains are increasingly becoming structural in nature and affect a wide range of commodities including food, energy, minerals and raw materials, plus targeted restrictions on certain industry sectors.

There is growing political awareness around the need for key component and resource security at national level. Countries are enacting rules to "de-risk" by reducing reliance on rivals or concentrated suppliers (for example semiconductors) and look to either re-industrialize or make use of near-shoring and friend-shoring production.

The growing need for minerals and rare earth metals to power green energy technologies could increase the geopolitical standing of the main refiners, such as China, Indonesia and some African nations including Botswana. However, there are also environmental and social costs to rapidly increasing extraction. A desire to avoid dependence may slow down the move by some nations towards the transition.

How these risks are mitigated/next steps

- We remain vigilant in monitoring risk and assessing impacts from geopolitical and macroeconomic risks to portfolio concentrations.
- We conduct thematic stress tests and portfolio reviews at the Bank, and business level, with regular reviews on vulnerable sectors, and undertake any necessary mitigating actions.
- We maintain a diversified portfolio across products and geographies, with specific risk appetite metrics to monitor concentrations.
- Increased scrutiny is applied when on boarding clients and in ensuring compliance with sanctions.
- Collateral and credit insurance are used to manage concentrations.

Environmental Social Governance (ESG) stakeholder expectations

Organizations across the corporate and financial sectors are setting ambitious sustainability goals and net zero targets with many embedding them in their business models. This has prompted increased attention from various stakeholders in ensuring that net zero targets are being met with credible action plans. Stakeholder scrutiny around greenwashing risk relating to ESG focused financial products, as well as companies' commitments, transpires in the various regulatory developments and early enforcement actions taken by several key regulators.

Fragmentation in the pace and scale of adoption of ESG regulations around the world remains, particularly around taxonomies and disclosure requirements, which may lead to unintended consequences including misallocation of capital, increased implementation costs and litigation risks.

The Group's net zero aspirations may be impacted by governments or corporates scaling back their sustainability targets, especially as economic conditions remain challenging, and budgets are constrained. There have been examples in developed nations, such as the UK revisiting its electric vehicle transition timeline. A slower transition from key clients may also weigh reputational pressure on the Group's roadmap.

Higher frequencies of extreme weather-related events such as wildfires, floods and famines may lead to physical climate risk and the cost of managing it becoming a heavier burden on global economies. This will be particularly impactful to developing markets. Alongside climate change, biodiversity loss, pollution, and depletion of key resources, such as water, pose incremental risks to food and health systems, energy security and contribute to the disruption of supply chains.Human rights concerns are increasingly in focus, with the scope expanding beyond direct abuses to cover other areas such as technological advancement and supply chains.

How these risks are mitigated/next steps

- We update our environmental and social standards for providing financial services to clients every two years, with a new version scheduled for 2024.
- We focus on embedding our values through our Position Statements for sensitive sectors and a list of prohibited activities
- We integrate the management of greenwashing risks into our Reputational and Sustainability Risk Framework and policies
- Green, sustainable and transition labels for products and transactions reflect the criteria set out in the Group's Sustainable Finance frameworks, which are regularly reviewed. We obtain external verification on the Group's Sustainable Finance asset pool.
- We assess our clients and suppliers against various international human rights principles, as well as through our social safeguards and supplier charter.
- Detailed portfolio reviews and stress tests are conducted to test resilience to climate-related risks and enhance modelling capabilities to understand the financial risks and opportunities from climate change.
- Work is underway to embed Climate Risk considerations across all relevant PRTs. This includes client-level Climate Risk assessments, including setting adequate mitigants or controls as part of decision making and portfolio management activities.

Data and digital considerations

The Group's digital footprint will expand as more services and products are digitized and made more accessible. Scale in operations and interactions with digital systems will further reduce the tolerance for errors and outages. The risk of data breaches is amplified by highly organized actors, with threats such as 'Ransomware as a Service' and affordable, sophisticated Artificial Intelligence (AI) systems helping to facilitate attacks on organizations and individuals.

Data regulation continues to be fluid and fragmented. Geopolitical tensions have accelerated the implementation of data sovereignty laws, including data localization requirements and cross-border access restrictions. These regulations often have an extraterritorial reach which could increase operating costs significantly, and impact cross-border business models. Stakeholder expectations on data management have also increased, particularly relating to quality, integrity, record keeping, privacy, sovereignty, the ethical use of data and application of AI.

The sophistication and adoption of AI solutions are growing exponentially and will increase exposure to existing risks such as model, fraud, financial crime, compliance and Information and Cyber Security (ICS) risks. In response, regulation is accelerating, particularly around the ethical application of AI in decision-making, necessitating robust governance measures. The Bank needs to ensure that it develops sufficient in-house subject matter expertise.

New business structures, channels, and competition failure to harness new technologies and new business models would place Banks at a competitive disadvantage. The continued exploration of partnerships, alliances, digital assets, generative AI, and nascent technologies, such as quantum computing, provides both opportunities and unique challenges. This is increasingly important as digital assets and distributed ledger technology become progressively prevalent and interconnected with the financial ecosystem. Supply chains are becoming more complex, interconnected, and digital. Highly extended enterprises expand opportunities available for malicious actors, with risk cascading further down supply chains beyond just direct and third-party risks.

These innovations require specialist in-house expertise, new operating models and adapting risk frameworks to perform robust risk assessment and management of new threats. There is also growing regulatory attention in many of these areas. Balancing resilience and agility are essential given the global nature of new technologies alongside the maintenance of existing systems. It is imperative to establish clear ownership, frameworks, and oversight of the use of emerging technologies.

How these risks are mitigated/next steps

- We monitor emerging trends, opportunities, and developments in technology as well as emerging business models that may have implications for the banking sector.
- We invest in our capabilities, to better prepare and protect ourselves against possible disruption and new risks.
- We track the evolving regulatory landscape affecting key areas such as data management, digital assets, and AI, including country-specific requirements, and actively collaborate with regulators to support important initiatives.
- We have established enhanced governance for novel areas through the Digital Asset Risk Committee and Responsible AI Council, which considers emerging regulatory guidance.
- We manage data risks through our Compliance Risk Type Framework and information security risks through our ICS Risk Type Framework.
- We have developed a Bank Data Strategy, to strengthen ownership of related data risks.
- We maintain a dedicated Data Compliance Policy with globally applicable standards. These standards undergo regular review to ensure alignment with evolving regulations and industry best practice.
- We maintain programs to enhance our data risk management capabilities and controls with progress tracked at executive level risk governance committees
- The Bank has implemented a 'defense-in-depth' ICS control environment strategy to protect, detect and respond to known and emerging ICS threats.
- New risks arising from partnerships, alliances, digital assets, and generative technologies are identified through the New Initiatives Risk Assessment and Third-Party Risk Management Policy and Standards.

Considerations of Talent pools of the future

The expectations of the workforce, especially skilled workers, continue to evolve. The COVID pandemic accelerated changes on how people work, connect, and collaborate, with expectations on hybrid working now a given. The focus is increasingly on 'what' work people do and 'how' they get to deliver it, which are becoming differentiators in the war for future talents. There is greater desire to seek meaning and personal fulfilment at work that is aligned to individual purpose.

These trends are even more distinct among Millennials and Generation Z who make up an increasing proportion of the global talent pool, and as digital natives possess the attributes and skills, we seek to pursue our strategy.

To sustainably attract, grow and retain talent, we must continue to invest in and further strengthen our Employee Value Proposition (EVP) and our brand promise, here for good, through both firm-wide interventions as well as targeted action.

Demographic trends

Divergent demographic trends across developed and emerging markets create contrasting challenges. Developed markets' state budgets could be strained by ageing and

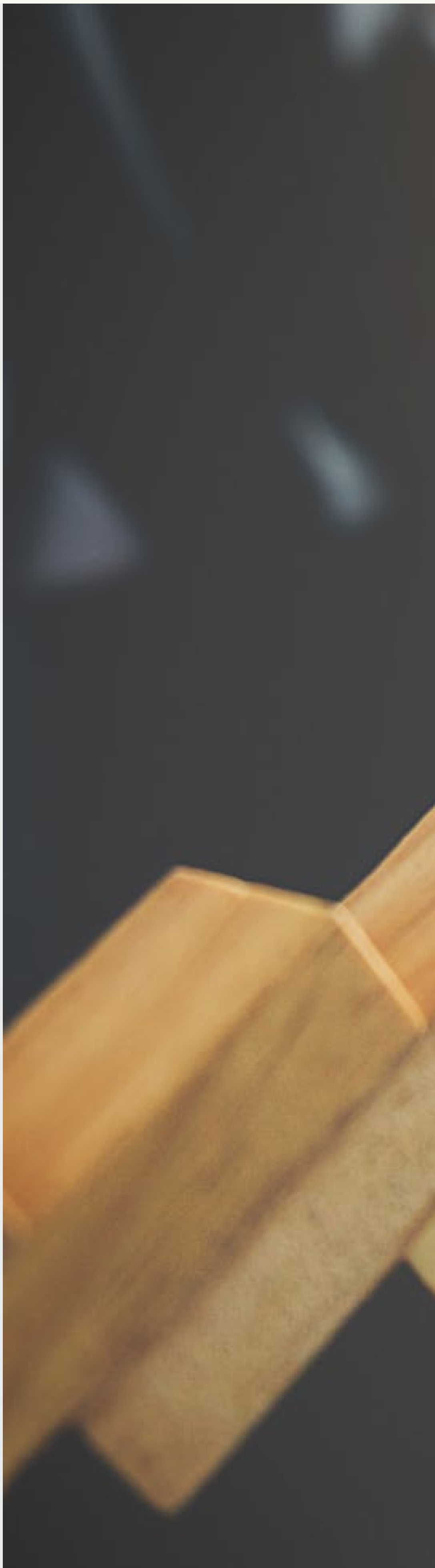
Chief Risk Officer's Review cont.

shrinking populations, whilst political stances reduce the ability to fill skills gaps through immigration. Conversely emerging markets are experiencing fast-growing, younger workforces. Whilst it is an opportunity to develop talent, population growth will put pressure on key resources such as food, water, education, and health, as well as government budgets.

Population displacement, whether as a result of climate events, lack of key resources, political issues, or war, may increase the fragility of societal structures in vulnerable centers. Large scale movement could cause social unrest, as well as propagate disease transmission and accelerate the spread of future pandemics.

How these risks are mitigated/next steps

- Our culture and EVP work aims to address the emerging expectations of the diverse talent we seek. The Brand and Culture Dashboard monitors our diversity and inclusion, colleagues' perceptions of our EVP, and whether we are living our Valued Behaviors. Management teams discuss many of these metrics (including employee survey responses) to identify actions.
- We are undertaking a multi-year journey of developing future-skills amongst our colleagues by focusing on continuous learning, to balance appropriately between 'building' and 'inducting' skills into the Bank.
- Our internal Talent Marketplace provides colleagues with opportunities to learn through experience by signing up for cross-functional (or even cross-geography) projects.
- Employees are on agreed flexible working arrangements. We continue to enhance support and resources to People Leaders and colleagues to help balance productivity, collaboration, and wellbeing.
- Our Stands continue to be operationalized through our strategy and help address the talent pool's increased expectations of us being purpose-led.



Tapiwa Butale
Chief Financial Officer

Chief Financial Officer's Review

Business Performance

The Bank delivered on its key financial objectives for 2023, achieving 29% Return on Tangible Equity (RoTE), ahead of schedule to reach 25% by 2025.

The splendid performance was driven by the deliberate focus on high-returning products thus delivering a magnificent top line growth.

Non-Funded Income (NFI) declined by 26% year-on-year to close at P236m. The year on year drop was largely attributed to lower margins on Foreign Exchange (FX) and subdued transactional volume. Good cost discipline has enabled the Bank to generate positive income-to-cost jaws of 6% for the year, even with continued underlying investment.

Operating expenses increased by 9% year-on-year, due to staff costs, reflective of the Group's strategic intent to invest in quality and sustainable human capital.

Cost to Income ratio (CIR) improved from 67% to end the year at 64%. Cost containment is core to enabling the Bank to create positive operating leverage, whilst generating capacity to continue investing into strategic initiatives.
Improving efficiencies will continue to be a key focus area.

The Bank maintained a strong liquidity position over the period, with a strategic focus on the optimal deposit mix. Low-cost deposits mobilisation yielded positive results allowing the Bank to end the year with reduced holding of volatile term deposits.

Net Interest Income and Margins

	31 Dec 23 P'000	31 Dec 22 P'000
Net Interest Income	805,794	583,149
Average Interest-earning Assets	12,010,311	10,895,549
Average Interest-bearing Liabilities	12,822,330	11,426,962
Gross Yield (%)	6.3	5.6
Rate Paid (%)	2.6	2.9
Net Yield	3.7	2.7
Net Margin (%)	4.0	3.2

Net Interest Income (NII) increased by 38% to P806m, with average interest earning assets growing by 10%. The growth in NII was also supported by strengthening margins, resulting in net margin improvement to 4.0% from 3.2% in the previous year.

Credit Quality

	31 Dec 23 P'000	31 Dec 22 P'000
Gross loans and Advances to customers	**8,771,762**	**8,010,982**
Of which Stage 1 and 2	8,599,385	7,851,430
Of which Stage 3	172,377	159,552
Expected Credit loss provisions	**211,962**	**235,658**
Of which Stage 1 and 2	94,362	127,992
Of which Stage 3	117,600	107,666
Net loans and Advances to customers	**8,559,800**	**7,775,324**
Of which Stage 1 and 2	8,505,023	7,723,438
Of which Stage 3	54,777	51,886
Collateral	**3,083,477**	**5,879,369**
Stage 1 and stage 2 exposures	3,028,700	5,831,288
Stage 3 exposures	54,777	48,081

Stage 1 and 2 expected credit loss provisions decreased by 26% giving credence to the Group's strategy of maintaining a clean book.

Stage 3 impaired exposures increased by 8% due to specific clients, which the Bank continues to work closely with.

Balance Sheet and Liquidity

	31 Dec 23 P'000	31 Dec 22 P'000
Assets		
Loans and advances to Banks	6,906	45,078
Loans and advances to customers	8,559,800	7,775,324
Other Assets	9,389,585	8,604,603
Total assets	**17,956,291**	**16,425,005**
Liabilities		
Deposits from other Banks	330,885	860,239
Deposits from customers	13,081,354	13,024,890
Other Liabilities	3,301,426	1,383,216
Total liabilities	**16,713,665**	**15,268,345**
Equity	**1,242,626**	**1,156,660**
Advances-to-deposits Ratio (%)	65.4	59.7
Liquid Assets Ratio (%)	21.7	15.7

Total loans and advances to customers increased by 10% to P8.6b, largely driven by facility utilisation within the Corporate, Commercial Institutional Banking (CCIB) segment. Consumer, Private and Business Banking (CPBB) assets remained relatively flat year-on-year, with marginal growth in Personal loans. The Group's strategic intention to drive short term loans is expected to maintain a resilient asset book.

The strategic funding plan remains robust, despite a marginal growth on customer deposits.

Chief Financial Officer's Review cont.

Risk Weighted Assets (RWA)

	31 Dec 23 P'000	31 Dec 22 P'000
By Risk Type		
Credit	6,454.363	7,634,730
Market	21,159	29,456
Operational	762,077	765,080
Total RWAs	**7,237,599**	**8,429,266**

Capital Base and Ratios

	31 Dec 23 P'000	31 Dec 22 P'000
CET1 Capital	**761,941**	**706,531**
Additional Tier 1 Capital (AT1)	400,000	400,000
Tier 1 Capital	**1,161,941**	**1,106,531**
Tier 2 Capital	236,280	328,834
Total Capital	**1,398,221**	**1,435,365**
Capital adequacy ratio (%)	19.3	17.0
Regulatory Threshold (%)	12.5	12.5

Risk Weighted Assets (RWA)

Total RWA went down by P1b (14%) ending at P7.2b largely driven by Credit Risk RWA which closed at P6.4bn from P7.7b culminating from deliberate actions to drive RWA efficiency.

Capital Base and Ratios

Capital ratios remain within regulatory limits with Capital Adequacy Ratio (CAR) ending the year at 19.3%, up 230 basis points from the previous financial year. The bank continuously embarks on initiatives to optimize deployment of capital for maximum return to shareholders.

Sustainability review

Accelerating Net Zero in our operations:

Embarking on the journey toward economic, social, and environmental sustainability stands as a paramount challenge for our generation, and it remains a steadfast priority for our Group. Recognizing climate change as one of the most formidable global issues, we acknowledge its imminent impact, particularly in the regions where we operate—Asia, the Middle East, and Africa. At Standard Chartered, our commitment extends beyond mere acknowledgement; we are actively engaged in defining what sustainability means for us and translating these principles into tangible investments and actions across the entire Group. Our corporate Purpose, rooted in driving commerce and prosperity through unique diversity, forms the bedrock of our commitment to sustainability. Guided by our cherished principles of never settling, being better together, and doing the right thing, we aspire to authentically embody our brand promise—to be here for good. Our overarching goal is not only to contribute to a cleaner and safer world but also to play a role in facilitating a just transition.

This transition ensures that we meet climate objectives without impeding the growth and prosperity of emerging markets. Since 2016, our pursuit of sustainable and responsible business practices has been articulated through our Sustainability Aspirations. These aspirations delineate how we aim to foster social and economic development, aligning with our belief in making the most material contribution to the UN Sustainable Development Goals (UN SDGs). Our progress is diligently measured against the targets set in these aspirations, with selected goals integrated into our Group Scorecard for consistent measurement, broad awareness, and robust support for delivery. To track our progress effectively, we have established short- to medium-term quantifiable targets, and we disclose our data annually.

Mindful of the direct environmental impact of our physical footprint, we are resolute in reducing our branches' and offices' ecological footprint. Since 2008, we have measured and curtailed our greenhouse gas (GHG) emissions. Our commitment intensified in 2018, targeting a reduction in Scope 1 and 2 emissions in alignment with a well-below two degrees Celsius scenario. In 2021, we bolstered this commitment, articulating ambitions to achieve net zero in our Group operations by 2025. Our approach is clear and comprehensive. We aim to optimize our office and branch network, retiring unused and ineffective spaces to align with modern requirements for home- and hybrid-working solutions. In collaboration with our strategic real estate partners, including JLL, we strive for maximum efficiency while incorporating clean and renewable energy where applicable. Our alignment with global initiatives such as RE100 underscores our commitment to corporate renewable energy. A four-tier hierarchy guides our efforts:

1) Reduce occupied space;
2) Optimize remaining portfolio for energy efficiency;
3) Procure clean, renewable energy; and
4) Offset where enhancements are not feasible.

Highlighting our progress in Botswana, we have taken decisive steps towards minimizing our environmental footprint and achieved a remarkable 57% reduction in Scope 1 and 2 emissions since 2020, with a 6.2% reduction from the 2022 baseline. This accomplishment was made possible through strategic energy-efficient investments and an increased reliance on renewable energy sources. Our sustainability initiatives and energy conservation measures include:

1. Replacement of conventional lighting with efficient LEDs across all branches.
2. Replacement of conventional air conditioning units with inverter-type efficient systems.
3. Implementation of Solar PV projects.

Water is also an area of focus where in spite of small increase in 2023, we have achieved a remarkable WUI reduction of 37% from our 2020 baseline.

Looking ahead, our focus intensifies. We plan to expand our solar PV projects, including our headquarters, with the aim of reducing our carbon footprint by an additional 15%. Additionally, we will integrate motion sensors to enhance control over our lighting systems, further increasing energy efficiency. These steps underscore our ongoing commitment to sustainable practices, demonstrating our dedication to making a positive impact on the world we inhabit.

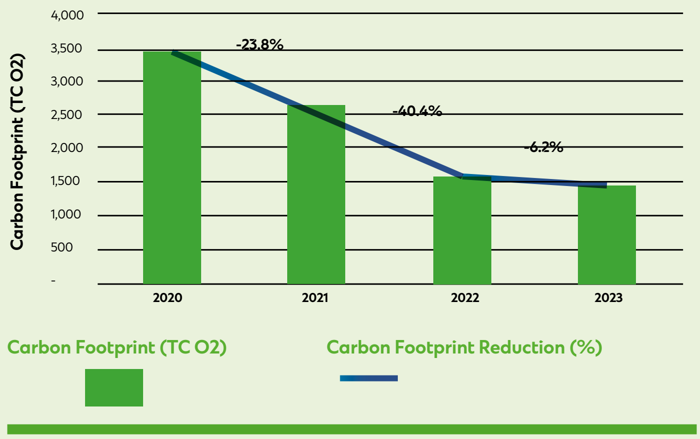
Effective Waste Management

In 2023 we recycled 11 per cent of our waste totalling approximately 743 kg. Plans are underway to increase our recycling percentage by raising awareness through extensive campaigns and engagement with all employees.

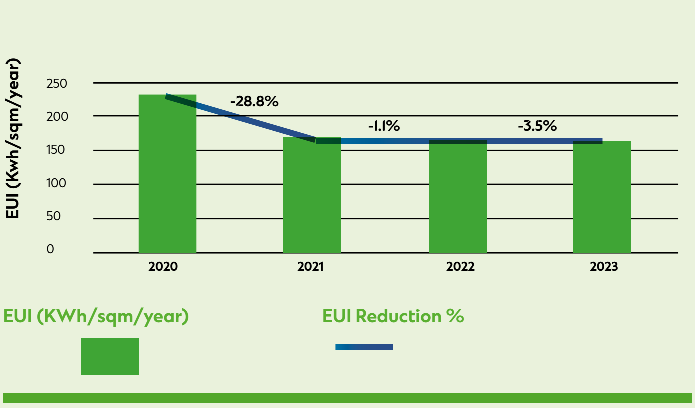
Measurement and Verification

Our carbon metrics are focused on scope 1 and scope 2 emissions from our own operations. Data is collated monthly and consolidated into a central database for accurate tracking of carbon emissions, water usage and waste management. This data is fully verified at group and country level by Eshcon, an independent assessors.

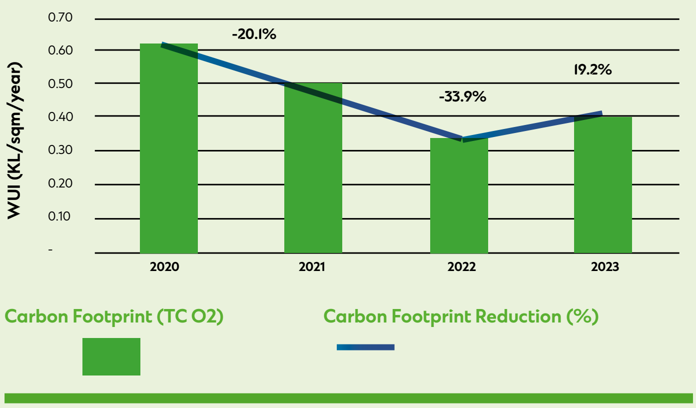
SCB Botswana - Carbon Footprint (TCO2)



SCB Botswana - EUI (Kwh/sqm/year)



SCB Botswana - SCB Botswana - WUI (KL/sqm/year)

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Community Impact

Futuremakers

The Group's community impact and engagement pillar continues to be centre stage, through our Futuremakers by Standard Chartered programme which was launched in January 2019. A total of P5.6 million was contributed to the Futuremakers – Employability and Entrepreneurship programme, which was carried out by our partners, Mebala Youth Studios.

The in-depth programme resulted in 89% of over 2000 participants becoming economically active within a 6-month period post the programme; this means either being gainfully employed, having gone for further education or running their own businesses.

As part of the Group's COVID relief programme, a further P3.7 million was contributed to the SOS Children's Villages in Botswana, in a bid to provide access to young people in Botswana to access vocational skills training to help them integrate and contribute to the economy.

The focus areas for the SOS programme included refurbishment of the Youth Centre in Tlokweng and an overhaul of the SOS farm in Ruretse to ensure that young people can ply their agricultural trade at a functioning farm – with emphasis on poultry farming as well as vocational training in areas such as baking, hair and beauty, mechanics as well as entrepreneurship development carried out in partnership with the Local Enterprise Authority.

As part of the Group's Lifting Participation pillar – which aims to elevate the participation of young women in the society, both programmes were delivered with a 70% participation skew towards women between the ages of 18-35 years.

The programmes further targeted the visually impaired by ensuring that the programmes were adequately resourced thus allowing visually impaired people to participate and complete their training. These are just some of the ways that Standard Chartered impacts communities and we look forward to continuing to build the brand legacy in this manner.

Employee Volunteering

Service is at the heart of what we do. Doing business at Standard Chartered, is doing business with the community. For every Standard Chartered employee, taking 3 days of our work year to give back to the communities within which we operate is part for the course.

Last year 56% of our staff members contributed to various communities through our employee volunteering programme. This resulted in Standard Chartered staff spending a total of 3,594.5 hours giving back to those less fortunate than ourselves.

Staff members participate in a wide range of activities, including, but not limited to mentorship classes with children in various age groups and topics ranging from financial literacy, career planning as well as on various aspects of the Business such as brand and marketing, financial management etc.

As a Bank driven by our sustainability impact, staff members also engaged in tree planting initiatives around the country, working with schools, local councils and other community organisations to teach the importance of giving back and taking care of our environment, all contributing to our ambition to plant 12,500 trees nationwide.

Our flagship community initiative called "Follow the Sun" engaged the Oliphant's Drift Community in a variety of activities that included a wellness session for the elderly community, planting of 50 indigenous trees around the village, mentorship session with school children, donation of household goods to the community as well as a mobile freezer to support fishing merchants.

futuremakers
by Standard Chartered

Supplier Diversity & Inclusion at Standard Chartered

Building our inclusive culture

Our strongly inclusive culture and our valued behaviors are essential building blocks for driving commerce and prosperity. We strive to be a great place to work and a great place to bank, while also supporting the communities where we operate.

Supplier diversity and inclusion

At Standard Chartered, supplier diversity refers to a supply chain that incorporates businesses owned by under-represented individuals or groups – such as women and ethnic minorities, as well as micro and small businesses – and corporations who have strong diversity and inclusion profile, aligning to the principles set out in our Supplier Diversity and Inclusion standard.

Our aim is to create mutually beneficial relationships with suppliers reflecting the diverse communities. Our increased focus on supplier diversity is because we recognise the critical role our suppliers play in serving our clients and creating wide reaching positive impacts across the community.

The intrinsic relationships between the Bank, our suppliers, our clients and our communities is more and more important, so our overall purpose has to apply to our partners as well as us. Working with diverse suppliers generates prosperity for local suppliers, driving positive economic and social impacts for communities and customers.

Principles set out in our standard

1. Diverse Supplier Definitions

There are many different types of diverse suppliers. The most common include (but are not limited to):

- **Women Owned:** A business that is 51% women owned, operated and controlled.
- **Ethnic Minority Owned:** A business that is 51% ethnic minority owned, operated and controlled. Definitions of ethnic minority groups vary by location.
- **Small, Medium, Micro (SMEs):** Standard Chartered's Global definition of Small and Medium-sized enterprises is based on guidelines issued by the Organisation for Economic Co-operation and Development (OECD) as detailed below:
  - Turnover of medium-sized enterprises (50-249 employees) should not exceed USD 50 million
  - Turnover of small-sized enterprises (10-49 employees) should not exceed USD 10 million
  - Turnover of micro-sized enterprises (less than 10) should not exceed USD 2 million
- **Disabled Owned:** A business that is 51% disabled owned, operated and controlled.
- **LGBT+ Owned:** A business that is 51% lesbian, gay, bisexual or transgender owned, operated and controlled.
- **Social Enterprises:** Locally accredited organisations that work to address a social need, where profits are primarily reinvested into the community or back into the business.

2. Approach to Selecting Suppliers

The franchise select all our suppliers fairly, based on factors such as quality, cost, service, innovation, value, risk and sustainability standards. In addition, we are committed to evolving our supply chain to include suppliers who are either:

- Diverse owned, or;
- Non-diverse owned but adopting at least an equivalent (if not stronger) approach to D&I as Standard Chartered Bank.

3. Guiding Principles

The Guiding Principles we are following to help establish and develop greater supplier diversity are:

- Commitment to inclusion of diverse suppliers in the procurement process.
- Commitment to applying our Valued Behaviours and the principles of this Standard to supplier D&I practice.
- Complying to any required D&I legislation, regulations or local laws.
- Commitment to continuous improvement of supplier D&I practice (with a focus on embedding leading practice).
- Providing diverse supplier support & development.
- Commitment to measurement and sharing of progress.

In 2023, Standard Chartered Bank spent 5.2 % of our total spend with diverse suppliers.

Board of Directors

Doreen Cilla Khama
Board Chairperson

Doreen Khama was appointed to the board as an Independent Non-Executive Director in September 2018. She is the founder and senior partner of Doreen Khama Attorneys, a private law firm established in 1982 which provides legal advice to corporate and individual clients on commercial matters and general litigation. Ms Khama has over 2 decades of service in private practice and is also the honorary Counsel for Austria. She has sat on the boards of Botswana Savings Bank, ABC Holdings and Banc ABC Botswana where she served as a Non-Executive Director and a Chairperson.

Jerry Kweku Boi Bedu - Addo
Non-Executive Director: Risk Committee Member

J. Kweku Bedu-Addo has been Standard Chartered's Bank's Regional CEO for Southern Africa, based in Johannesburg, South Africa since 2017.

Kweku's career has spanned Public Policy, International Development, and Banking & Finance. He worked in the Ministry of Finance in the 1990s during Ghana's Structural Adjustment reforms and joined Standard Chartered in 2000. He held several senior Corporate & Institutional Banking roles in Ghana, West Africa, Zambia and Singapore and was appointed the first Ghanaian Chief Executive in the Bank's 125-year history in Ghana in 2010.

He is a past Chairman of the Ghana Stock Exchange.

His mandate as Chairman of the International Banks Association in South Africa and a Board Member of Bankers Association, South Africa ended in January 2024. Kweku is currently the Chairman of Standard Chartered Bank, Mauritius. Kweku is the Publisher and Host of "It's Morning in Africa" Podcast series. He is an enthusiast of Astronomy and Creative Arts.

Mpho Masupe
Chief Executive Officer: Risk Committee Standing Invitee

Mpho Masupe has a strong financial background acquired over two (2) decades leading finance and administration departments. He holds Master's Degree in Strategic Management from the University of Derby and has completed Management and Executive Development programmes at the University of Pretoria's Gordons Institute of Business Studies (GIBS). He completed his undergraduate studies at the University of Botswana and holds a Bachelor of Commerce Degree.

Thari Gilbert Pheko
Independent Non-Executive Director: * Risk Committee Member

Thari Gilbert Pheko was appointed to the Board as an Independent Non-Executive Director in February 2020.

Mr Pheko is a Consultant at ZBL Investments (Pty) Limited, a company that provides consultancy services in broad spectrum of Information and Communication Technology (ICT). He has over 10 years experience in Executive Management positions of various organisations, he served as a Chief Executive for Botswana Telecommunications Authority and is a founding Chief Executive of Botswana Communications Regulatory Authority (BOCRA). He holds a Master's in Management Information Systems, a Bachelors Degree in Business Finance and Economics from the University of East Anglia, Norwich, United Kingdom. He did Part One Bachelor's Degree of Arts from the University of Botswana and Swaziland majoring in Accounting and Public Administration.

John Yendall Stevens
Independent Non-Executive Director: **Audit Committee Member

John Yendall Stevens was appointed to the board as an Independent Non-Executive Director in August 2013. He served at Deloitte & Touche in South Africa and in Botswana for over 33 years, 8 of those years as partner in charge of Deloitte & Touche Botswana. Mr Stevens retired from Deloitte & Touche in 2007 and took up the challenge of private consultancy.

He holds a BCom Degree from Rhodes University and is a fellow member of the Botswana Institute of Chartered Accountants. He serves as a member of the Board for Cresta Marakanelo. Director Stevens retired from the Board effective 30th June 2023, he was succeeded by Director Sekwakwa as the chairperson of the Audit Committee.

Rodgers Majwabe Thusi
Independent Non-Executive Director: Risk Committee Member

Rodgers Thusi was appointed to the board as an Independent Non-Executive Director in July 2019.

* Chairperson
** Audit Chairperson until June 30th 2023

Mr Thusi is the co – founder of Gidary Technical Solutions, a consultancy company which has undertaken a number of projects covering technical investigations, mineral resource evaluation including projects and operations management support at various mines. He holds a Bachelors Degree of Science specialising in Mineral Processing from the University of Wales, a post Graduate Diploma in Management Studies from Management College of Southern Africa and a Certificate in Advanced Operations Management from the University of Cape Town.

He is a member of Botswana Institute of Engineers, a registered engineer by the Engineering Registration Board Botswana and a project management professional through the Project Management Institute.

Solomon Molebatsi Sekwakwa
Independent Non-Executive Director: *Audit Committee Member

Solomon Molebatsi Sekwakwa was appointed to the board as an Independent Non-Executive Director in April 2022.

Mr Sekwakwa is an economist by qualification with vast experience and expertise in Finance, strategy development and planning having worked mostly in senior positions for the various Government departments, including appointment as Permanent Secretary in the Ministries of Finance and Economic Development and Health and Wellness.

He has played a key role on issues pertaining to national economic policy development, supervision and coordination in the preparation of the national budget and monitoring expenditure for various Government Ministries. Mr Sekwakwa has served as a board member for several entities such as Botswana Development Corporation, University of Botswana, Debswana Diamond Mining Company and De Beers Group of companies. He holds a Masters of Arts Degree specialising in Development Economics, a Post Graduate Diploma in Economics from the University of Sussex in the United Kingdom and a Bachelor of Arts Degree in Economics and Sociology from the University of Botswana. He has further attained training and certificates in Project Management, Financial Programming and Policy and Corporate Governance Development Programme for Directors.

Rapelang Rabana
Audit Committee Member: Audit Committee Member

Rapelang Rabana was appointed to the board as an Independent Non-Executive Director in December 2020. Ms Rabana is an internationally lauded technology entrepreneur. Her areas of expertise include digital transformation, innovation, strategy and product development, operations and process engineering, communications and brand development. She has received numerous awards as recognition for her skills, experience and expertise such as the 15 Women Changing the World by the World Economic Forum in 2015, Entrepreneur for the World by the World Entrepreneurship Forum in 2014.

She currently serves as the Co-CEO of Imagine Worldwide, expanding edtech solutions across Africa. She is also the Founder of Rekindle Learning and a Partner at FFWD Innovation. Ms Rabana holds a Bachelor of Business Science (Computer Science Honours), a Master of Science (Property Studies) from the University of Cape Town (UCT), South Africa, a FAIS Regulatory Exams RE1 (Key Individuals), RE3 (Key Individuals), RE5 (Representatives), and a Venture Capital Intensive Course from Venture University in San Francisco, USA.

Mpho Judith Dimbungu
Independent Non-Executive Director: Audit Committee Member

Mrs. Mpho Judith Dimbungu has amassed over 30 years of experience in financial management, primarily in the diamond mining sector. Holding senior positions at DTC Botswana, Debswana Mining Company, and De Beers Consolidated Mines, she now serves as Managing Director of Spring Crown Holdings (Pty) Ltd, focusing on steel manufacturing for mining, water works, and construction industries. She excels in business management, financial planning for SMEs, and strategic development, displaying expertise in restructuring and process improvement during organizational transitions.

As a professional accountant, she holds titles like Fellow Chartered Accountant (FCA), and has earned an MBA from the University of Derby. Additionally, she's completed leadership development programs with Wits Business School and the London School of Business. Her influence extends to various boards and committees across industries such as financial services, aviation, pension fund administration, and steel manufacturing.

Luzibo Benza
Company Secretary

Luzibo joined Standard Chartered Bank Botswana Limited in 2017 as Legal Counsel. She is an admitted Attorney with the Courts of Botswana and has gained experience in corporate commercial and banking law, general litigation and labour laws through working as a practising attorney and as an in-house counsel.

Luzibo holds a Master's Degree in Commercial Law from University of Cape Town, Bachelor of Laws Degree from the University of Botswana, a post graduate certificate in Enterprise Risk Management from Botswana Accountancy College. and a post graduate certificate on The Law of Banking and Financial Markets from WITS.

Corporate Governance review

Corporate governance has become crucial in the world of business, as a key player in the banking industry. At Standard Chartered Bank Botswana, we believe that strong corporate governance is the cornerstone of trust, integrity, and sustainable business growth. Our commitment to upholding the highest standards of governance ensures transparency, accountability, and ethical conduct in all our operations. The company has an integrated approach to governance which ensures prudent management of the company in line with an approved strategy and with regard to the requirements of key stakeholder.

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

The Board

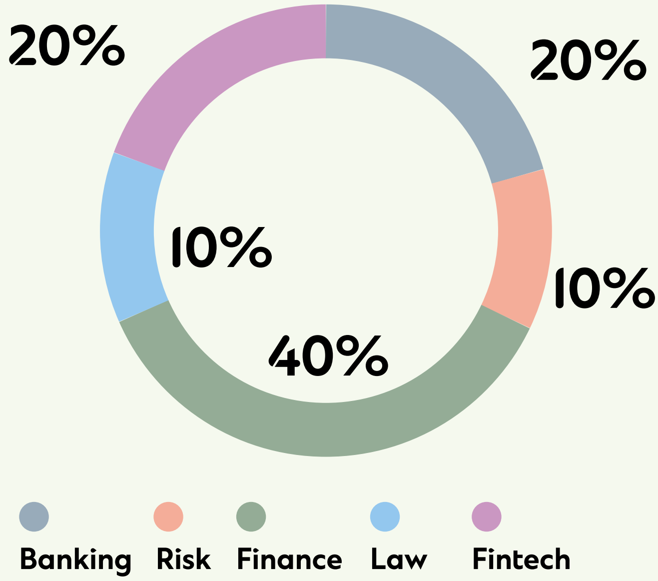
The Board's main focus is to exercise sound leadership and independent judgment in all matters affecting the company in the best interest of stakeholders. The board is responsible for the long-term success of the company by ensuring sustainable leadership within a framework of effective controls. The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

Diversity and mix of skills

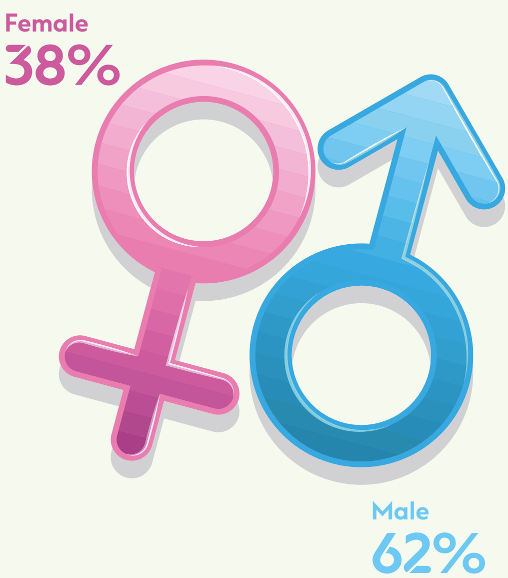
The Board has a good mix of skills and experience to drive the business strategy whilst maintaining control on risk management and good corporate governance. The Board is committed to ensuring the overall effectiveness of the Board and that it achieves the appropriate composition and balance of skills.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

The areas of expertise, gender and independence status of the Directors is as set out below:-

Board of Directors Skills Matrix

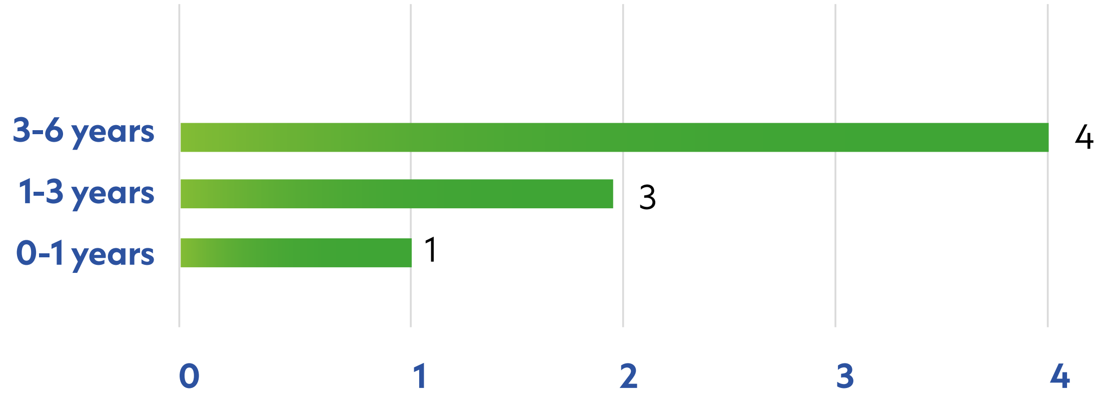


2023 Gender Representation



Governance review cont.

Directors Tenures



There exists a cordial working relationship between the non – executive Directors and executive Directors characterised by a healthy level of challenge and debate. The Board periodically receives comprehensive reports on the business, economic and competitive landscape. The Board continues to review the matters reserved for the Board, key among them being the review and tracking of the company's strategy, financial performance, approving any changes to capital ensuring there is sound internal controls, risk management, delegation and monitoring of authorities for expenditure, lending, people management and compensation and material outsourcing.

Independent Non-Executive Directors

The majority of the Directors are independent and free of any interest, association and or relationship which when judged from the perspective of a reasonable and informed third party, would likely cause undue influence in their decision making. In determining independence of a non-executive director, the board considers an individual against the criteria set out in the King IV Code on Corporate governance, the Companies Act, Bank of Botswana guidelines on corporate governance including the manner in which they conduct themselves at Board meetings. The Directors are required to declare any interest that may give rise to a potential or perceived conflict of interest on an ongoing basis including at each Board meeting. The Board had concluded that there are no relationships, interests and or circumstances that would likely cause undue influence in the independent non-executive Directors' decision making.

Board selection and appointment principles

In line with internationally accepted governance standards, the company has adopted a formal and transparent procedure for the appointment of board members based on a set of broad principles;

- The Board should have an appropriate balance of skill, knowledge, diversity and experience relevant to the company. The Board should further exercise an independence mindset to challenge the executives where relevant.
- At least one third of the board members must be independent non- executive Directors.
- Prospective independent non - executive Directors are interviewed by the Board Chairperson, the African regional chief executive officer and the Southern Africa chief executive officer with a view to assess their suitability for the roles and whether their values are aligned to those of the company.
- Due diligence and screening checks are conducted prior to the appointment of any independent director to ensure the company is not exposed to risks associated with integrity, financial soundness, conflict of interest and related party relationships.
- All Directors should have capacity to devote sufficient time and commitment to attend all board and committee meetings including engaging in relevant company events.
- The Board maintains a robust succession plan to ensure sound planning, a balance of knowledge, skill and appropriate continuity. The succession plan is reviewed annually by the Board Chairperson with the assistance of the Company Secretary.
- A list of prospective independent Directors is maintained by the Company Secretary and reviewed annually.
- Directors are subjected to an induction training upon joining the Board, and on a regular basis, the bank updates the Directors' skills and knowledge through continuous training.

Director Induction

The company has a comprehensive and tailored induction training for new Directors on business operations with specific focus on risk, compliance, legal and regulatory issues. Upon joining, a director receives training on business aspects from various senior management personnel. A crucial part of the induction programme is to ensure that the Directors have an understanding of the governance environment including their statutory duties and obligations as Directors. The company secretary plays a key role throughout the training. The Directors' induction programme entails;

Constitution and the governance structure

The director undertakes a review of the Constitutional documents ad governance structures such as;

- Memorandum and articles of association
- Board and management structures
- Subsidiary governance structure
- Board charter
- Board and Committee terms of reference
- Management committee terms of reference
- Board and Committee meeting dates

Directors duties

The director receives essential information necessary to provide knowledge and understanding of the following:

- Key legal and regulatory provisions from the King IV Code of South Africa on corporate governance, Companies Act and listing rules
- Directors roles and responsibilities.
- Guidelines on conflict of interest.
- Summary of director's liability insurance covers.

Essential information on the business

The induction is designed to ensure the director receives information necessary to provide general understating of the business operations and its policies;

- Policies on Enterprise Risk Management Framework, Audit, Credit, Cyber Security.
- History of the Standard Chartered Group.
- Code of conduct.
- Summary of the various business segments.
- Delegated authorities manual.
- Directors' continuous education programme.

Directors ongoing development

The company has a development programme which is needs based and designed to upskill the Directors. On an annual basis, the Directors are expected to secure at least twelve (12) hours for development on relevant areas of disciplines crucial to execution of their roles and obligations, this includes training on relevant areas/disciplines having considered developments in the market. Further and pursuant the annual board evaluation exercise, areas that require further training are identified and these are addressed annually through trainings.
Moreover, the Directors have unlimited access to an online learning platform which provides knowledge on vast topics relevant to the banking industry and the company.

In the year 2023, the Directors received mandatory training and learning on the below:

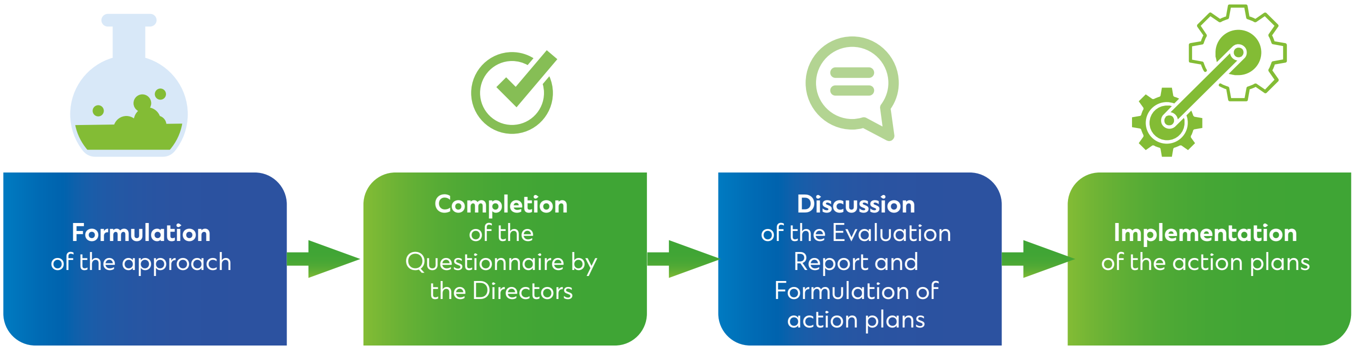
- Corporate Governance
- Global Economic & Geopolitical Outlook
- Conduct Risk Management
- Information and Cyber Security
- Affluent Investment Proposition
- Legal Perspectives on Sustainability
- Geopolitical and Macroeconomic environment

Board Effectiveness

The Board encourages open, transparent and constructive dialogue amongst the members. The Board has a carefully structured Board agenda which acts as a guideline to ensure that the minimum standards of governance are upheld.

Board evaluation

A board evaluation process is conducted annually through a process facilitated by external parties with the support, to the extent necessary, of the company secretary. The evaluation entails a peer evaluation of each director, board committees and the overall board interactions, conduct of business meetings and scope of control exercised by the Directors. Following the evaluation, the Directors identify areas that require further consideration, which may include training, and these are addressed appropriately to the satisfaction of the Board. The annual board evaluation for the year 2023 is ongoing, the results will be discussed by the Board with agreed action plans tracked until closed to the satisfaction of the Board. The Board evaluation process entails;



Governance review cont.

Role of the Board Chairperson and the Chief Executive Officer

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

Succession Planning

The company has a succession plan for the Directors which is reviewed regularly with a view to maintain a balance of critical skills within the Board.

Access to information

Directors have unrestricted access to information and management. The board is provided with timely information and comprehensive reports on material operational, risk management and financial matters of the company to facilitate informed discussions during meetings. All Directors have access to advice of the company secretary, who provides advisory support to the Board on governance matters. Directors further have access, where necessary, to independent professional advice at the company's expense.

Board Activities

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

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

Board meetings and Attendance

The Board convenes at least four formal meetings a year and a strategy session. As already stated above, a formal scheduled programme of the meetings is maintained. The Directors receive comprehensive timely reports to enable them to exercise full and effective oversight over strategic, financial, operational, risk, compliance and governance issues among other things. The Board has the prerogative to schedule additional adhoc meetings where it deems necessary. In the year 2023, Board meetings were convened in a hybrid manner and all the Directors attained a one hundred percentage (100%) attendance of the Board meetings. The below table shows the number of meetings held and the attendance by each director;

Director	Attendance	Attendance in %
D. Khama (Chairperson)	**4/4**	**100**
J. Stevens	**2/2**	**100**
R. Thusi	**4/4**	**100**
T. Pheko	**4/4**	**100**
R. Rabana	**4/4**	**100**
K. Bedu -Addo	**4/4**	**100**
M. Masupe	**4/4**	**100**
S. Sekwakwa	**4/4**	**100**
M. Dimbungu*	**2/2**	**100**

* Director Dimbungu was appointed to the Board on the 13th April 2023, and started sitting for the meetings in Q3,2023.

Board Committees

The Board has two primary Committees with identified delegated authorities, these are the Board Risk Committee and the Board Audit Committee.

The two committees are chaired by an independent non- executive director in accordance with local regulations and international best practise and standards.

The respective Committee chairpersons report to the Board at each scheduled board meeting.

There are terms of reference in place setting out the responsibilities for each board committee, and these are reviewed annually and approved by the Board. Details on the Committees' mandates and membership are set out below:-

Board Audit Committee

Composition

Director	Attendance	Attendance in %
J. Stevens Chairperson	**2/2**	**100**
R. Rabana Member	**4/4**	**100**
S. Sekwakwa Member	**4/4**	**100**
M. Dimbungu Member	**2/2**	**100**

Standing Invitees

T. Butale	Chief Financial Officer
N. Kwape	Head of Internal Audit
S. Molefe	Chief Compliance Officer
L. Benza	Company Secretary
Ernst & Young	Statutory Auditors

The Board is satisfied that the Committee chairperson (both current and the predecessor) have the requisite skills and experience to lead the Committee and that all the other members are adequately experienced and knowledgeable with regards to financial reporting.

Role and functions

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

Key responsibilities of the Committee include:

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

Oversight over Internal Controls
The Committee regularly reviews and reports to the Board on the effectiveness of the Company's internal controls. The Committee discusses issues of concern raised by Head of Internal Audit and reviews Management's responses and remedial actions until they are resolved to its satisfaction. The Committee further receives regular reports from Head of Internal Audit on internal audits, compliance and legal risks and on the assurance framework. The Head of Conduct, Financial Crime Compliance submits reports on regulatory compliance and conduct issues.

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

Highlights for 2023
In 2023, the Board Audit Committee discharged its mandate in accordance with the law and as set out in its Terms of Reference, the Committee;

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

Appropriateness of the expertise and experience of the Chief Financial Officer
In line with the Botswana Stock Exchange Listing Requirement the committee considered the appropriateness, expertise and experience of the Chief Financial Officer.

The Committee having considered the detailed Curriculum Vitae and performance assessment outcome of Tapiwa Butale was satisfied that she had the relevant experience, and expertise to continue in the role.

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

Committee Meeting attendance in 2023

Member	Scheduled Meeting	Percentage (%)
J. Stevens	2/2	100
M. Dimbungu	2/2	100
R. Rabana	4/4	100
S. Sekwakwa	4/4	100

Board Risk Committee

Composition

Director	Attendance	Attendance in %
T. Pheko Chairperson	**4/4**	**100**
K. Bedu – Addo Member	**4/4**	**100**
R. Thusi Member	**4/4**	**100**

Standing Invitees	
T. Butale	Chief Financial Officer
N. Kwape	Head of Internal Audit
S. Molefe	Chief Compliance Officer
L. Benza	Company Secretary
Ernst & Young	Statutory Auditors

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

The Chief Risk Officer presents a report to the Committee at every scheduled meeting and the Committee discusses major risks faced by the Company. The Committee is responsible for ensuring that there are written policies, procedures and processes for identifying and managing risks within the company.

Highlights for 2023
The Committee held four meetings in the year and its areas of focus included:

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

Committee Meeting Attendance

Member	Attendance
T. Pheko	4/4
K. Bedu - Addo	4/4
R. Thusi	4/4

Governance review cont.

Remuneration Committee

Within the Standard Chartered Group and subsidiaries, there is an established Group Remuneration Committee and its remit covers the remuneration of all employees within the Group. In relation to the governance of subsidiaries, including Standard Chartered Botswana Limited, the Group Remuneration Committee completes the following activities:

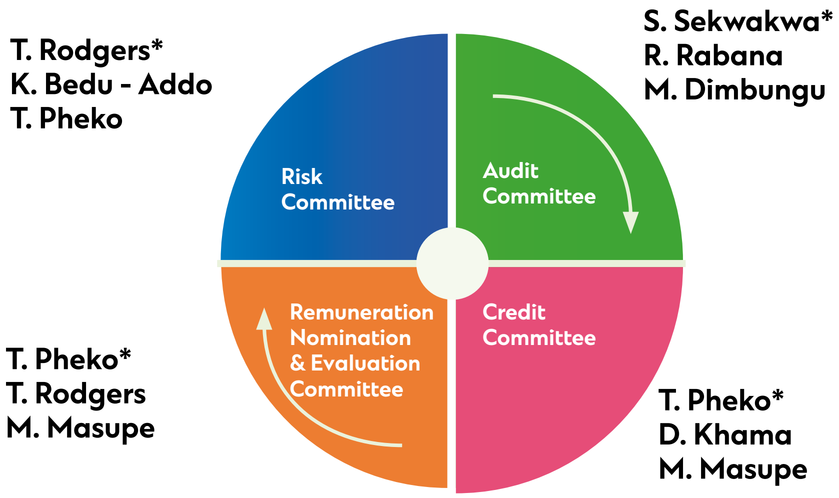
- Determines and oversees the approach to remuneration across Standard Chartered subsidiaries. For example
  - The approach to remuneration approved by the Group Remuneration Committee applies globally across all subsidiaries and branches.
  - Variable remuneration funding is not determined on a country basis. Instead, it is driven by an incentive funding formula that takes into account Group, business and individual performance.
- Remuneration approach, which applies across all subsidiaries, follows the most developed and stringent regulatory framework in the world set by the UK Prudential Regulation Authority ("PRA"), UK Financial Conduct Authority ("FCA") and European Banking Authority ("EBA"). These regulations, similar to other country remuneration regulations, are all derived from the Financial Stability Board's ("FSB") Principles for Sound Compensation Practices and their Implementation Standards. As such, the remuneration framework adopted across the subsidiaries meets the country regulatory requirements on remuneration. SCB Group approach to remuneration includes a focus on shareholder alignment, effective risk management, and sustained long-term value creation.

Despite the remuneration approach sitting with the group, the local Board acts as an oversight authority to ensure there is full compliance with local laws and alignment to the SCB Botswana strategy. SCB Botswana has obtained a waiver from the Botswana Stock Exchange to be exempted from establishing a local remuneration committee.

Change in Regulations

Bank of Botswana issued, in November 2022, guidelines on corporate governance for Banks/financial institutions licensed and supervised by Bank of Botswana. The guidelines mandate the establishment of certain board delegated committees such as the credit and the remuneration Committees among other things. The company, in accordance with the provisions of the guidelines established the Credit and Remuneration, Nomination and Evaluation committees. The Committees were established in November 2023 however started sitting and executing their mandate in the year 2024.

A detailed report on the new Committees mandate will form part of the 2024 integrated reporting, the below table however outlines the new Committee structures and compositions;



***Chairperson**

Corporate Governance Policies

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

Internal Controls

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

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

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

Internal Audit function monitors compliance with policies and standards and the effectiveness of the internal control structures. The function is focused on areas of greatest risk as determined by a risk-based assessment methodology. The Internal Audit function reports to the Board Audit Committee. The effectiveness of the company's internal controls system is reviewed regularly by the Board through a management framework and Internal Audit function.

Conflict of Interest

Directors are under a duty to avoid conflicts of interest. This entails not engaging directly or indirectly in any business that is in competition or conflicts with the company's business. The company has adopted a robust process requiring Directors to disclose their outside business interests before they are initiated. Potential or actual conflicts are reported to the Company Secretary and a register of Directors' interests is maintained. The employees of the company are also required to comply with the company policy on Conflict of interest.

Code of Conduct

The Board has adopted a Code of Conduct relating to the lawful and ethical conduct of business which is supported by the Company's core values. All Directors, management and employees are required to observe the Code and the high standards of integrity and fair dealing in their relations to customers, staff and regulators. As already stated, all employees and Directors re-commit to the Code of Conduct annually.

Whistle Blowing Policy

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

Anti-Bribery and Corruption

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

Related Party Transactions Standard

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

Insider Trading

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

Going Concern

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

Relations with Shareholders

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

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

Over and above the Annual General Meeting, ad hoc shareholder requests are handled on an ongoing basis.

Governance review cont.

To achieve quick and smooth resolution of shareholder queries, the Board has engaged the services of a professional registrar.

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

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

The Board received shareholders' authorisation to fix the Directors remuneration by a resolution passed at the Annual General Meeting held on the 29th June 2023. All remuneration and privileges accorded to the Directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity as the company. Compensation is set to attract Independent Non-Executive Directors with a broad range of skills and experience to determine the company's strategy and oversee its implementation. Independent Non-Executive Directors were paid for the services they provide to the company and are re-imbursed for expenses incurred in the performance of their duties such as travel and subsistence. The table below shows the Directors remuneration for the services they rendered during the year:

BOARD FEE STRUCTURE

		Annual Retainer	Sitting Fee
MAIN BOARD	Board Chair	$23,500	$2,000
	Board Member	$11,200	$1,500
BOARD COMMITTEE	Committee Chair	$7,600	$1,250
	Committee Member	$3,750	$1,000

DIRECTOR FEES 2023

Directors	Emoluments (BWP)
Doreen C Khama	424,004.40
Rapelang Rabana	340,516.89
Solomon Molebatsi Sekwakwa	396,573.58
John Yendall Stevens	190,533.51
Rodgers Majwabe Thusi	339,930.23
Thari Gilbert Pheko	450,025.28
Mpho Judith Dimbungu	171,153.78
	2,312,737.67

Executive Directors do not receive remuneration for serving on the Board, the Executive Directors remuneration is as per their respective negotiated employment contracts.

Service Contracts for Independent Non- Executive Directors
Independent Non- Executive Directors are appointed on a fixed term basis not exceeding a period of three years, which may be renewed subject to re-election by shareholders at Annual General Meetings. The Directors are bound by letters of appointment issued for and on behalf of the Company. Other than as set out above, there are no obligations in the letters of appointment which could give rise to payment for loss of office.

Executive Directors' remuneration policy
Executive Directors receive salary, pension and other benefits. They are also eligible to be considered for variable remuneration which is determined based on both the company and individual performance. The company's remuneration approach is consistent with effective risk management and the delivery of the company's strategy centred on the below principles;

- A competitive remuneration opportunity that enables the company to attract, motivate and retain executive Directors
- A clearly defined performance management framework that ensures executive Directors have clear objectives and receive ongoing feedback
- Remuneration outcomes that relate to the performance of the executive director and the company. The company aims to ensure the executive director is aligned to deliver long term sustainable growth of the company on the interest of stakeholders
- Remuneration that is fair and transparent. An equal pay review id undertaken as part of the pay review process and
- A core level of benefits that protects the executive Directors and reflect the company's commitment to employee wellbeing.

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

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

King Report on Governance for South Africa (King IV Code)
The company has over the years always committed to aligning and adopting the recommendations of the King IV report on governance for South Africa 2009. Having adopted the Code, the Board developed a programme for implementation of its principles in the company's business environment. As at 31st December 2023, most of the principles were being applied as set out above;

King IV Principle	Status	Explanation
Principle 1: The governing body should lead ethically and effectively	**Complied**	The Bank has adopted a code of conduct. The Board and all employees are subject to the Code of Conduct.
Principle 2: The governing body should govern the ethics of the organization in a way that supports the establishment of an ethical culture	**Complied**	The Code of conduct sets out minimum standards in terms of what is expected from employees including Board on a day-to-day basis. The Board and employees are governed by the Code of Conduct
Principle 3: The governing body should ensure that the organization is and is seen to be a responsible corporate citizen	**Complied**	The Bank has established a Trust whose main purpose is to deliver the corporate social responsibility mandate. Future -makers by Standard Chartered is a global initiative which supports disadvantaged young people, especially girls and people with visual impairments, to learn new skills and improve their chances of getting a job or starting their own business. Further, The Group's Employee Volunteering programme encourages staff to seek opportunities to impact their communities in various ways.
Principle 4: The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	**Complied**	The Board receives updates on a regular basis on the Group's strategy, risks, opportunities and performance. There is oversight exercised by the Board to ensure delivery of the strategy.
Principle 5: The governing body should ensure that reports issued by the organization enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects.	**Complied**	The Bank conducts regular engagements with stakeholders supported by detailed reports on the strategy of the Bank.
Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.	**Complied**	The Board has approved King Code on corporate governance and exercises oversight to ensure alignment with provisions of the Code.

Governance review cont.

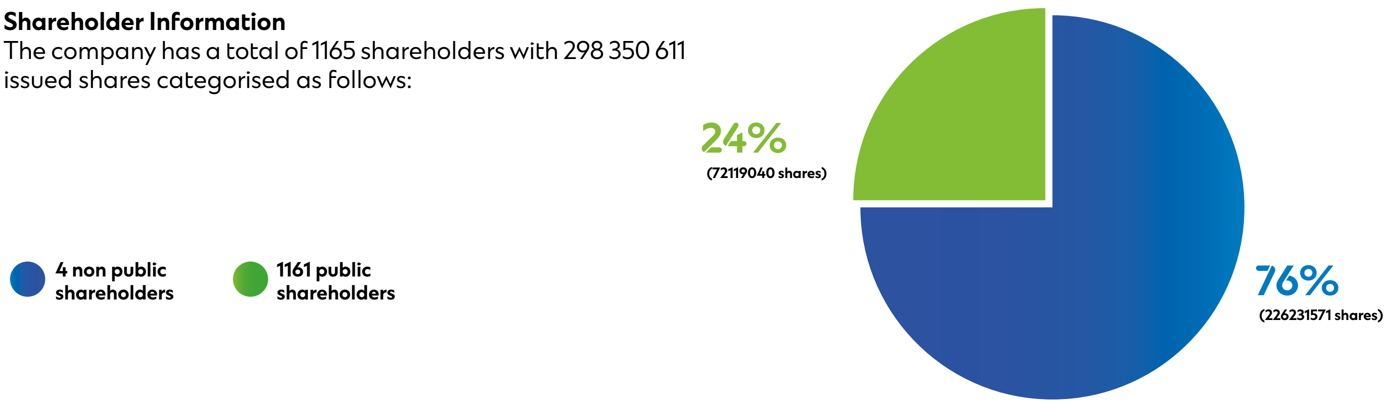
King IV Principle	Status	Explanation
Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	**Complied**	The Board is made up of diverse and appropriate skills and experience as set out in the report. The Company has in place a policy on board appointments which emphasises on diverse mix of appropriate skills within the Board.
Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and the effective discharge of its duties.	**Complied**	The Company has adopted a delegation of authority policy. The Board delegates responsibilities to various structures and exercises oversight to ensure proper execution of the responsibilities.
Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members support continued improvement in its performance and effectiveness.	**Complied**	The Board is evaluated annually to determine its effectiveness, proposed areas of improvement are tracked until they are satisfactorily closed.
Principle 10: The governing body should ensure that the appointment of, and delegation to, management contribute to the role clarity and the effective exercise of authority and responsibilities.	**Complied**	The Board has adopted a delegations of authority policy, there is oversight by Board to ensure effective exercise of the responsibilities.
Principle 11: The governing body should govern risk in a way that supports the organization in setting and achieving its strategic objectives.	**Complied**	All material risk issues are reported to the Board. Further, the Board approves all risk policies.
Principle 12: The governing body should govern technology and information in a way that supports the organization in setting and achieving its strategic objectives.	**Complied**	The Board exercises oversight over technology and Information, the board receives regular updates on ICS issues and approves ICS policies.
*** Principle 13:** The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organization being ethical and a good corporate citizen.	**Complied**	Compliance with applicable laws is a key area of focus for the bank. The Board receives regular reports on regulatory changes, any misalignment with law is addressed appropriately to close gaps.
Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	**Complied**	The Board has adopted a fair pay charter and benefits standards aimed at ensuring fair and transparent reward to employees.

King IV Principle	Status	Explanation
Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and external reporting purposes.	**Complied**	The Bank has an Internal Audit function which is independent and reports to the Board Audit Committee and ultimately to Board.
Principle 16: In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organization over time.	**Complied**	The Board has adopted a shareholder inclusive approach in terms of engagements through regular meetings.
Principle 17: The governing body of an institutional investor should ensure responsible investment.	**Not Applicable**	

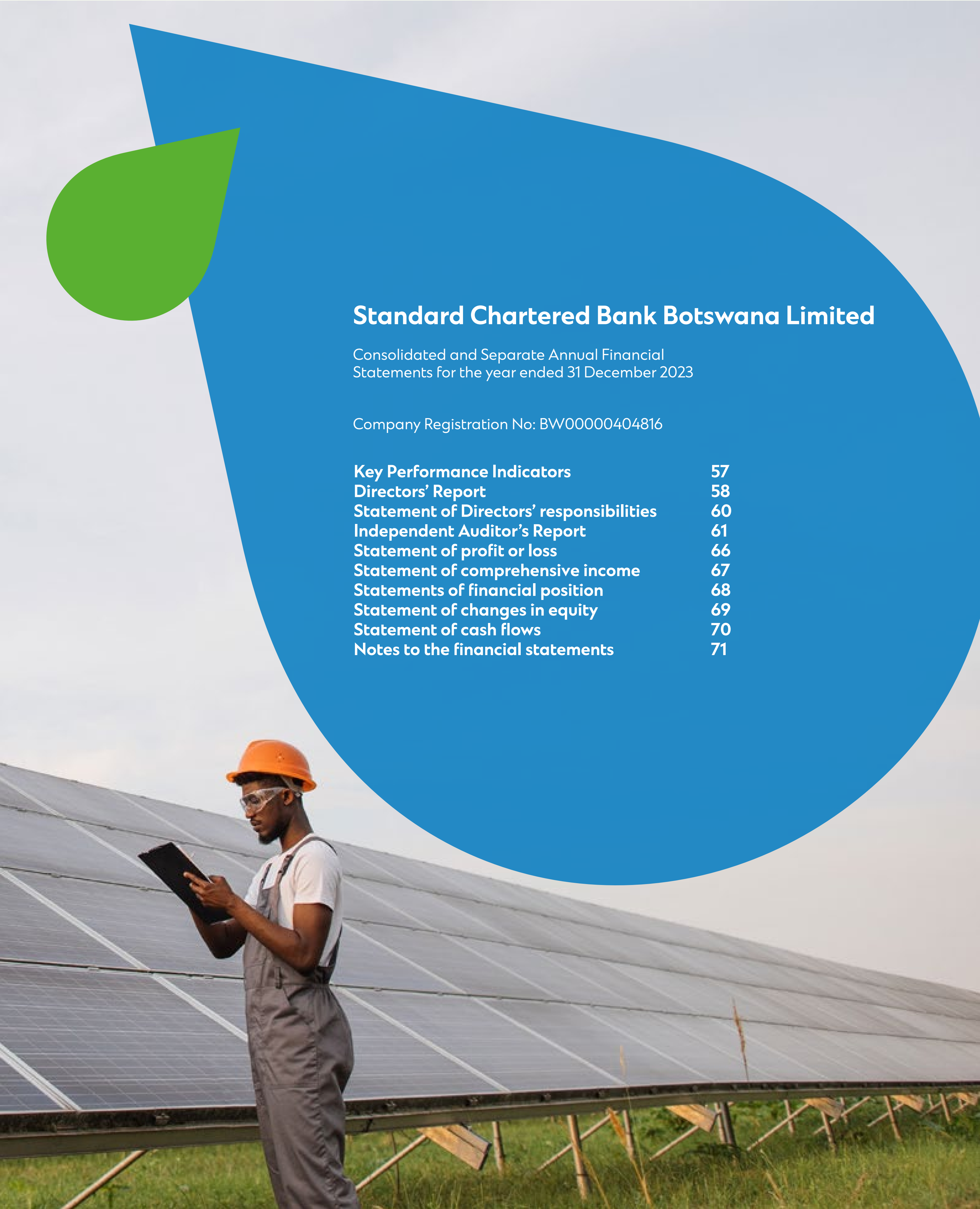
Top 10 Shareholder Information

SHAREHOLDER	SHARES HELD OF TOTAL ISSUED	PERCENTAGE SHARES
STANDARD CHARTERED HOLDINGS (AFRICA) B.V	221,246,286	74.1565%
STANBIC NOMINEES BOTSWANA RE MORULA RE DPF	12,297,881	4.1220%
BOTSWANA PUBLIC PENSION FUND VUNANI	11,511,229	3.8583%
FNB BOTSWANA NOMINEES RE: BIFM - ACT MEM & DP EQ	8,895,169	2.9814%
STANBIC NOMINEES BOTSWANA RE BPOPF WT PRO PORT MCP	7,939,264	2.6611%
STANBIC NOMINEES BOTSWANA RE BPOPF NON PROFIT-MCP	6,397,492	2.1443%
BOTSWANA PUBLIC OFFICERS PENSION FUND	2,786,904	0.9341%
STANDARD CHARTERED BOTSWANA EDUCATION TRUST	2,506,145	0.8400%
STANDARD CHARTERED BANK	2,479,070	0.8309%
FNB NOMINEES BOTSWANA (PTY) LTD RE: MCP BRSPF	1,632,060	0.5470%

Shareholder Information
The company has a total of 1165 shareholders with 298 350 611 issued shares categorised as follows:



Standard Chartered Bank Botswana Limited
Consolidated and Separate Annual Financial Statements
for the year ended 31 December 2023



Standard Chartered Bank Botswana Limited

Consolidated and Separate Annual Financial Statements for the year ended 31 December 2023

Company Registration No: BW00000404816

Standard Chartered Bank Botswana Limited
Annual Financial Statements
for the year ended 31 December 2023

Strategic Report
Key Performance Indicators

Standard Chartered Bank Botswana Limited
Annual Financial Statements
for the year ended 31 December 2023

Key Performance Indicators

FINANCIAL & CAPITAL KPIS

Operating income
BWP 1,041M
(2022: BWP 903m)

Profit before tax
BWP 403M
(2022: BWP 253m)

Basic earnings per share (thebe)
93.65
(2022: 57.98)

Return on capital employed
24.7%
(2022: 17.4%)

Total capital ratio
19.3%
(2022: 17.0%)

Tier 1 capital ratio
11.8%
(2022: 10.4%)

Share price
530 THEBE
(2022: 287 thebe)

NON-FINANCIAL MEASURES

Diversity and inclusion: women in senior roles
50%
(2022: 35%)

Employee engagement
73%
(2022: 45%)

CORPORATE, COMMERCIAL & INSTITUTIONAL BANKING

Serving clients within Financial Institutions, Public Sector, Development Organizations and Multinational Corporates

OPERATING INCOME
P397M
Statutory basis

CONSUMER, PRIVATE & BUSINESS BANKING

Focused on personal segment, high net worth individuals and small sized enterprises

OPERATING INCOME
P646M
Statutory basis

Standard Chartered Bank Botswana Limited
Annual Financial Statements
for the year ended 31 December 2023

Directors' Report
For the year ended 31 December 2023

Directors' Report
For the year ended 31 December 2023

The Directors have pleasure in submitting to the members their report and the consolidated and separate annual financial statements for the year ended 31 December 2023.

Activities

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

Results

The Group results are disclosed in the statements of profit and loss and other comprehensive income on page 66 & 67 and reflect the following:

P403 million

Profit before taxation
(2022: P253 million)

P307 million

Profit after taxation
(2022: P202 million)

Dividends

During the year, dividends of P202 million were declared by the group and paid (2022: P60 million) gross of withholding tax.

Stated capital

There was no additional capital issued during the year.

Additional Tier 1 Capital

There was no Additional Tier 1 capital injection during the year (2022: Nil).

Events after reporting date

The Directors are not aware of any matters or circumstances arising since the end of the financial year, not dealt with in this report or these financial statements, that would significantly affect the operations of the group or the results of its operations. Refer to note 31 for dividend declared.

Going Concern

The financial statements were approved by the Board of Directors on the 13th of March 2024. The Directors have made a comprehensive assessment of the Group's ability to continue as a going concern.

In particular, the review entailed:

- A re-assessment of the Group's strategy, and the revised corporate plan for 5 years to 2028 (profitability, capital adequacy, liquidity and cashflows, with special emphasis in the next 12 months).
- A detailed analysis of capital adequacy and its makeup, liquidity profile and diversification of sources, current and forecast performance against prudential ratio thresholds and the ICAAP (a summary of the Group's capital and risk assessment processes, assesses its capital requirements and the adequacy of resources to meet them).
- An assessment of current performance in terms of profitability against budgets, liquidity and funding against Risk Appetite thresholds, loan book quality and impairments, regulatory compliance and any impeding legal matters.
- A consideration of the Group's performance under an ICAAP stress scenario.
- The liability and asset maturity profile, the liquid assets profile, outstanding debts and the Group's overall solvency and leverage.
- The emerging trends on average run rates for sales of primary products, Banks prospects on raising client deposits at requisite levels and issuance of medium-term debt instruments.

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

Holding company

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

Directors

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

Doreen Khama **(Board Chairperson)**
Mpho Masupe **(Executive)**
John Yendall
Stevens **(Resigned on 30th June 2023)**
Jerry Kweku Boi Bedu -Addo
Rodgers Majwabe Thusi
Thari Gilbert Pheko
Rapelang Rabana
Solomon Molebatsi Sekwakwa
Mpho Dimbungu **(Appointed on 13th April 2023)**

Company Secretary:

Luzibo Benza

Auditors

Ernst & Young
2nd Floor, Plot 22, Khama Crescent
PO Box 41015, Gaborone, Botswana

By order of the Board

Luzibo Benza
Secretary

Standard Chartered Bank Botswana Limited
Annual Financial Statements
for the year ended 31 December 2023

Statement of Directors' responsibilities

The Directors are responsible for the preparation of the consolidated and separate annual financial statements of Standard Chartered Bank Botswana Limited that give a true and fair view, which comprise the statements of financial position as at 31 December 2023, the statements of profit or loss, statements of other comprehensive income, the statements of changes in equity, statements of cash flows for the year then ended and the notes to the financial statements which include a summary of accounting policies, in accordance with International Financial Reporting Standards.

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

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

The Directors have made an assessment of the ability of the Company and its consolidated entities to continue as going concerns and have no reason to believe that the entities will not be going concerns in the year ahead.

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

Approval of the consolidated and separate annual financial statements:

The consolidated and separate annual financial statements of Standard Chartered Bank Botswana Limited, were approved by the board of Directors on the 13th of March 2024 and are signed by:

Doreen Khama
Chairperson

Mpho Masupe
Chief Executive Officer

Independent Auditor's Report to the Shareholders of Standard Chartered Bank Botswana Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Building a better working world

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Opinion

We have audited the consolidated and separate financial statements of Standard Chartered Bank Botswana Limited and its subsidiaries ("the Group") and Company set out on pages 66 to 223, which comprise the consolidated and separate statements of financial position as at 31 December 2023, and the consolidated and separate statements of profit or loss, the consolidated and separate statements of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate cashflow statements for the year then ended, and the notes to the consolidated and separate financial statements, including a summary of material accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Standard Chartered Bank Botswana Limited as at 31 December 2023, and of its consolidated and separate financial performance and of its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act (CAP 42:01) and the Banking Act (CAP 46:04).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with other ethical requirements that are relevant to our audit of the consolidated and separate financial statements in Botswana, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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

Key Audit Matter	How the matter was addressed in the audit
Credit Impairment (Consolidated and separate financial statements) At 31 December 2023 the Group and Company reported total expected credit loss provision of P212 million (2022: P236 million) on gross loans and advances to customers of P8.8 billion (2022: P8 billion), as disclosed in note 16 to the financial statements. Management's judgements and estimates are highly subjective as a result of the significant uncertainty associated with the estimation of expected future credit losses that are dependent upon several hard to estimate factors. Assumptions with increased complexity in respect of the timing and measurement of expected credit losses (ECL) include: • **Staging** - the determination of what constitutes significant increase in credit risk and consequent timely allocation of qualifying assets to the appropriate stage in accordance with IFRS 9;	We evaluated the design of controls relevant to the Group and Company's systems and processes over material ECL balances, including the judgements and estimates noted, involving EY specialists to assist us in performing our procedures where relevant. Based on our evaluation we selected the controls upon which we intended to rely and tested those for operating effectiveness. We increased the extent of our reliance on controls over model governance. We performed an overall stand-back assessment of the ECL allowance in total and by stage to determine if the ECL was reasonable. We considered the overall credit quality of the Group and Company's portfolios and risk profile. **Staging** - We evaluated the criteria used to determine significant increase in credit risk including quantitative backstops with the resultant allocation of financial assets to stage 1, 2 or 3 in accordance with IFRS 9. We reperformed the staging distribution for a sample of financial assets and assessed the reasonableness of staging downgrades applied by management.

Key Audit Matter	How the matter was addressed in the audit
• **Model output and adjustments** - Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL, including the appropriateness, completeness and valuation of post-model adjustments applied to model output to address identified model deficiencies or risks not fully captured by the models; • **Economic scenarios** - Significant judgements involved in the determination of the appropriateness of economic variables, the future forecasting of these variables and the parameters used in the ECL models and the evaluation of the appropriateness of the output from the model in terms of the extent to which it adequately generated non-linearity, including the assessment of any Post Model adjustments; • **Individually assessed ECL allowances** – Measurement of individual provisions including the assessment of probability weighted recovery scenarios, exit strategies, collateral valuations, expected future cashflows and the timing of these cashflows.	To test the completeness of the identification of significant increase in credit risk, we challenged the risk ratings (including appropriate operation of quantitative backstops) for a sample of performing accounts and other accounts exhibiting risk characteristics such as financial difficulties, deferment of payment, late payment and watchlist. We also considered whether vulnerable and cyclical sectors resulted in a significant increase in credit risk at a sector level. **Modelled output and adjustments** – We performed a risk assessment on models involved in the ECL calculation using EY independently determined quantitative and qualitative criteria to select a sample of models to test. Based on this risk assessment, we engaged our modelling specialists to evaluate a sample of ECL models by assessing the reasonableness of underpinning assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design, formulae and algorithms, alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default parameters. Together with our modelling specialists, we also assessed material post-model adjustments which were applied as a response to risks not fully captured by the models or for known model deficiencies. This included the completeness and appropriateness of these adjustments. In response to enhanced models implemented this year to address known weaknesses in previous models, we performed substantive testing procedures as defined by our model inherent risk assessment process, including code review and implementation testing. We did not rely on controls over model monitoring and therefore adopted a substantive approach comprising reperformance of model monitoring procedures for models classified as higher risk in accordance with our EY independent risk assessment. To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including, among other data points, balance sheet data used to run the models. We also tested a sample of the ECL data points from the calculation engine through to the general ledger and disclosures. **Economic scenarios** – In collaboration with our economists and modelling specialists, we challenged the completeness and appropriateness of the macroeconomic variables used as inputs to the ECL models. Additionally, we involved our economic specialists to assist us in evaluating the reasonableness of the base forecast for sample of macroeconomic variables most relevant for the Group and Company's ECL calculation influenced by the above assessment. Procedures performed included benchmarking the forecast for a sample of macroeconomic variables to a variety of global external sources.

Key Audit Matter	How the matter was addressed in the audit
In 2023, the most material factors impacting the ECL were in relation to the impact of the global economic environment including the continuing impact of higher interest rates, inflation and geopolitical uncertainty. We consider that the combination of these factors has increased the risk of a material misstatement to the ECL. The disclosure associated with credit impairment of loans and advances is set out in the financial statements in the following notes: • Note 1 - Accounting policies • Note 3 - Financial risk management and capital review • Note 9 - Credit impairment • Note 16 - Loans and advances to banks and customers	We assessed the reasonableness of the non-linearity impact on ECL allowances. We engaged our economists and modelling specialists, to assess and challenge the Group and Company's choice of discrete scenarios to benchmark the output from the ECL model and determine the sensitivity analysis of the ECL. We also performed a stand-back assessment by benchmarking the up-lift and overall ECL charge and provision coverage to peers. **Individually assessed ECL allowances** – Our procedures included challenging management's forward-looking economic assumptions of the recovery outcomes identified, cashflow profile and timing, individual probability weightings for each scenario, and recalculating a sample of individually assessed provisions. We also engaged our valuation specialists to test the value of the collateral used in management's calculations. Our sample was based on quantitative thresholds and qualitative factors, including exposure to vulnerable sectors. We assessed the appropriateness of the accounting policies, loan impairment methodologies applied and the adequacy of the disclosures by comparing these to the requirements of IFRS 9- Financial Instruments.

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Other Information

Other information consists of the information included in the 168-page document titled "Standard Chartered Bank Botswana Limited Consolidated and Separate Audited Financial Statements for the year ended 31 December 2023", which includes Key Performance Indicators, Directors' report, as required by the Companies Act (CAP 42:01), and the Statement of directors' responsibilities. Other information does not include the consolidated or the separate financial statements and our auditor's report thereon. The directors are responsible for the other information.

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act (CAP 42:01) and the Banking Act (CAP 46:04) and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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 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 and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group and Company audit. We remain solely responsible for our audit opinion.

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

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

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

Ernst & Young
Firm of Certified Auditors
Practicing Member: Thomas Chitambo (CAP 0011 2024)
Gaborone

28 March 2024

Statement of profit or loss
for the year ended 31 December 2023

	Notes	Group 2023 P '000	Group 2022 P '000	Company 2023 P '000	Company 2022 P '000
Interest income		1,138,110	919,289	1,138,110	919,289
Interest expense		(332,316)	(336,140)	(332,316)	(336,140)
Net interest income	4	**805,794**	**583,149**	**805,794**	**583,149**
Fees and commission income		256,903	270,953	230,908	247,137
Fees and commission expense		(32,256)	(34,766)	(32,256)	(34,766)
Net fee and commission income	5	**224,647**	**236,187**	**198,652**	**212,371**
Net trading income	6	10,848	81,727	10,848	81,727
Other operating income	7	-	1,878	-	1,422
Operating income		**1,041,289**	**902,941**	**1,015,294**	**878,669**
Staff costs		(254,404)	(234,510)	(254,404)	(234,507)
Premises costs		(909)	(912)	(909)	(912)
General administrative expenses		(371,007)	(330,792)	(357,887)	(319,657)
Depreciation and amortisation	8	(37,584)	(40,662)	(37,584)	(40,662)
Operating expenses	8	**(663,904)**	**(606,876)**	**(650,784)**	**(595,738)**
Operating profit before impairment losses and taxation		**377,385**	**296,065**	**364,510**	**282,931**
Credit impairment	9	25,329	(42,987)	25,329	(42,987)
Profit before taxation		**402,714**	**253,078**	**389,839**	**239,944**
Taxation	11	(95,344)	(51,252)	(92,481)	(50,419)
Profit for the year		**307,370**	**201,826**	**297,358**	**189,525**
Basic earnings per ordinary share (Thebe per share)	13	93.65	57.98	-	-

The notes on pages 72 to 223 from an integral part of these financial statements.

Statement of comprehensive income
as at 31 December 2023

	Notes	Group 2023 P '000	Group 2022 P '000	Company 2023 P '000	Company 2022 P '000
Profit for the period		**307,370**	**201,826**	**297,360**	**189,525**
Other comprehensive income					
Items that may be reclassified subsequently to income statement:	14	**11,814**	**(5,021)**	**11,814**	**(5,021)**
Change in fair value of financial instruments at fair value through other comprehensive income		11,814	(5,021)	11,814	(5,021)
Net gains/(losses) taken to equity		15,313	(6,359)	15,313	(6,359)
Taxation relating to components of other comprehensive income		(3,499)	1,338	(3,499)	1,338
Other comprehensive income for the period, net of taxation		**11,814**	**(5,021)**	**11,814**	**(5,021)**
Total comprehensive income for the period		**319,184**	**196,805**	**309,174**	**184,504**

Standard Chartered Bank Botswana Limited
Annual Financial Statements
for the year ended 31 December 2023

Statement of financial position
as at 31 December 2023

	Notes	Group 2023 P '000	Group 2022 P '000	Company 2023 P '000	Company 2022 P '000
Assets					
Cash and balances at central Banks	14,29	854,469	491,618	851,591	488,740
Derivative financial instruments	14,15	16,144	770	16,144	770
Loans and advances to Banks	14,16	6,906	45,078	6,906	45,078
Loans and advances to customers	14,16	8,559,800	7,775,324	8,559,800	7,775,324
Investment securities	14	4,274,968	2,444,488	4,274,968	2,444,488
Other assets	19	171,805	40,175	171,743	16,206
Due from related parties	14	3,632,041	5,266,269	3,558,096	5,266,269
Current tax assets	11	7,651	-	7,035	-
Prepayments and accrued income	35	269,393	166,408	269,393	166,408
Investments in subsidiary undertakings	33	-	-	30	30
Goodwill and intangible assets	17	63,366	63,150	63,366	63,150
Property, plant and equipment	18	81,223	101,599	81,223	101,599
Deferred tax assets	11	18,525	30,126	16,232	27,977
Total assets		**17,956,291**	**16,425,005**	**17,876,527**	**16,396,039**
Liabilities					
Deposits by Banks	14	330,885	860,239	330,885	860,239
Customer deposits	14	13,081,354	13,024,890	13,081,354	13,024,890
Derivative financial instruments	14,15	23,163	469	23,163	469
Debt securities in issue	14,20	323,566	323,566	323,566	323,566
Other liabilities	21	1,447,427	139,986	1,434,976	169,775
Due to related parties	14	994,597	377,750	994,597	377,750
Current tax liabilities	11	-	20,634	-	18,749
Accruals and deferred income	36	122,614	129,366	122,575	129,366
Subordinated liabilities and other borrowed funds	14,25	389,000	389,000	389,000	389,000
Provisions for liabilities and charges	22	1,059	2,445	1,059	2,445
Total liabilities		**16,713,665**	**15,268,345**	**16,701,175**	**15,296,249**
Equity					
Stated capital	26	179,273	179,273	179,273	179,273
Retained earnings and other reserves		635,140	549,174	567,866	492,304
Total parent company shareholders' equity		814,413	728,447	747,139	671,577
Capital contribution	26	428,213	428,213	428,213	428,213
Total equity excluding non-controlling interests		**1,242,626**	**1,156,660**	**1,175,352**	**1,099,790**
Total equity		**1,242,626**	**1,156,660**	**1,175,352**	**1,099,790**
Total equity and liabilities		**17,956,291**	**16,425,005**	**17,876,527**	**16,396,039**

The notes on pages 72 to 223 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and authorised for issue on 13th March 2024 and signed on its behalf by:

Chairperson | **Chief Executive Officer** | **Chief Financial Officer**

Statement of changes in equity
for the year ended 31 December 2023

Group	Stated Capital P'000	Revalu-ation reserve P'000	Statutory credit risk reserve P'000	Treasury share reserve P'000	Fair value reserve P'000	Retained earnings P'000	Parent company share-holder equity P'000	Capital Contri-bution P'000	Total P'000
As at 01 January 2022	179,273	29,397	19,152	(31,566)	(5,831)	429,843	620,268	428,213	1,048,481
Profit for the period	-	-	-	-	-	201,826	201,826	-	201,826
Other comprehensive income	-	-	-	-	(5,021)	-	(5,021)	-	(5,021)
Distributions to holders of subordinated capital securities	-	-	-	-	-	(30,300)	(30,300)	-	(30,300)
Other movements	-	-	-	-	-	1,985	1,985	-	1,985
Dividends to equity holders of Ordinary shares (Note 12)	-	-	-	-	-	(60,311)	(60,311)	-	(60,311)
As at 31 December 2022	**179,273**	**29,397**	**19,152**	**(31,566)**	**(10,852)**	**543,043**	**728,447**	**428,213**	**1,156,660**
Profit for the period	-	-	-	-	-	307,370	307,370	-	307,370
Other comprehensive income	-	-	-	-	11,814	-	11,814	-	11,814
Distributions to holders of subordinated capital securities	-	-	-	-	-	(30,300)	(30,300)	-	(30,300)
Dividends to equity holders of ordinary shares (Note 12)	-	-	-	-	-	201,996)	(201,996)	-	(201,996)
Other movements	-	-	-	-	-	(922)	(922)	-	(922)
As at 31 December 2023	**179,273**	**29,397**	**19,152**	**(31,566)**	**962**	**617,195**	**814,413**	**428,213**	**1,242,626**

Note 26 includes a description of each reserve
Note 12 details dividends
*Other movements relate to an adjustment to Standard Chartered Bank Botswana Insurance Agency retained earnings balance
The notes on pages 72 to 223 form an integral part of these financial statements.

Company	Stated Capital P'000	Revalu-ation reserve P'000	Treasury share reserve P'000	Fair value reserve P'000	Retained earnings P'000	Parent company share- P'000	Capital Contri-bution holder equity P'000	Total P'000
As at 01 January 2022	179,273	29,397	19,152	(5,831)	355,693	577,684	428,213	1,005,897
Profit for the period	-	-	-	-	189,525	189,525	-	189,525
Other comprehensive income	-	-	-	(5,021)	-	(5,021)	-	(5,021)
Distributions to holders of subordinated capital securities	-	-	-	-	(30,300)	(30,300)	-	(30,300)
Dividends to equity holders of ordinary shares (Note 12)	-	-	-	-	(60,311)	(60,311)	-	(60,311)
As at 31 December 2022	**179,273**	**29,397**	**19,152**	**(10,852)**	**454,607**	**671,577**	**428,213**	**1,099,790**
Profit for the period	-	-	-	-	297,363	297,363	-	297,363
Other comprehensive income	-	(50)	-	11,814	-	11,764	-	11,764
Distributions to holders of subordinated capital securities	-	-	-	-	(30,300)	(30,300)	-	(30,300)
Dividends to equity holders of ordinary shares (Note 12)	-	-	-	-	(203,535)	(203,535)	-	(203,535)
Other movements	-	-	-	-	270	270	-	270
As at 31 December 2023	**179,273**	**29,347**	**19,152**	**962**	**518,405**	**747,139**	**428,213**	**1,175,352**

Note 26 includes a description of each reserve.
The notes on pages 72 to 223 form an integral part of these financial statements.

Standard Chartered Bank Botswana Limited
Annual Financial Statements
for the year ended 31 December 2023

Statement of cash flows
For the year ended 31 December 2023

	Notes	Group 2023 P '000	Group 2022 P '000	Company 2023 P '000	Company 2022 P '000
Cashflow from operating activities					
Profit for the year		307,370	201,826	297,358	189,525
Adjustments for:					
Interest income	4	(1,138,110)	(919,289)	(1,138,110)	(919,289)
Interest expense	5	332,316	336,140	332,316	336,140
Taxation	11	95,344	51,252	92,481	50,419
Depreciation	8	25,245	28,477	25,245	28,477
Amortisation on intangibles	8	12,339	12,185	12,339	12,185
Net impairment loss on loans and advances		(23,696)	1,255	(23,696)	1,255
Unrealised foreign exchange losses/(gains)		9,016	(20,034)	9,016	(20,034)
Modification gains		-	(1,878)	-	(1,422)
Profit on sale of assets		-	(1,062)	-	(1,062)
Movements before changes in working capital		**(380,176)**	**(311,128)**	**(393,051)**	**(323,806)**
Change in derivative financial instruments assets	14,15	(44,424)	20,305	(44,424)	20,305
Change in investment securities	14	(464,002)	182,059	(464,002)	182,059
Change in loans and advances to customers	14,16	(758,106)	(58,734)	(758,106)	(59,190)
Change in other assets	19	(131,630)	27,013	(155,538)	52,342
Change in prepayments and accrued income	35	3,633	(21)	3,633	(21)
Change in deposits from other Banks	14,16	(529,354)	442,584	(529,354)	442,584
Change in customer deposits	14	56,464	406,884	56,464	406,884
Change in other liabilities	21	(11,055)	(279,901)	(49,697)	(294,760)
Change in derivative financial instruments liabilities	14,15	22,694	(4,142)	22,694	(4,142)
Change in due to related parties	14	616,847	142,064	616,847	142,064
Change in accruals and deferred income	36	20,949	(19,740)	20,910	(19,740)
Change in provisions for liabilities and charges	22	(1,386)	717	(1,386)	716
		(1,599,546)	547,960	(1,675,010)	545,295
Taxation paid	11	(112,704)	(26,395)	(109,647)	(23,730)
Interest received		1,028,818	901,525	1,028,818	901,525
Interest paid		(308,045)	(236,137)	(308,045)	(236,137)
Net cash flows from operating activities		**(991,477)**	**1,186,953**	**(1,063,884)**	**1,186,953**
Cash flow from investing activities					
Acquisition of property and equipment	18	(10,203)	(1,766)	(10,203)	(1,766)
Acquisition of intangibles	17	(12,555)	(26,330)	(12,555)	(26,330)
Proceeds from sale of property equipment		-	3,500	-	3,500
Net cash used in investing activities		**(22,758)**	**(24,596)**	**(22,758)**	**(24,596)**
Cash flow from financing activities					
Interest paid on subordinated liabilities	28	(26,548)	(23,604)	(26,548)	(23,604)
Interest paid on debt securities	28	(25,424)	(22,550)	(25,424)	(22,550)
Lease liability capital payments	21	(17,336)	(18,778)	(17,336)	(18,778)
Lease liability interest payment	21	(2,236)	(2,232)	(2,236)	(2,232)
Dividends paid	12	(201,996)	(60,311)	(203,535)	(60,311)
Distribution payment to holders of subordinated capital securities		(30,300)	(30,300)	(30,300)	(30,300)
Net cash used in financing activities		**(303,840)**	**(157,775)**	**(305,379)**	**(157,775)**
(Decrease)/increase in cash and cash equivalents		**(1,318,075)**	**1,004,582**	**(1,392,021)**	**1,004,582**
Cash and cash equivalents at 1 January		**5,802,965**	**4,795,980**	**5,800,088**	**4,793,102**
Net foreign exchange differences		8,526	2,403	8,526	2,403
Cash and cash equivalents as 31 December	**29**	**4,493,416**	**5,802,965**	**4,416,593**	**5,800,087**

Refer to Note 29 for breakdown of Cash and cash equivalents.

Notes to the financial statements
for the year ended 31 December 2023

Notes to the financial statements
for the year ended 31 December 2023

1. Accounting policies

Reporting entity

Standard Chartered Bank Botswana Limited ("the Bank" or the "Company") was incorporated in Botswana as a Bank with limited liability under the Botswana Companies Act and is licensed to operate as a commercial bank under Section 6 of the Banking Act, 1995 (Chapter 46:04). The Company's registered address is Standard Chartered Bank Botswana Limited, Standard House, Plot 1124-30 Queens Road, Main Mall, Gaborone, Botswana. The Company is listed on the Botswana Stock Exchange (BSE Code: STANCHART). The consolidated financial statements for the year ended 31 December 2023 comprise the Company and its controlled entities (together referred to as the "Group"). The Company has four subsidiaries, namely Standard Chartered Bank Insurance Agency (Proprietary) Limited, Standard Chartered Investment Services (Proprietary) Limited, Standard Chartered Botswana Nominees (Proprietary) Limited and Standard Chartered Botswana Educational Trust. The immediate parent for the Company is Standard Chartered Holdings (Africa) B.V, an entity incorporated in the Netherlands. Standard Chartered Bank PLC, incorporated in United Kingdom is the ultimate parent. These financial statements represent the Group's and Group's statutory financial statements.

Statement of compliance

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

These financial statements were approved by the board of Directors on 13th March 2024.

Basis of preparation

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and have been applied consistently by Group entities (unless otherwise specified in the note below on changes in accounting policies). The accounting policies disclosed for the consolidated financial statements apply equally to the Group's separate financial statements unless otherwise specified. The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, investment securities and financial assets and liabilities designated at fair value through profit or loss and debt equity instruments at fair value through other comprehensive income all of which have been measured at fair value.

Materiality assessment

In determining the accounting policies to disclose in these financial statements, the company made an assessment of whether the primary users of the financial statements needed the information to understand the material transactions, events or conditions in the financial statements. It is the company's view that any such information is material. The assessment involved the use of judgement and a consideration was done to both qualitative and quantitative factors. In assessing whether information is qualitatively material, the company evaluated if that information is more likely to influence the decisions of the primary users of the entity's financial statements.

Functional and presentation currency

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

Basis of consolidation

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

Business combinations are accounted for using the acquisition method under IFRS 3, i.e., the date of acquisition is the date on which control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The excess of consideration transferred over net fair value of identifiable assets acquired is recorded as goodwill. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Investment in subsidiaries

Investment in subsidiaries are held at cost less impairment.

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

Segmental reporting

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

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

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

- Credit impairment (note 9)
- Valuation of financial instruments (note 14).
- Deferred tax assets (note 11)

Changes in accounting policies
The Group has adopted relevant new standards, including any consequential amendments to other standards, which were effective for the financial year beginning on 1 January 2023 which have been disclosed within these notes. The accounting standards had no significant impact on the financials statements of the Group. Refer to the section 'New standards and interpretations' for a detailed disclosure on the new standards that were effective for the financial year beginning 1 January 2023.

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

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

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Financial instruments continued

Loans and advances

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

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

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

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

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

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money (e.g., periodical reset of interest rates).

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

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

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

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Financial instruments continued

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

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

Designated at fair value through profit or loss

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

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

Financial liabilities held at amortised cost

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

Financial guarantee contracts and loan commitments

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

Debt investment securities

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

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Group has access at the date. The fair value of a liability includes the risk that the Bank will not be able to honour its obligations.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Financial instruments continued

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

Financial liabilities designated at fair value through profit or loss

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

Modified financial instruments

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

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

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

Gains and losses arising from modifications for credit reasons are recorded as part of credit impairment. Modification gains and losses arising from non-credit reasons for financial assets are recognised within income. (Refer to note 7 Other operating income). Modification gains and losses arising on financial liabilities are recognised within income.

Derecognition of financial instruments

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

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

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

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Financial instruments continued

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

Reclassifications

Financial liabilities are not reclassified subsequent to initial recognition. Reclassifications of financial assets are made when, and only when, the business model for those assets changed. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

Reclassified from amortised cost

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

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

Reclassified from fair value through other comprehensive income

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

For financial assets held at fair value through other comprehensive income that are reclassified to financial assets held at amortised cost, the cumulative gain or loss previously recognised in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always been held at amortised cost. In addition, the related cumulative expected credit losses held within other comprehensive income are reversed against the gross carrying value of the reclassified assets at the date of reclassification.

Reclassified from fair value through profit or loss

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

Offsetting of financial assets and financial liabilities
Financial assets and financial liabilities are offset, and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity

Credit impairment
The Group's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions. The significant judgments and estimates in determining expected credit loss include:

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Financial instruments continued

Credit impairment continued
The Group's criteria for assessing if there has been a significant increase in credit risk; and Development of expected credit loss models, including the choice of inputs relating to macroeconomic variables

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

Expected credit losses

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

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

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

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

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

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

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

	2023 Base forecast	**2024 Base forecast**	**2025 Base forecast**
GDP growth (real % Average)	3.9	3.3	2.9
CPI (% annual average)	6.8	2.8	3.3
Prime lending rate(%)	6.5	6.01	6.01
USD –BWP	12.69	12.52	12.72

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Financial instruments continued

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

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

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

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

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

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

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

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

Recognition

12 months expected credit losses (Stage 1)

Expected credit losses are recognised at the time of initial recognition of a financial instrument and represent the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the reporting date. Expected credit losses continue to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, expected credit losses will revert to being determined on a 12-month basis.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Financial instruments continued

Significant increase in credit risk (Stage 2)
If a financial asset experiences a Significant Increase in Credit Risk (SICR) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.Financial instruments continued

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

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

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

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

Credit impaired (or defaulted) exposures (Stage 3)
Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired.

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

- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;

- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligation/s;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower; and
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

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

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

Expert credit judgment
For Corporate, Institutional & Commercial Banking, borrowers are graded by credit risk management on a credit grading (CG) scale from CG1 to CG14. Once a borrower starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and when it is classified as CG12 the credit assessment and oversight of the loan will normally be performed by Group Special Assets Management (GSAM).

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

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

Corporate, Institutional and Commercial Banking				Retail Banking	
Credit quality description	**Default grade mapping**	**S&P external ratings equivalent**	**PD range (%)**	**Number of days past due**	**ECL Stages**
Strong	Grades 1 - 5	AAA/AA+ to BB+/BBB-	0.000 - 0.425	Current and past due till 29	1
Satisfactory	Grades 6 - 8 Grades 9 -11	BB+ to BB-/B+ B+/B to B-/CCC	0.425 - 15.75 2.351 - 15.570	Past due 30 - 89	2
Higher risk	Grade 12	B-/CCC	15.571 –100	Past due 30 - 89	2

For individually significant financial assets within Stage 3, GSAM will consider all judgments that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geo-political climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/ forbearance/ modification options.

The difference between the loan carrying amount and the discounted expected future cash flows will result in the stage 3 credit impairment amount. The future cash flow calculation involves significant judgments and estimates. As new information becomes available and further negotiations/forbearance measures are taken the estimates of the future cash flows will be revised and will have an impact on the future cash flow analysis.

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

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

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

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

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

Expected credit loss for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur.

In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in expected credit loss recognised within impairment.

Forborne loans
Forborne loans are those loans that have been modified in response to a customer's financial difficulties. Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Group or a third party including government sponsored programmes or a conglomerate of credit institutions.

Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants. Forborne loans that have been modified (and not derecognised) on terms that are not consistent with those readily available in the market and/or where the Group has granted a concession compared to the original terms of the loans are considered credit impaired if there is a detrimental impact on cash flows. The modification loss is recognised in profit or loss within credit impairment and the gross carrying value of the loan reduced by the same amount. Loans that have been subject to a forbearance modification, but which are not considered credit impaired (not classified as CG13 or CG14), are disclosed as 'Forborne - not credit impaired'. This may include amendments to covenants within the contractual terms.

Write-offs of credit impaired instruments and reversal of impairment

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Financial instruments continued

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

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

Improvement in credit risk/curing

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

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

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

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

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

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

Fair value of financial instruments
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Financial instruments continued

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

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

IFRS 9 methodology
Approach for determining expected credit losses
Credit loss terminology

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

To determine the expected credit loss, these components are multiplied together: PD for the reference period (up to 12 months or lifetime) x LGD x EAD and discounted to the balance sheet date using the effective interest rate as the discount rate. IFRS 9 expected credit loss models have been developed for the Corporate & Institutional Banking and Commercial Banking businesses at Group level, however, the calibration of forward-looking information is assessed at a Botswana level to take into account local macroeconomic conditions.

Retail Banking expected credit loss models are country and product specific given the local nature of the Retail Banking business. For this segment's portfolio, loss rate models are applied. These use an adjusted gross charge-off rate, developed using monthly write-off and recoveries over the preceding 12 months and total outstanding balances. While this approach does not incorporate forward-looking information, to the extent that there are significant changes in the macroeconomic forecasts an assessment will be completed on whether an adjustment to the modelled output is required.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

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

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

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

Post model adjustments
As at 31 December 2023, there were no material PMA related ECLs on the book (2022: Nil).

Key assumptions and judgements in determining expected credit loss

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

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

Significant increase in credit risk
Significant Increase in Credit Risk (SICR) is an IFRS 9 requirement to identify facilities that have increased in risk since origination. These facilities should be placed in "Stage 2" and subject to a lifetime expected credit loss (ECL).

The assessment of significant increase in credit risk for Consumer Private and Business Banking products is defined by:
- An absolute increase in PD from origination;
- A relative increase in PD from origination; and
- 30 Days Past Due

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Financial instruments continued

The Base Case

Global Economy:
The global economy is expected to slow in 2023 as central Banks around the world keep monetary policy restrictive. It is forecasted that global GDP growth will be 2.5% in 2023, slowing from an expected 3.4% in 2022. The multitude of headwinds that have faced most economies in 2022 are likely to persist in the months ahead. However, recovery is expected in H2-2023.

Domestic Economy:
Growth is expected to moderate to 3.9% in 2023 from 6.7% in 2022. A smaller contribution from the diamond sector is expected in 2023, reflecting a higher base as well as risks to demand from slowing global growth. A gradual recovery in tourist arrivals should support growth. Implementation of infrastructure projects, as highlighted in the 2023-24 Budget Strategy Paper (BSP), should buoy investment growth; rising domestic incomes particularly in the public sector and slight easing in inflationary pressures should support consumption.

The Bank of Botswana (BoB) cut its policy rate by 25bps to 2.4% in 2023. Policy rate is forecasted to be cut by 50bps to 1.9% for 2024 to 2027 to reflect BoB loosening the inflation within its objective range of 3-6% between 2024 to 2027.

2023-2027 USD-BWP is forecasted to appreciate reflecting USD-ZAR views. The authorities are expected to maintain the weights of the peg to the ZAR-SDR basket at 45% ZAR and 55% SDR; and this implies a downward rate of crawl given that inflation is likely to be higher in Botswana than in major trading-partner countries.

The Worst Case

Global and Regional Stress:
Weaker economic growth in some major economies will have a knock-on impact on emerging market (EM) growth including Botswana. Slowing global growth will have a knock-on impact on EM via the trade and commodity channels. Moreover, tighter global liquidity conditions are already making access to financing very difficult for many EM economies, and we expect this to continue. Inflation has risen sharply in many EM economies over the past 12 months, necessitating a response from central Banks.

The primary challenge for Sub-Saharan Africa (SSA) in 2023 will be financing. With the all-in cost of financing rising sharply and USD liquidity conditions tightening, market access is likely to be difficult for a number of SSA economies. These financing challenges in the context of USD strength have put pressure on regional currencies; this implies that SSA central Banks will have to continue to hike rates in 2023. Inflation remains elevated in most of the region, with the exception of South Africa, where inflation appears to have peaked.

The war in Ukraine is likely to remain a central theme for investors in 2023, in terms of both immediate economic repercussions and potential risky escalation scenarios. Beyond that, US tensions and divergence with China will remain the most important strategic theme amid a shifting global balance of power. Unresolved Iran deal negotiations, US-Saudi relations, and elections in Turkey will also be on investors' radar.

Domestic Stress:
The Botswana economy is stressed by global geopolitical risks, drought, flood, high oil prices, low diamond prices and demands, depreciation of Pula against major currencies, upcoming general elections and reduced household income..

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Financial instruments continued

The Worst Case continued
The external demand may weaken as the euro area falls into recession due to US-China trade wars and US-Iran tensions, among other factors, lasting two years. This contributes to weaker growth in Botswana as exports and tourist flows decline. Export-oriented sectors and tourism related service sectors of the economy are severely stressed.

As the global economies recovers from the pandemic, oil supply is assumed to significantly lag demand and this results to continued increase in oil prices.

The drought and or flood situation emerges resulting in immense inflationary pressures.

What would this scenario look like for Botswana?

- Significantly higher oil prices in 2023 would widen Botswana's current account. The impact may be moderated by a slowdown in capital goods imports related to the delays in launching new infrastructure projects.
- Given the acceleration in inflation in 2023 to 14.08%, the Bank of Botswana would tighten interest rates aggressively, even as the economy slows. USD-BWP weakens significantly to c.14.42 in 2023. Higher rates would constrain economic activity as businesses put off investment decisions.
- Faced with higher import costs, a weaker currency and weak business confidence, growth in Botswana would slow significantly to just 1.04% in 2023 as the full combined impact of strong oil prices and high inflation is felt (a 1 in 14-year shock). To note, GDP growth contracted by 8.7% in 2020 following the COVID 19 pandemic.

Macroeconomic Variables	Actual	Base Case					Stress Scenario				
	2023	2024	2025	2026	2027	2028	2024	2025	2026	2027	2028
GDP (real % y/y)	3.2	2.9	3.1	2.8	2.7	2.6	-2.8	(0.2)	2.2	2.1	2.2
CPI (% y/y)	5.3	3.2	3.3	4.0	4.6	4.7	9.8	11.6	5.9	5.1	4.3
Policy interest rate (%)	2.4	1.9	1.9	1.9	1.9	1.9	4.7	5.6	5.0	4.3	3.4
USD-BWP (Period End)	13.3	13.4	13.9	12.9	13.9	14.1	17.4	15.0	13.7	14.5	14.6
USD-BWP (Average)	13.3	13.3	13.7	13.4	13.4	14.0	17.0	15.0	14.3	14.0	14.5
Current Account Balance (% GDP)	123.34										
Severity (1-in-x)*		3	3	3	3	3	17.0	15.0	14.3	14.0	14.5

Source: SCB Global Research and Corporate Plan

Property and equipment

Recognition and measurement

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

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Financial instruments continued

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

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

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

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

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

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

Leasehold properties comprise of office buildings and ATMs.

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

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Leases continued

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

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

The right-of-use assets are presented within Note 18 Property, equipment and right-of-use asset; and are subject to impairment in line with the Bank's policy as described below under - Impairment of non-financial assets.

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

Lease liabilities are reported in other liabilities on note 21.

Intangible assets

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

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

In percent	2024	2023	2020	2021
Discount rate (weighted average cost of capital) %	8.8	7.6	7.8	6.4
GDP growth rates %	3.3	3.9	6.7	4.7
Effective tax rate %	22	22	22	22

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

Intangible assets continued
The recoverable amount of the CGU, P1,578 million as at 31 December 2023 (2022: P372 million), has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The carrying amount of the CGU as at 31 December was a negative P447 million (2022: P581 million). As a result of the analysis, there is headroom of P2,024 million (2022: P953 million), and management did not identify an impairment for the CGU.

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

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

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

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

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

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its recoverable amount. The Group's corporate assets do not generate separate cash inflows and are used by more than one cash generating unit. Corporate assets are allocated to cash generating units on a reasonable and consistent basis and tested for impairment as part of the testing of the cash generating unit to the corporate assets are allocated.

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

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

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

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

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

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

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

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

Withholding tax that arise from the distribution of dividends by the Bank are recognised as a liability to pay the revenue authority at the same time the dividend is recognised. Withholding tax of 10% is payable on the gross value of the dividends paid to residents and non-residents unless a double taxation agreement exists.

Employee benefits

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

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

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

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

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

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

New standards and interpretations

A number of new standards, amendments to standards and interpretations that are effective for the first time for the year ended 31 December 2023 have been applied with no material effect on the Group's financial statements.

IFRS 17, Insurance contracts (effective 01 January 2023):
The IASB issued IFRS 17, 'Insurance contracts', and thereby started a new epoch of accounting for insurers. Whereas the current standard, IFRS 4, allows insurers to use their local GAAP, IFRS 17 defines clear and consistent rules that will significantly increase the comparability of financial statements. For insurers, the transition to IFRS 17 will have an impact on financial statements and on key performance indicators.

Under IFRS 17, the general model requires entities to measure an insurance contract at initial recognition at the total of the fulfilment cash flows (comprising the estimated future cash flows, an adjustment to reflect the time value of money and an explicit risk adjustment for non-financial risk) and the contractual service margin. The fulfilment cash flows are remeasured on a current basis each reporting period. The unearned profit (contractual service margin) is recognised over the coverage period.

Aside from this general model, the standard provides, as a simplification, the premium allocation approach. This simplified approach is applicable for certain types of contracts, including those with a coverage period of one year or less. For insurance contracts with direct participation features, the variable fee approach applies. The variable fee approach is a variation on the general model. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin. As a consequence, the fair value changes are not recognised in profit or loss in the period in which they occur but over the remaining life of the contract.

IFRS 17, Insurance contracts Amendments (effective 01 January 2023):
In response to some of the concerns and challenges raised, the Board developed targeted amendments and a number of proposed clarifications intended to ease implementation of IFRS 17, simplify some requirements of the standard and ease transition. The amendments relate to eight areas of IFRS 17, and they are not intended to change the fundamental principles of the standard.

Amendments to IAS 12, Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction (effective 01 January 2023)
The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

1. Accounting policies (cont.)

International Tax Reform—Pillar Two Model Rules - Amendments to IAS 12 (effective 01 January 2023)
The amendments to IAS 12 have been introduced in response to the OECD's BEPS Pillar Two rules and include:

- A mandatory temporary exception to the recognition and disclosure of deferred taxes arising from the jurisdictional implementation of the Pillar Two model rules; and
- Disclosure requirements for affected entities to help users of the financial statements better understand an entity's exposure to Pillar Two income taxes arising from that legislation, particularly before its effective date.

The mandatory temporary exception - the use of which is required to be disclosed - applies immediately. The remaining disclosure requirements apply for annual reporting periods beginning on or after 1 January 2023, but not for any interim periods ending on or before 31 December 2023.

Narrow scope amendments to IAS 1 `Presentation of Financial Statements' and IFRS Practice Statement 2
The Board issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The group has applied this update in preparing these financial statements.

IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' (effective 01 January 2023)
The International Accounting Standards Board (IASB) has published 'Definition of Accounting Estimates (Amendments to IAS 8)' to help entities to distinguish between accounting policies and accounting estimates and the correction of errors. The amendments to IAS 8 clarify the distinction between changes in accounting estimates, changes in accounting policies and the correction of errors. They also clarify how the entities use measurement techniques and inputs to develop accounting estimates.

Standards issued but not yet effective

A number of new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2023 have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory.

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

Amendments to IAS 1 - Non-current liabilities with covenants (effective 01 January 2024):
These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.

Amendment to IFRS 16 — Leases on sale and leaseback (effective 01 January 2024):
These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.

Amendments to Supplier Finance Arrangements (IAS 7 and IFRS 7) (effective 01 January 2024):
These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

Amendments to IAS 21 Lack of Exchangeability (effective 01 January 2025):
An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

2. Segmental information

The Bank has the following two strategic divisions, which are reportable segments. These divisions offer different products and services and are managed separately based on the Group's management and internal reporting structure. There is no intersegment revenue and all financial income for these segments is earned in Botswana.

Corporate, Commercial and Institutional Banking provides lending, trade finance, cash management, securities services, foreign exchange, risk management, capital raising, corporate finance solutions and advisory services to its customers. The segment focuses on deepening relationships with clients and providing them with solutions.

Consumer, Private & Business Banking (CPBB) provides a broad range of products and services to meet the borrowing, wealth management and transactions needs of individuals and small sized enterprises (SEs). While we maintain our strong hold on the personal segment, more focus will be given to high-net-worth individuals and SEs paying particular attention to product innovation to attract and retain customers.

The Group's executive committee reviews the internal management reports at least monthly. Information related to each reportable segment is set out below. Segment profit before taxation as included in internal management reports reviewed by the Group's management committee is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments to other entities that operate within the same industries.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

2. Segmental information (cont.)

2023	Consumer, Private & Business Banking P'000	Corporate, Commercial and Institutional Banking P'000	Total P'000
Profit or Loss			
Interest Income	775,985	362,125	1,138,110
Interest Expense	(349,290)	16,974	(332,316)
Net interest revenue calculated using the effective interest method	426,695	379,099	805,794
Net fee and commission income	191,263	33,384	224,647
Net trading income & other operating income	28,348	(17,500)	10,848
Net operating income	**646,306**	**394,983**	**1,041,289**
Operating expenses	(467,571)	(196,333)	(663,904)
Operating profit/(loss) before impairment losses and taxation	178,735	198,650	377,385
Credit impairment	4,860	20,469	25,329
Segment profit before taxation	183,595	219,119	402,714
Taxation			(95,344)
Profit for the year			**307,370**
Assets and liabilities			
Investment Securities	-	4,274,968	4,274,968
Loans and advances to customers	7,231,592	1,328,208	8,559,800
Other assets for reportable segments	179,522	4,942,001	5,121,523
Total assets for reportable segments	**7,411,114**	**10,545,176**	**17,956,290**
Deposits from non-Bank customers	4,236,013	8,845,341	13,081,354
Other liabilities for reportable segments	(153,956)	3,786,267	3,632,311
Total liabilities for reportable segments	**4,082,057**	**12,631,608**	**16,713,665**

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

2. Segmental information (cont.)

2022	Consumer, Private & Business Banking P'000	Corporate, Commercial and Institutional Banking P'000	Total P'000
Profit or Loss			
Interest Income	723,750	195,539	919,289
Interest Expense	(335,014)	(1,126)	(336,140)
Net interest revenue calculated using the effective interest method	388,736	194,413	583,149
Net fee and commission income	193,446	42,741	236,187
Net trading income & other operating income	29,925	53,680	83,605
Net operating income	**612,107**	**290,834**	**902,941**
Operating expenses	(469,782)	(137,094)	(606,876)
Operating profit/(loss) before impairment losses and taxation	142,325	153,740	296,065
Credit impairment	(42,554)	(433)	(42,987)
Segment profit before taxation	99,771	153,307	253,078
Taxation			(51,252)
Profit for the year			**201,826**
Assets and liabilities			
Investment Securities	-	2,444,488	2,444,488
Loans and advances to customers	7,239,444	535,880	7,775,324
Other assets for reportable segments	137,155	6,068,038	6,205,193
Total assets for reportable segments	**7,376,599**	**9,048,406**	**16,425,005**
Deposits from non-Bank customers	3,988,743	9,036,147	13,024,890
Other liabilities for reportable segments	(116,630)	2,360,085	2,243,455
Total liabilities for reportable segments	**3,872,113**	**11,396,232**	**15,268,345**

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review

Risk Review

Risk update

Key highlights

- **Asset quality has continued to improve amidst a challenging macroeconomic environment**
- **Credit impairment allowance significantly reduced across all stages**
- **The Bank has maintained a strong liquidity and capital position**

Our portfolio quality
Wide-ranging disruption to supply chains and rising inflation levels, in addition to the human cost, continue to place intense pressure on the majority of our markets. Despite these extreme challenges, we have built a solid foundation that has helped us to deliver a good performance with a resilient risk profile. This year demonstrates our commitment to strong and sustainable growth, with continued improvements seen in a number of our metrics since the end of 2021. Credit Risk remains elevated as the Bank continues to monitor the impact of geopolitical tensions and ongoing volatility in the foreign exchange market.

Our risk profile in 2023
Our Enterprise Risk Management Framework (ERMF) enables us to closely manage enterprise-wide risks with the objective of maximising risk-adjusted returns while remaining within our Risk Appetite. Identification and assessment of potentially adverse risk events is an essential first step in managing the risks of any business or activity and in order to facilitate that, the Bank maintains a dynamic risk-scanning process with inputs from the internal and external risk environment, as well as potential threats and opportunities from the business and client perspectives, enabling us to proactively manage our portfolio. The Bank maintains a taxonomy of the Principal Risk Types (PRTs), Integrated Risk Types (IRTs) and risk sub-types that are inherent to the strategy and business model; as well as an emerging risks inventory that includes near-term risks as well as longer-term uncertainties.

Despite the challenges of the ongoing pandemic, our solid foundation has helped us to deliver a good performance with a resilient risk profile. Our corporate portfolios remain predominantly short-tenor and diversified across industry sectors, products and geographies. We have seen improvements in a number of our metrics that reflect our robust risk management during the pandemic.

Basis of preparation
Unless otherwise stated the Statement of financial position and Statements of comprehensive income information presented within this section is based on the Group's management view.

Loans and advances to customers and Banks held at amortised cost in this Risk profile section include reverse repurchase agreement balances held at amortised cost.

Credit risk overview
Credit risk is the potential for loss due to the failure of a counterparty to meet its contractual obligations to pay the Bank. Credit exposures arise from both the banking and trading books

Impairment model
IFRS 9 requires an impairment model that requires the recognition of expected credit losses (ECL) on all financial debt instruments held at amortised cost, fair value through other comprehensive income (FVOCI), undrawn loan commitments and financial guarantees.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Staging of financial instruments

- Financial instruments that are not already credit-impaired are originated into stage 1 and a 12-month expected credit loss provision is recognised.
- Instruments will remain in stage 1 until they are repaid, unless they experience significant credit deterioration (stage 2) or they become credit-impaired (stage 3).
- Instruments will transfer to stage 2 and a lifetime expected credit loss provision recognised when there has been a significant change in the Credit risk compared to what was expected at origination.

The framework used to determine a significant increase in Credit risk is set out below.

Stage 1	Stage 2	Stage 3
• 12 month ECL • Performing	• Lifetime expected credit loss • Performing but has exhibited significant increase in Credit risk (SICR)	• Credit-impaired • Non-performing

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

IFRS 9 expected credit loss principles and approaches

The main methodology principles and approach adopted by the Bank are set out in the following table.

Title	Description	Supplementary Information
Approach to determining expected credit losses	For material loan portfolios, the Group has adopted a statistical modelling approach for determining expected credit losses that makes extensive use of credit modelling. These models leveraged existing advanced Internal Ratings Based (IRB) models, where these were available. Where model performance breaches model monitoring thresholds or validation standards, a post-model adjustment may be required to correct for identified model issues, which will be removed once those issues have been remedied.	IFRS 9 methodology Determining lifetime expected credit loss for revolving products Post-model adjustments
Incorporation of forward-looking information	The determination of expected credit loss includes various assumptions and judgements in respect of forward-looking macroeconomic information. Refer to page [ ] for incorporation of forward-looking information, forecast of key macroeconomic variables underlying the expected credit loss calculation and the impact on non-linearity and sensitivity of expected credit loss calculation to macroeconomic variables. Management overlays may also be used to capture risks not identified in the models.	Incorporation of forward-looking information and impact of non-linearity Forecast of key macroeconomic variables underlying the expected credit loss calculation Management overlay and sensitivity to macroeconomic variables
Significant increase in Credit risk (SICR)	Expected credit loss for financial assets will transfer from a 12-month basis (stage 1) to a lifetime basis (stage 2) when there is a significant increase in Credit risk (SICR) relative to that which was expected at the time of origination, or when the asset becomes credit-impaired. On transfer to a lifetime basis, the expected credit loss for those assets will reflect the impact of a default event expected to occur over the remaining lifetime of the instrument rather than just over the 12 months from the reporting date. SICR is assessed by comparing the risk of default of an exposure at the reporting date with the risk of default at origination (after considering the passage of time). 'Significant' does not mean statistically significant nor is it reflective of the extent of the impact on the Group's financial statements. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria, the weight of which will depend on the type of product and counterparty.	Quantitative criteria Significant increase in credit risk thresholds Specific qualitative and quantitative criteria per segment: Corporate, Commercial & Institutional Banking clients Consumer Banking clients Private Banking clients Debt securities

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Title	Description	Supplementary Information
Assessment of credit-impaired financial assets	Credit-impaired (stage 3) financial assets comprise those assets that have experienced an observed credit event and are in default. Default represents those assets that are at least 90 days past due in respect of principal and interest payments and/or where the assets are otherwise considered unlikely to pay. This definition is consistent with internal credit risk management and the regulatory definition of default. Unlikely to pay factors include objective conditions such as bankruptcy, debt restructuring, fraud or death. It also includes credit-related modifications of contractual cash flows due to significant financial difficulty (forbearance) where the Bank has granted concessions that it would not ordinarily consider. Interest income for stage 3 assets is recognised by applying the original effective interest rate to the net asset amount (that is, net of credit impairment provisions). When financial assets are transferred from stage 3 to stage 2, any contractual interest recovered in excess of the interest income recognised while the asset was in stage 3 is reported within the credit impairment line.	Consumer Banking clients Corporate, Commercial & Institutional Banking and Private Banking clients
Transfers between stages	Assets will transfer from stage 3 to stage 2 when they are no longer considered to be credit-impaired. Assets will not be considered credit-impaired only if the customer makes payments such that they are paid to current in line with the original contractual terms. Assets may transfer to stage 1 if they are no longer considered to have experienced a significant increase in credit risk. This will be immediate when the original PD based transfer criteria are no longer met (and as long as none of the other transfer criteria apply). Where assets were transferred using other measures, the assets will only transfer back to stage 1 when the condition that caused the significant increase in credit risk no longer applies (and as long as none of the other transfer criteria apply).	Movement in loan exposures and expected credit losses

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Title	Description	Supplementary Information
Modified financial assets	Where the contractual terms of a financial instrument have been modified, and this does not result in the instrument being derecognised, a modification gain or loss is recognised in the income statement representing the difference between the original cashflows and the modified cash flows, discounted at the effective interest rate. The modification gain/loss is directly applied to the gross carrying amount of the instrument. If the modification is credit related, such as forbearance or where the Bank has granted concessions that it would not ordinarily consider, then it will be considered credit-impaired. Modifications that are not credit related will be subject to an assessment of whether the asset's credit risk has increased significantly since origination by comparing the remaining lifetime PD based on the modified terms to the remaining lifetime PD based on the original contractual terms.	Forbearance and other modified loans
Governance and application of expert credit judgement in respect of expected credit losses	The models used in determining ECL are reviewed and approved by the Group Credit Model Assessment Committee and have been validated by Group model validation, which is independent of the business. A quarterly model monitoring process is in place that uses recent data to compare the differences between model predictions and actual outcomes against approved thresholds. Where a model's performance breaches the monitoring thresholds then an assessment of whether an ECL adjustment is required to correct for the identified model issue is completed. The determination of expected credit losses requires a significant degree of management judgement which had an impact on governance processes, with the output of the expected credit models assessed by the IFRS 9 Impairment Committee.	Group Credit Model Assessment Committee IFRS 9 Impairment Committee

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Maximum exposure to Credit risk

The table below presents the Group's maximum exposure to Credit risk for its on-balance sheet and off-balance sheet financial instruments,before and after taking into account any collateral held or other Credit risk mitigation.

Group

	2023			2022		
		Credit risk management			Credit risk management	
	Maximum exposure P '000	Collateral P '000	Net Exposure P '000	Maximum exposure P '000	Collateral P '000	Net Exposure P '000
On-balance sheet						
Cash and balances at central Banks	854,469	-	854,469	491,618		491,618
Loans and advances to Banks	6,906	-	6,906	45,078	-	45,078
Loans and advances to customers	8,559,800	3,072,008	5,487,792	7,775,324	5,879,106	1,896,218
Investment securities - Debt securities and other eligible bills	4,274,968	-	4,274,968	2,444,488		2,444,488
Derivative financial instruments	16,144	-	16,144	770	-	770
Accrued income	269,393	-	269,393	166,408		166,408
Due from related parties	3,632,041		3,632,041	5,266,269		5,266,269
Other assets	171,805	-	171,805	40,175		40,175
Total balance sheet	**17,785,526**	**3,072,008**	**14,713,518**	**16,230,130**	**5,879,106**	**10,351,024**
Off-balance sheet						
Undrawn Commitments	6,311,841	10,899	6,300,942	5,876,459	17,668	5,858,791
Financial Guarantees and other equivalents	359,810	570	359,240	236,252	595	235,657
Total off-balance sheet	**6,671,651**	**11,469**	**6,660,182**	**6,112,711**	**18,263**	**6,094,448**
Total	**24,457,177**	**3,083,477**	**21,373,700**	**22,342,841**	**5,897,369**	**16,445,472**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Company

	2023			2022		
		Credit risk management			Credit risk management	
	Maximum exposure P '000	Collateral P '000	Net Exposure P '000	Maximum exposure P '000	Collateral P '000	Net exposure P '000
On-balance sheet						
Cash and balances at central Banks	851,591	-	851,591	488,740	-	488,740
Loans and advances to Banks	6,906	-	6,906	45,078	-	45,078
Loans and advances to customers	8,559,800	3,072,008	5,487,792	7,775,324	5,879,106	1,896,218
Investment securities - Debt	4,274,968	-	4,274,968	2,444,488	-	2,444,488
Derivative financial instruments	16,144	-	16,144	770	-	770
Accrued income	269,393	-	269,393	166,408	-	166,408
Due from related parties	3,558,086	-	3,558,086	5,266,269	-	5,266,269
Other assets	171,743	-	171,743	16,206	-	16,206
Total balance sheet	**17,708,631**	**3,072,008**	**14,636,623**	**16,203,283**	**5,879,106**	**10,324,177**
Off-balance sheet						
Undrawn Commitments	5,696,087	10,899	5,685,188	5,876,459	17,668	5,858,791
Financial Guarantees and other equivalents	359,810	570	359,240	236,252	595	235,657
Total off-balance sheet	**6,055,897**	**11,469**	**6,044,428**	**6,112,711**	**18,263**	**6,094,448**
Total	**23,764,528**	**3,083,477**	**20,681,051**	**22,315,994**	**5,897,369**	**16,418,625**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Analysis of financial instrument by stage

This table shows financial instruments and off-balance sheet commitments by stage, along with the total credit impairment loss provision against each class of financial instrument.

Group

	Stage 1			Stage 2	
	Gross balance[1] P '000	Total credit impairment P '000	Net carrying value P '000	Gross balance[1] P '000	Total credit impairment P '000
Cash and balances at central Banks	854,469	-	854,469	-	-
Loans and advances to Banks (amortised cost)	6,907	(1)	6,906	-	-
Due from related parties	3,632,041	-	3,632,041	-	-
Loans and advances to customers (amortised cost)	8,538,226	(58,434)	8,479,792	61,159	(35,928)
Derivative financial instruments	16,144	-	16,144	-	-
Debt securities and other eligible bills	4,274,968	(294)	4,274,674	-	-
FVOCI[2]	4,274,968	(294)	4,274,674	-	-
Accrued income (amortised cost)	269,393	-	269,393	-	-
Other assets	171,805	-	171,805	-	-
Undrawn commitments[3]	6,257,200	(69)	-	54,641	(60)
Financial guarantees, trade credits and irrevocable letter of credits[3]	353,996	(15)	-	5,704	(491)
Total	**24,375,149**	**(58,813)**	**17,705,224**	**121,504**	**(36,479)**

1. Gross Carrying for off balance sheet refers to notional values
2. These instruments are held at fair value on the balance sheet. The ECL provision in respect of debt securities measured at FVOCI is held within the OCI reserve
3. These are off balance sheet instruments. Only the ECL is recorded on-balance sheet as a financial liability and therefore there is no net carrying amount. ECL allowances on off -balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise, they will be reported against the drawn component.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

2023

	Stage 3			Total		
Net carrying value P '000	**Gross balance[1] P '000**	**Total credit impairment P '000**	**Net carrying value P '000**	**Gross balance[1] P '000**	**Total credit impairment P '000**	**Net carrying value P '000**
-	-	-	-	854,469	-	854,469
-	-	-	-	6,907	(1)	6,906
-	-	-	-	3,632,041	-	3,632,041
25,231	172,377	(107,600)	54,777	8,771,762	(211,962)	8,559,800
-	-	-	-	16,144	-	16,144
-	-	-	-	4,274,968	(294)	4,274,674
-	-	-	-	4,274,968	(294)	4,274,674
-	-	-	-	269,393	-	269,393
-	-	-	-	171,805	-	171,805
-	-	-	-	6,311,841	(129)	-
-	110	-	-	359,810	(506)	-
25,231	**172,487**	**(107,600)**	**54,777**	**24,669,140**	**(212,892)**	**17,785,232**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Analysis of financial instrument by stage (continued)

	Stage 1			Stage 2	
	Gross balance[1]	Total credit impairment	Net carrying value	Gross balance	Total credit impairment
	P '000	P '000	P '000	P '000	P '000
Cash and balances at central Banks	491,618	-	491,618	-	-
Loans and advances to Banks (amortised cost)	491,618	(5)	45,078	-	-
Due from related parties	5,266,269	-	5,266,269	-	-
Loans and advances to customers (amortised cost)	7,754,162	(116,586)	7,637,576	97,268	(11,406)
Derivative financial instruments	770	-	770	-	-
Debt securities and other eligible bills	2,445,408	(920)	2,444,488	-	-
FVOCI[2]	2,445,408	(920)	2,444,488	-	-
Accrued income (amortised cost)	166,408	-	166,408	-	-
Other assets	40,091	-	40,091	-	-
Undrawn commitments[3]	5,827,179	(766)	-	49,297	(105)
Financial guarantees, trade credits and irrevocable letter of credits[3]	226,890	(76)	-	5,952	(432)
Total	**22,263,878**	**(118,353)**	**16,092,298**	**152,500**	**(11,943)**

1. Gross Carrying for off balance sheet refers to notional values.
2. These instruments are held at fair value on the balance sheet. The ECL provision in respect of debt securities measured at FVOCI is held within the OCI reserve.
3. These are off balance sheet instruments. Only the ECL is recorded on-balance sheet as a financial liability and therefore there is no net carrying amount. ECL allowances on off -balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise, they will be reported against the drawn component.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

2022						
	Stage 3			Total		
Net carrying value	Gross balance[1]	Total credit impairment	Net carrying value	Gross balance[1]	Total credit impairment	Net carrying value
P '000	P '000	P '000	P '000	P '000	P '000	P '000
-	-	-	-	491,618	-	491,618
-	-	-	-	45,083	(5)	45,078
-	-	-	-	5,266,269	-	5,266,269
85,862	159,552	(107,666)	51,886	8,010,982	(235,658)	7,775,324
-	-	-	-	770	-	770
-	-	-	-	2,445,408	(920)	2,444,488
-	-	-	-	2,445,408	(920)	2,444,488
-	-	-	-	166,408	-	166,408
-	-	-	-	40,091	-	40,091
-	-	-	-	5,876,459	(871)	-
-	3,410	-	-	236,252	(871)	-
85,862	**162,962**	**(107,666)**	**51,886**	**22,579,340**	**(237,962)**	**16,230,046**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Company

	Stage 1			Stage 2	
	Gross balance[1] P '000	Total credit impairment P '000	Net carrying value P '000	Gross balance[1] P '000	Total credit impairment P '000
Cash and balances at central Banks	851,591	-	851,591	-	-
Loans and advances to Banks (amortised cost)	6,907	(1)	6,906	-	-
Due from related parties	3,558,096	-	3,558,096	-	-
Loans and advances to customers (amortised cost)	8,538,226	(58,434)	8,479,792	61,159	(35,928)
Derivative financial instruments	4,274,968	-	16,144	-	-
Debt securities and other eligible bills	4,274,968	(294)	4,274,674	-	-
FVOCI[2]	4,274,968	(294)	4,274,674	-	-
Accrued income (amortised cost)	171,743	-	269,393	-	-
Other assets	171,743	-	171,743	-	-
Undrawn commitments[3]	6,257,200	(69)	-	54,641	(60)
Financial guarantees, trade credits and irrevocable letter of credits[3]	353,995	-	-	5,704	(432)
Total	**24,298,263**	**(58,798)**	**17,628,339**	**121,504**	**(11,943)**

1. Gross Carrying for off balance sheet refers to notional values
2. These instruments are held at fair value on the balance sheet. The ECL provision in respect of debt securities measured at FVOCI is held within the OCI reserve
3. These are off balance sheet instruments. Only the ECL is recorded on-balance sheet as a financial liability and therefore there is no net carrying amount. ECL allowances on off -balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise, they will be reported against the drawn component.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

2023		Stage 3			Total		
	Net carrying value P '000	Gross balance[1] P '000	Total credit impairment P '000	Net carrying value P '000	Gross balance[1] P '000	Total credit impairment P '000	Net carrying value P '000
	-	-	-	-	851,591	-	851,591
	-	-	-	-	6,907	(1)	6,906
	-	-	-	-	3,558,096	-	3,558,096
	25,231	172,377	(117,600)	54,777	8,771,762	(211,962)	8,559,800
	-	-	-	-	16,144	-	16,144
	-	-	-		4,274,968	(294)	4,274,674
		-	-	-	4,274,968	(294)	4,274,674
	-	-	-	-	269,393	-	269,393
	-	-	-	-	171,743	-	171,743
	-	-	-	-	6,311,841	(129)	-
	-	110	-	-	359,809	-	-
	25,231	**172,487**	**(117,600)**	**54,777**	**24,592,254**	**(212,386)**	**17,708,347**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Analysis of financial instrument by stage (continued)

	Stage 1			Stage 2	
	Gross balance[1]	Total credit impairment	Net carrying value	Gross balance	Total credit impairment
	P '000	P '000	P '000	P '000	P '000
Cash and balances at central Banks	488,740	-	488,740	-	-
Loans and advances to Banks (amortised cost)	45,083	(5)	45,078	-	-
Due from related parties	5,266,269	-	5,266,269	-	-
Loans and advances to customers (amortised cost)	7,754,162	(116,586)	7,637,576	97,268	(11,406)
Derivative financial instruments	770	-	770	-	-
Debt securities and other eligible bills	2,445,408	(920)	2,444,488	-	-
FVOCI[2]	2,445,408	(920)	2,444,488	-	-
Accrued income (amortised cost)	166,408	-	166,408	-	-
Other assets	16,122	-	16,122	-	-
Undrawn commitments[3]	5,827,179	(766)	-	49,280	(105)
Financial guarantees, trade credits and irrevocable letter of credits[3]	226,890	(76)	-	5,952	(432)
Total	**22,237,031**	**(118,353)**	**16,065,451**	**152,500**	**(11,943)**

1. Gross Carrying for off balance sheet refers to notional values
2. These instruments are held at fair value on the balance sheet. The ECL provision in respect of debt securities measured at FVOCI is held within the OCI reserve
3. These are off balance sheet instruments. Only the ECL is recorded on-balance sheet as a financial liability and therefore there is no net carrying amount. ECL allowances on off -balance sheet instruments are held as liability provisions to the extent that the drawn and undrawn components of loan exposures can be separately identified. Otherwise, they will be reported against the drawn component.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

2022						
	Stage 3			Total		
Net carrying value	**Gross balance[1]**	**Total credit impairment**	**Net carrying value**	**Gross balance[1]**	**Total credit impairment**	**Net carrying value**
P '000	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**
-	-	-	-	488,740	-	488,740
-	-	-	-	45,083	(5)	45,078
-	-	-	-	5,266,269	-	5,266,269
85,862	159,552	(107,666)	51,886	8,010,982	(235,658)	7,775,324
-	-	-	-	770	-	770
-	-	-	-	2,445,408	(920)	2,444,488
-	-	-	-	2,445,408	(920)	2,444,488
-	-	-	-	166,408	-	166,408
-	-	-	-	16,122	-	16,122
-	-	-	-	5,876,459	(871)	-
-	3,410	-	-	236,252	(508)	-
85,862	**162,962**	**(107,666)**	**51,886**	**22,552,493**	**(237,962)**	**16,203,199**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Credit quality analysis

Credit quality by client segment
For the Corporate & Institutional Banking portfolio, exposures are analysed by credit grade (CG), which plays a central role in the quality assessment and monitoring of risk. All loans are assigned a CG, which is reviewed periodically and amended in light of changes in the borrower's circumstances or behaviour. CGs 1 to 12 are assigned to stage 1 and stage 2 (performing) clients or accounts, while CGs 13 and 14 are assigned to stage 3 (defaulted) clients. The mapping of credit quality is as follows.

Mapping of credit quality
The Bank uses the following internal risk mapping to determine the credit quality for loans.

Credit quality description	Corporate & Institutional Banking and Commercial Banking			Private Banking[1]	Consumer and Business Banking
	Internal grade mapping	S&P external ratings equivalent	Regulatory PD range (%)	Internal ratings	Number of days past due
Strong	1A to 5B	AAA to BB+	0 to 0.425	Class I and Class IV	Current loans (no past dues nor impaired)
	AAA to BB+	0 to 0.425	Class I and Class IV	Current loans (no past dues nor impaired)	Loans past due till 29 days
Satisfactory	6A to 11C	BB+ to B-/CCC+	0.425 to 15.75	Class II and Class III	Loans past due till 29 days
Higher risk	Grade 12A - 12C	CCC+/C	15.751 to 100	GSAM managed	Past due loans 30 days and over till 90 days

1 For Private Banking, classes of risk represent the type of collateral held. Class I represents facilities with liquid collateral, such as cash and marketable securities. Class II represents unsecured/partially secured facilities and those with illiquid collateral, such as equity in private enterprises. Class III represents facilities with residential or commercial real estate collateral. Class IV covers margin trading facilities.

2 Rating for Corporate/NBFIs. Banks' rating: BB to CCC/C .

The table overleaf sets out the gross loans and advances held at amortised cost, expected credit loss provisions and expected credit loss coverage by business segment and stage. Expected credit loss coverage represents the expected credit loss reported for each segment and stage as a proportion of the gross loan balance for each segment and stage.

Stage 1: Stage 1 gross loans and advances to customers increased by P784 million compared with 31 December 2022 and represent an increase of 10 per cent. Stage 1 gross balances represent 97.4 per cent of loans and advances to customers (2022: 96.8 per cent). The stage 1 coverage ratio remained at 4 per cent compared with 31 December 2022.

Stage 2: Stage 2 loans and advances to customers decreased by P36 million compared with 31 December 2022,. The proportion of stage 2 loans also reduced to 0.7 per cent from 1.2 per cent per cent due to changes in exposures.

Consumer, Private & Business Banking stage 2 loans saw a decrease of P3.3 million, mainly driven by repayment in mortgage and unsecured products.

Stage 3: Stage 3 loans and advances to customers increased by 8 per cent to P172 million compared with 31 December 2022 of P159million.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

In Corporate, Commercial & Institutional Banking, gross stage 3 loans increased by P7 million compared with 31 December 2022.

In Consumer, Private & Business Banking, stage 3 loans remained relatively stable at 0.8 per cent of the portfolio.

Loans and advances by client segment

	2023					
Group and Company	Customers					
	Banks	**Corporate, Commercial & Institutional Banking**	**Consumer, Private & Business Banking**	**Customer Total**	**Undrawn commitments**	**Financial Guarantees**
Amortised cost	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**
Stage 1	6,907	1,374,130	7,164,096	8,538,226	6,257,200	353,996
- Strong	6,857	65,673	7,164,096	7,229,769	6,221,383	297,030
- Satisfactory	50	1,308,457	-	1,308,457	35,817	56,966
Stage 2	-	9,274	51,885	61,159	54,641	5,704
- Strong	-	3,762	51,885	55,647	24,641	20
- Satisfactory	-	-	-	-	-	200
- Higher risk	-	5,512	-	5,512	30,000	5,484
Stage 3, credit-impaired financial assets	-	113,319	59,058	172,377	-	110
Gross balance[1]	6,907	1,496,723	7,275,039	8,771,762	6,311,841	359,810
Stage 1	(1)	(22,277)	(36,157)	(58,434)	(69)	(15)
- Strong	(1)	(86)	(36,157)	(36,243)	(44)	(6)
- Satisfactory	-	(22,191)	-	(22,191)	(25)	(9)
Stage 2	-	(229)	(35,699)	(35,928)	(60)	(491)
- Strong	-	(3)	(35,699)	(35,702)	(11)	-
- Satisfactory	-	-	-	-	-	(2)
- Higher risk	-	(226)	-	(226)	(49)	(489)
Stage 3, credit-impaired financial assets	-	(89,701)	(27,899)	(117,600)	-	-
Total credit impairment	(1)	(112,207)	(99,755)	(211,962)	(129)	(506)
Net carrying value	6,906	1,384,516	7,175,284	8,559,800		
Stage 1	0.0%	1.6%	0.5%	0.7%	0.0%	0.0%
- Strong	0.0%	0.1%	0.5%	0.5%	0.0%	0.0%
- Satisfactory	0.0%	1.7%	0.0%	1.7%	0.1%	0.0%
Stage 2	0.0%	2.5%	68.8%	58.7%	0.1%	8.6%
- Strong	0.0%	0.1%	68.8%	64.2%	0.0%	0.0%
- Satisfactory	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%
- Higher risk	0.0%	4.1%	0.0%	4.1%	0.2%	8.9%
Stage 3, credit-impaired financial assets (S3)	0.0%	79.2%	47.2%	68.2%	0.0%	0.0%
Cover ratio	0.0%	7.5%	1.4%	2.4%	0.0%	0.1%
Net carrying value (incl FVTPL)	6,906	1,384,516	7,175,284	8,559,800	-	-

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

	2022					
	Customers					
	Banks	Corporate, Commercial & Institutional Banking[3]	Consumer, Private & Business Banking[3]	Customer Total	Undrawn commitments	Financial Guarantees
Amortised cost	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**
Stage 1	45,083	515,252	7,238,910	7,754,162	5,827,179	226,890
- Strong	45,033	143,104	7,238,910	7,382,014	5,605,110	159,267
- Satisfactory	50	372,148	-	372,148	222,069	67,623
Stage 2	-	42,107	55,161	97,268	49,280	5,952
- Strong	-	-	55,161	55,161	29,555	119
- Satisfactory	-	-	-	-	3,000	310
- Higher risk	-	42,107	-	42,107	16,725	5,523
Stage 3, credit-impaired financial assets	-	106,330	53,222	159,552	-	3,410
Gross balance	45,083	663,689	7,347,293	8,010,982	5,876,459	236,252
Stage 1	(5)	(38,854)	(77,732)	(116,586)	(766)	(76)
- Strong	(5)	(818)	(77,732)	(78,550)	(39)	(62)
- Satisfactory	-	(38,036)	-	(38,036)	(727)	(14)
Stage 2	-	(2,258)	(9,148)	(11,406)	(105)	(432)
- Strong	-	-	(9,148)	(9,148)	(14)	-
- Satisfactory	-	-	-	-	(42)	(5)
- Higher risk	-	(2,258)	-	(2,258)	(49)	(427)
Stage 3, credit-impaired financial assets	-	(86,697)	(20,969)	(107,666)	-	-
Total credit impairment	(5)	(127,809)	(107,849)	(235,658)	(871)	(508)
Net carrying value	45,078	535,880	7,239,444	7,775,324	-	-
Stage 1	0.0%	7.5%	1.1%	1.5%	0.0%	0.0%
- Strong	0.0%	0.6%	1.1%	1.1%	0.0%	0.0%
- Satisfactory	0.0%	10.2%	0.0%	10.2%	0.3%	0.0%
Stage 2	0.0%	5.4%	16.6%	11.7%	0.2%	7.3%
- Strong	0.0%	0.0%	16.6%	16.6%	0.0%	0.0%
- Satisfactory	0.0%	0.0%	0.0%	0.0%	1.4%	1.6%
- Higher risk	0.0%	5.4%	0.0%	5.4%	0.3%	7.7%
Stage 3, credit-impaired financial assets (S3)	0.0%	81.5%	39.4%	67.5%	0.0%	0.0%
Cover ratio	0.0%	19.3%	1.5%	2.9%	0.0%	0.2%
Net carrying value (incl FVTPL)	45,078	535,880	7,239,444	7,775,324	-	-

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Group and Company
Loans and advances by client segment credit quality analysis

			Corporate, Commercial & Institutional Banking							
			2023							
			Gross				Credit impairment			
Credit grade	Regulatory 1 year PD range (%)	S&P external ratings equivalent	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Strong			65,675	3,762	-	69,437	(86)	(3)	-	(89)
4B-5B	0.111 - 0.425	BBB+ to BBB-/BB+	65,675	3,762	-	69,437	(86)	(3)	-	(89)
Satisfactory			1,308,457	-	-	1,308,457	(22,192)	-	-	(22,192)
6A-7B	0.426 - 1.350	BB+/BB to BB-	21,250	-	-	21,250	(32)	-	-	(32)
8A-9B	1.351 - 4.000	BB-/B+ to B+/B	1,287,207	-	-	1,287,207	(22,160)	-	-	(22,160)
Higher risk			-	5,512	-	5,512	-	(226)	-	(226)
12	15.751 - 99.999	CCC/C	-	5,512	-	5,512	-	(226)	-	(226)
Defaulted			-	-	113,318	113,318	-	-	(89,701)	(89,701)
13-14	100	Defaulted	-	-	113,318	113,318	-	-	(89,701)	(89,701)
Total			1,374,132	9,274	113,318	1,496,724	(22,278)	(229)	(89,701)	(112,208)

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Group and Company

			2022							
			Gross				Credit impairment			
Credit grade	Regulatory 1 year PD range (%)	S&P external ratings equivalent	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Strong			143,103	-	-	143,103	(818)	-	-	(818)
3A-4A	0.046 - 0.110	A+ to A-	10,402	-	-	10,402	(4)	-	-	(4)
4B-5B	0.111 - 0.425	BBB+ to BBB-/BB+	132,701	-	-	132,701	(814)	-	-	(814)
Satisfactory			372,149	-	-	372,149	(38,036)	-	-	(38,036)
6A-7B	0.426 - 1.350	BB+/BB to BB-	57,150	-	-	57,150	(15)	-	-	(15)
8A-9B	1.351 - 4.000	BB-/B+ to B+/B	314,999	-	-	314,999	(38,021)	-	-	(38,021)
Higher risk			-	42,107	-	42,107	-	(2,258)	-	(2,258)
12	15.751 - 99.999	CCC/C	-	42,107	-	42,107	-	(2,258)	-	(2,258)
Defaulted			-	-	106,330	106,330	-	-	(86,697)	(86,697)
13-14	100	Defaulted	-	-	106,330	106,330	-	-	(86,697)	(86,697)
Total			515,252	42,107	106,330	663,689	(38,854)	(2,258)	(86,697)	(127,809)

Group and Company

	Consumer, Private & Business Banking							
	2023							
	Gross				Credit impairment			
Credit grade	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Strong	7,164,096	51,885	-	7,215,981	(36,157)	(35,699)	-	(71,856)
Secured	1,039,904	28,315	-	1,068,219	(10,516)	(14,345)	-	(24,861)
Unsecured	6,124,192	23,570	-	6,147,762	(25,641)	(21,354)	-	(46,995)
Defaulted	-	-	59,058	59,058	-	-	(27,899)	(27,899)
Secured			48,356	48,356			(18,188)	(18,188)
Unsecured	-	-	10,702	10,702	-	-	(9,711)	(9,711)
Total	7,164,096	51,885	59,058	7,275,039	(36,157)	(35,699)	(27,899)	(99,755)

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

	2022							
	Gross				Credit impairment			
Credit grade	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Strong	7,238,910	55,161	-	7,294,071	(77,732)	(9,148)	-	(86,880)
Secured	1,169,122	25,329	-	1,194,451	(17,820)	(94)	-	(17,914)
Unsecured	6,069,788	29,832	-	6,099,620	(59,912)	(9,054)	-	(68,966)
Defaulted	-	-	53,222	53,222	-	-	(20,969)	(20,969)
Secured			41,658	41,658			(14,521)	(14,521)
Unsecured	-	-	11,564	11,564	-	-	(6,448)	(6,448)
Total	7,238,910	55,161	53,222	7,347,293	(77,732)	(9,148)	(20,969)	(107,849)

Movement in gross exposures and credit impairment for loans and advances, debt securities, undrawn commitments and financial guarantees
The tables overleaf set out the movement in gross exposures and credit impairment by stage in respect of amortised cost loans to Banks and customers, undrawn commitments, financial guarantees and debt securities classified at amortised cost and FVOCI. The tables are presented for the Bank, debt securities and other eligible bills.

Methodology
The movement lines within the tables are an aggregation of monthly movements over the year and will therefore reflect the accumulation of multiple trades during the year. The credit impairment charge in the income statement comprises the amounts within the boxes in the table below less recoveries of amounts previously written off. Discount unwind is reported in net interest income and related to stage 3 financial instruments only.

The approach for determining the key line items in the tables is set out below.

- Transfers - transfers between stages are deemed to occur at the beginning of a month based on prior month closing balances
- Net remeasurement from stage changes - the remeasurement of credit impairment provisions arising from a change in stage is reported within the stage that the assets are transferred to. For example, assets transferred into stage 2 are remeasured from a 12 month to a lifetime expected credit loss, with the effect of remeasurement reported in stage 2. For stage 3, this represents the initial remeasurement from specific provisions recognised on individual assets transferred into stage 3 in the year
- Net changes in exposures - new business written less repayments in the year. Within stage 1, new business written will attract up to 12 months of expected credit loss charges. Repayments of non-amortising loans (primarily within Corporate & Institutional Banking and Commercial Banking) will have low amounts of expected credit loss provisions attributed to them, due to the release of provisions over the term to maturity. In stages 2 and 3, the amounts principally reflect repayments although stage 2 may include new business written where clients are on non-purely precautionary early alert, are credit grade 12, or when non-investment grade debt securities are acquired.
- Changes in risk parameters - for stages 1 and 2, this reflects changes in the probability of default (PD), loss given default (LGD) and exposure at default (EAD) of assets during the year, which includes the impact of releasing provisions over the term to maturity. It also includes the effect of changes in forecasts of macroeconomic variables during the year. In stage 3, this line represents additional specific provisions recognised on exposures held within stage 3
- Interest due but not paid - change in contractual amount of interest due in stage 3 financial instruments but not paid, being the net of accruals, repayments and write-offs, together with the corresponding change in credit impairment.

Changes to ECL models, which incorporates changes to model approaches and methodologies, is not reported as a separate line item as it has an impact over a number of lines and stages.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Group and Company (All segments)

	Stage 1		
	Gross balance[3]	Total credit impairment	Net
Amortised cost and FVOCI	P '000	P '000	P '000
As at 01 January 2023	17,054,852	(117,433)	16,937,419
Transfers to stage 1	291,092	(79,536)	211,556
Transfers to stage 2	(396,246)	8,233	(388,013)
Transfers to stage 3	-	-	-
Net change in exposures	(127,691)	(22,614)	(150,305)
Net remeasurement from stage changes	-	672	672
Changes in risk parameters	-	(3,925)	(3,925)
Write-offs	-	-	-
Interest due but unpaid	-	-	-
Exchange translation differences and other movements	8,375	155,805	164,180
As at 31 December 2023	16,830,382	(58,798)	16,771,584
Income statement ECL (charge)/release		(25,867)	
Recoveries of amounts previously written off		-	
Total credit impairment (charge)/release		(25,867)	

	Stage 1		
	Gross balance[3]	Total credit impairment	Net
Amortised cost and FVOCI	P '000	P '000	P '000
As at 01 January 2022	19,100,682	(83,077)	19,017,605
Transfers to stage 1	266,152	(3,578)	262,574
Transfers to stage 2	(1,033,806)	46,771	(987,035)
Transfers to stage 3	-	-	-
Net change in exposures	(1,374,819)	(21,126)	(1,395,945)
Net remeasurement from stage changes	-	698	698
Changes in risk parameters	-	(5,439)	(5,439)
Write-offs	-	-	-
Interest due but unpaid	-	-	-
Exchange translation differences and other movements	96,643	(51,682)	44,961
As at 31 December 2022	17,054,852	(117,433)	16,937,419
Income statement ECL (charge)/release		(25,867)	
Recoveries of amounts previously written off		-	
Total credit impairment (charge)/release		(25,867)	

The impairment analysis does not include amounts related to fair value through other comprehensive income (FVOCI) which are analysed separately on the movement of debt securities and other eligible bills

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

Stage 2			Stage 3			Total		
Gross balance[3]	Total credit impairment	Net	Gross balance[3]	Total credit impairment	Net	Gross balance[3]	Total credit impairment	Net
P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
152,500	(11,943)	140,557	162,962	(107,666)	55,296	17,370,314	(237,042)	17,133,272
(291,092)	79,536	(211,556)	-	-	-	-	-	-
417,370	(16,173)	401,197	(21,124)	7,940	(13,184)	-	-	-
(99,492)	40,289	(59,203)	99,492	(40,289)	59,203	-	-	-
(514,266)	532	(513,734)	(123,158)	217,954	94,796	(765,115)	195,872	(569,243)
-	(1,033)	(1,033)	-	-	-	-	(361)	(361)
-	(60,007)	(60,007)	-	(106,250)	(106,250)	-	(170,182)	(170,182)
-	-	-	(6,622)	6,413	(209)	(6,622)	6,413	(209)
-	-	-	(2,413)	2,413	-	(2,413)	2,413	-
12,220	(67,695)	(55,475)	(1,021)	(98,115)	(99,136)	19,574	(10,005)	9,569
(322,760)	(36,494)	(359,254)	108,116	(117,600)	(9,484)	16,615,738	(212,892)	16,402,846
	(60,508)			111,704			25,329	
	-			-			-	
	(60,508)			111,704			25,329	

Stage 2			Stage 3			Total		
Gross balance[3]	Total credit impairment	Net	Gross balance[3]	Total credit impairment	Net	Gross balance[3]	Total credit impairment	Net
P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
308,962	(15,308)	293,654	214,330	(145,993)	68,337	19,623,974	(244,378)	19,379,596
(266,152)	44,081	(222,071)	-	-	-	-	40,503	40,503
1,033,806	(78,823)	954,983	-	-	-	-	(32,052)	(32,052)
(104,871)	47,986	(56,885)	104,871	(47,986)	56,885	-	-	-
(819,966)	606	(819,360)	(105,907)	162,779	56,872	(2,300,692)	142,259	(2,158,433)
-	(626)	(626)	-	-	-	-	72	72
-	(60,488)	(60,488)	-	(119,391)	(119,391)	-	(185,318)	(185,318)
-	-	-	(50,549)	50,549	-	(50,549)	50,549	-
-	-	-	(28,976)	28,976	-	(28,976)	28,976	-
721	50,629	51,350	29,193	(36,600)	(7,407)	126,557	(37,653)	88,904
152,500	(11,943)	140,557	162,962	(107,666)	55,296	17,370,314	(237,042)	17,133,272
	(60,508)			43,388			(42,987)	
	-			-			-	
	(60,508)			43,388			(42,987)	

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Of which - movement of debt securities and other eligible bills

	Stage 1			Stage 2	
Amortised cost and FVOCI	Gross balance P '000	Total credit impairment P '000	Net P '000	Gross balance P '000	Total credit impairment P '000
As at 01 January 2022	**2,623,673**	**-**	**2,623,673**	**-**	**-**
Net change in exposures	(172,654)	(7,009)	(179,663)	-	-
Changes in risk parameters	-	6,559	6,559	-	-
Exchange translation differences and other movements	(5,611)	(470)	(6,081)	-	-
As at 31 December 2022	**2,445,408**	**(920)**	**2,444,488**	**-**	**-**
Income statement ECL (charge)/release		(450)			-
Total credit impairment (charge)/release		(450)			-
As at 01 January 2023	**2,444,488**	**(920)**	**2,443,568**	-	-
Net change in exposures	1,776,861	(6,920)	1,769,941	-	-
Changes in risk parameters	-	7,515	7,515	-	-
Exchange translation differences and other movements	53,619	32	53,651	-	-
As at 31 December 2023	**4,274,968**	**(293)**	**4,274,675**	-	-
Income statement ECL (charge)/release	-	595	-		-
Total credit impairment (charge)/release	-	**595**	-		-

Problem credit management and provisioning

Credit-impaired (stage 3) loans and advances by client segment
Gross stage 3 loans for the Bank is P173 million (2022: P 163 million). The increase in loans was driven by similar increases in both the Corporate, Commercial & Institutional Banking debt sales as well s the Consumer, Private & Business Banking.

Gross stage 3 loans in Consumer, Private & Business Banking increased in CY to P59m from P53m prior year.

Stage 3 cover ratio
The stage 3 cover ratio measures the proportion of stage 3 impairment provisions to gross stage 3 loans, and is a metric commonly used in considering impairment trends. This metric does not allow for variations in the composition of stage 3 loans and should be used in conjunction with other Credit risk information provided, including the level of collateral cover. The balance of stage 3 loans not covered by stage 3 impairment provisions represents the adjusted value of collateral held and the net outcome of any workout or recovery strategies. Collateral provides risk mitigation to some degree in all client segments and supports the credit quality and cover ratio assessments post impairment provisions.

Further information on collateral is provided in the Credit risk mitigation section.

Corporate, Commercial & Institutional Banking cover ratio decreased slightly to 79% compared to 82% in the previous reporting period.

Consumer, Private & Business Banking cover ratio is 47 per cent (2022: 39 per cent) due to new accounts with a higher cover ratio and impact of revaluations on existing loans.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

	Stage 3			Total		
Net	**Gross balance**	**Total credit impairment**	**Net**	**Gross balance**	**Total credit impairment**	**Net[3]**
P '000	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**
-	**-**	**-**	**-**	**2,623,673**	**-**	**2,623,673**
-	-	-	-	(172,654)	(7,009)	(179,663)
-	-	-	-	-	6,559	6,559
-	-	-	-	(5,611)	(470)	(6,081)
-	**-**	**-**	**-**	**2,445,408**	**(920)**	**2,444,488**
		-			(450)	
		-			(450)	
-	-	-	-	**2,444,488**	**(920)**	**2,443,568**
-	-	-	-	1,776,861	(6,920)	1,769,941
-	-	-	-	-	7,515	7,515
-	-	-	-	53,619	32	53,651
-	-	-	-	**4,274,968**	**(293)**	**4,274,675**
		-		-	595	-
		-		-	**595**	-

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Group and Company

	2023			2022		
	Corporate, Commercial & Institutional Banking	Consumer, Private & Business Banking	Total	Corporate, Commercial & Institutional Banking	Consumer, Private & Business Banking	Total
Amortised cost	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**
Gross credit-impaired	113,318	59,059	172,377	106,330	53,222	159,552
Credit impairment provisions	(89,701)	(27,899)	(117,600)	(86,697)	(20,969)	(107,666)
Net credit-impaired	**23,617**	**31,160**	**54,777**	**19,633**	**32,253**	**51,886**
Cover ratio	**79%**	**47%**	**68%**	**82%**	**39%**	**67%**
Collateral (P '000)	23,618	31,159	54,777	19,633	28,448	48,081
Cover ratio (after collateral)	**100%**	**100%**	**100%**	**100%**	**93%**	**98%**

Credit risk mitigation
Potential credit losses from any given account, customer or portfolio are mitigated using a range of tools such as collateral, netting arrangements, credit insurance and credit derivatives, taking into account expected volatility and guarantees.

The reliance that can be placed on these mitigants is carefully assessed in light of issues such as legal certainty and enforceability, market valuation correlation and counterparty risk of the guarantor.

Collateral
The requirement for collateral is not a substitute for the ability to repay, which is the primary consideration for any lending decisions. Conditions for collateral held include a restriction to transfer and significant alteration of collateralised assets .

Collateral and other credit enhancements possessed or called upon
The Group obtains assets by taking possession of collateral or calling upon other credit enhancements (such as guarantees). Repossessed properties are sold at auctions. Where the proceeds are in excess of the outstanding loan balance the excess is returned to the borrower.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

The collateral values in the table below (which covers loans and advances to Banks and customers, excluding those held at fair value through profit or loss) are adjusted where appropriate in accordance with our risk mitigation policy and for the effect of over-collateralisation. The extent of overcollateralization has been determined with reference to both the drawn and undrawn components of exposure as this best reflects the effect of collateral and other credit enhancements on the amounts arising from expected credit losses. The value of collateral reflects management's best estimate and is backtested against our prior experience. On average, across all types of non-cash collateral, the value ascribed is approximately half of its current market value. In the Consumer, Private & Business Banking segment, a secured loan is one where the borrower pledges an asset as collateral of which the Bank is able to take possession in the event that the borrower defaults. Total collateral for Consumer, Private & Business Banking has increased to P31 million (2022: P20 million) due to an increase in Mortgages and Secured wealth products.

Stage 2 collateral reduced by P2.7 million, due to a decrease in Corporate, Commercial & Institutional Banking and Consumer, Private & Business Banking loan balances.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Collateral held on loans and advances
The below tables provide an analysis of the current fair values of collateral held and credit enhancements for stage 2 and 3 exposure and corresponding collateral.

Group and Company

	2023								
	Net amount outstanding			Collateral			Net exposure		
	Total	Stage 2 financial assets	Credit-impaired financial assets (S3)	Total	Stage 2 financial assets	Credit-impaired financial assets (S3)	Total	Stage 2 financial assets	Credit-impaired financial assets (S3)
Amortised cost	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Corporate, Commercial & Institutional Banking[1]	1,384,516	9,045	23,618	539,887	-	23,618	844,629	9,045	-
Consumer, Private & Business Banking	7,175,284	16,186	31,159	1,113,369	19,083	31,159	6,061,915	(2,897)	-
Total	**8,559,800**	**25,231**	**54,777**	**1,653,256**	**19,083**	**54,777**	**6,906,544**	**6,148**	**-**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

	2022								
	Net amount outstanding			Collateral			Net exposure		
	Total	Stage 2 financial assets	Credit-impaired financial assets (S3)	Total	Stage 2 financial assets	Credit-impaired financial assets (S3)	Total	Stage 2 financial assets	Credit-impaired financial assets (S3)
Amortised cost	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**
Corporate, Commercial & Institutional Banking	535,880	39,849	19,633	20,325	940	19,633	515,555	38,909	-
Consumer, Private & Business Banking[3]	7,239,444	46,013	32,253	1,134,122	20,846	28,448	6,105,322	25,167	3,805
Total	**7,775,324**	**85,862**	**51,886**	**1,154,447**	**21,786**	**48,081**	**6,620,877**	**64,076**	**3,805**

The bank obtained court judgement to foreclose property held as security worth P18m (2022: P8m).
The quality of collateral held in 2023 broadly remains inline with the exposures held.
The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity was P119m (2022: P65m)
There are no financails instruments for which the entity has not recognised a loss allowance because of the collateral held.

Credit quality by industry

Loans and advances
This section provides an analysis of the Group's amortised cost portfolio by industry on a gross, total credit impairment and net basis.

From an industry perspective, gross loans and advances increased by P817 million to P8.828 billion as compared to 31 December 2022.

Stage 1 loans increased by P840 million to P8.594 billion. Of the P8.594 billion, P1.374 billion were corporate loans, mainly due to new lending Financing, Insurance and non-Banking sector.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Group and Company

2023	Stage 1			Stage 2	
	Gross balance	Total credit impairment	Net carrying amount	Gross balance	Total credit impairment
Amortised cost	P '000	P '000	P '000	P '000	P '000
Industry:					
Energy	273	(252)	21	-	-
Manufacturing	-	-	-	-	-
Financing, insurance and non-banking	93,750	(674)	93,076	-	-
Transport, telecom and utilities	21,250	(26)	21,224	-	-
Food and household products	-	-	-	-	-
Commercial real estate	-	-	-	9,273	(229)
Mining and quarrying	-	-	-	-	-
Consumer durables	-	-	-	-	-
Construction	-	-	-	-	-
Government	1,258,858	(21,325)	1,237,533	-	-
Other	-	-	-	-	-
Retail Products:					
Mortgage	1,074,405	(10,383)	1,064,022	25,469	(12,521)
Credit Cards	117,542	(1,449)	116,093	2,248	(31)
Personal loans and other unsecured lending	5,950,343	(24,193)	5,926,150	21,322	(21,322)
Auto	12,485	(121)	12,364	-	-
Secured wealth products	9,090	(11)	9,079	388	(1)
Other	230	-	230	2,459	(1,824)
Net carrying value (customers)	**8,538,226**	**(58,434)**	**8,479,792**	**61,159**	**(35,928)**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

	Stage 3			Total		
Net carrying amount P '000	Gross balance P '000	Total credit impairment P '000	Net carrying amount P '000	Gross balance P '000	Total credit impairment P '000	Net carrying amount P '000
-	2,207	(1,622)	585	2,480	(1,874)	606
-	7,914	(6,357)	1,557	7,914	(6,357)	1,557
-	-	-	-	93,750	(674)	93,076
-	4,175	(3,365)	810	25,425	(3,391)	22,034
-	24,616	(19,976)	4,640	24,616	(19,976)	4,640
9,044	16,600	(15,842)	758	25,873	(16,071)	9,802
-	-	-	-	-	-	-
-	29	-	29	29	-	29
-	30,573	(29,223)	1,350	30,573	(29,223)	1,350
-	16,914	(5,600)	11,314	1,275,772	(26,925)	1,248,847
-	10,291	(7,716)	2,575	10,291	(7,716)	2,575
12,948	31,990	(11,862)	20,128	1,131,864	(34,766)	1,097,098
2,217	1,002	(11)	991	120,792	(1,491)	119,301
-	9,700	(9,700)	-	5,981,365	(55,215)	5,926,150
-	-	-	-	12,485	(121)	12,364
387	2,359	-	2,359	11,837	(12)	11,825
635	14,007	(6,326)	7,681	16,696	(8,150)	8,546
25,231	**172,377**	**(117,600)**	**54,777**	**8,771,762**	**(211,962)**	**8,559,800**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Group and Company

2022	Stage 1			Stage 2	
	Gross balance	Total credit impairment	Net carrying amount	Gross balance	Total credit impairment
Amortised cost	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**
Industry:					
Energy	36,862	(3,536)	33,326	-	-
Manufacturing	34,749	(3,325)	31,424	-	-
Financing, insurance and non-banking	315,000	(29,203)	285,797	40,572	(2,167)
Transport, telecom and utilities	2,401	(90)	2,311	-	-
Food and household products	8,562	(706)	7,856	-	-
Commercial real estate	-	-	-	524	(73)
Mining and quarrying	1,075	(108)	967	-	-
Consumer durables	-	-	-	-	-
Construction	20,000	(1,850)	18,150	-	-
Government	86,199	(32)	86,167	-	-
Other	10,403	(4)	10,399	1,012	(19)
Retail Products:					
Mortgage	1,141,304	(14,814)	1,126,490	22,627	(37)
Credit Cards	113,938	(1,147)	112,791	5,775	(52)
Personal loans and other unsecured lending	5,955,852	(58,765)	5,897,087	24,056	(9,001)
Auto	17,460	(18)	17,442	110	-
Secured wealth products	10,357	(2,988)	7,369	1,975	(57)
Other	-	-	-	617	-
Net carrying value (customers)	7,754,162	(116,586)	7,637,576	97,268	(11,406)

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

	Stage 3			Total		
Net carrying amount	**Gross balance**	**Total credit impairment**	**Net carrying amount**	**Gross balance**	**Total credit impairment**	**Net carrying amount**
P '000	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**	**P '000**
-	1,882	(359)	1,523	38,744	(3,895)	34,849
-	8,053	(5,606)	2,447	42,802	(8,931)	33,871
38,405	-	-	-	355,572	(31,370)	324,202
-	4,059	(2,803)	1,256	6,460	(2,893)	3,567
-	25,832	(16,712)	9,120	34,394	(17,418)	16,976
451	28,175	(28,084)	91	28,699	(28,157)	542
-	35	-	35	1,110	(108)	1,002
-	26	-	26	26	-	26
-	27,513	(25,795)	1,718	47,513	(27,645)	19,868
-	-	-	-	86,199	(32)	86,167
993	10,756	(7,338)	3,418	22,171	(7,361)	14,810
22,590	29,444	(6,792)	22,652	1,193,375	(21,643)	1,171,732
5,723	1,170	(21)	1,149	120,883	(1,220)	119,663
15,055	10,394	(6,427)	3,967	5,990,302	(74,193)	5,916,109
110	321	-	321	17,891	(18)	17,873
1,918	-	-	-	12,332	(3,045)	9,287
617	11,892	(7,729)	4,163	12,509	(7,729)	4,780
85,862	159,552	(107,666)	51,886	8,010,982	(235,658)	7,775,324

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Debt securities and other eligible bills

This section provides further detail on gross debt securities and treasury bills.

The standard credit ratings used by the Bank are those used by Standard & Poor's or its equivalent. Debt securities held that have a short-term rating are reported against the long-term rating of the issuer. For securities that are unrated, the Bank applies an internal credit rating, as described under the credit rating and measurement section.

Total gross debt securities and other eligible bills increased by P1.830 billion to P4,275 billion. Of the total increase, 100 per cent is in stage 1.

Group and Company

	2023			2022		
Amortised cost and FVOCI	Gross P '000	ECL P '000	Net P '000	Gross P '000	ECL P '000	Net P '000
Stage 1	**4,275,261**	**(294)**	**4,274,967**	**2,445,408**	**(920)**	**2,444,488**
BBB- to BBB+	4,275,261	(294)	4,274,967	2,445,408	(920)	2,444,488
Gross balance	**4,275,261**	**(294)**	**4,274,967**	**2,445,408**	**(920)**	**2,444,488**

IFRS 9 expected credit loss methodology

Approach for determining expected credit losses

Credit loss terminology

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

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

For less material retail portfolios, the Bank has adopted less sophisticated approaches based on historical roll rates or loss rates:

- For medium-sized retail portfolios, a roll rate model is applied, which uses a matrix that gives the average loan migration rate between delinquency states from period to period. A matrix multiplication is then performed to generate the final PDs by delinquency bucket over different time horizons.
- For smaller retail portfolios, loss rate models are applied. These use an adjusted gross charge-off rate, developed using monthly write-off and recoveries over the preceding 12 months and total outstanding balances.
- While the loss rate models do not incorporate forward looking information, to the extent that there are significant changes in the macroeconomic forecasts an assessment will be completed on whether an adjustment to the modelled output is required.

For a limited number of exposures, proxy parameters or approaches are used where the data is not available to calculate the origination PDs for the purpose of applying the SICR criteria; or for some retail portfolios where a full history of LGD data is not available estimates based on the loss experience from similar portfolios are used. The use of proxies is monitored and will reduce over time.

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

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

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

In 2022, the behavioural life for Corporate overdraft facilities was re-estimated using recent data, and it was confirmed that the existing lifetime of 24 months remains appropriate.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Stage 3 assets
Credit-impaired assets managed by Group Special Assets Management incorporate forward-looking economic assumptions in respect of the recovery outcomes identified and are assigned individual probability weightings. These assumptions are based on a Monte Carlo simulation but are informed by the Base Forecast.

Sensitivity of expected credit loss calculation to macroeconomic variables
The ECL calculation relies on multiple variables and is inherently non-linear and portfolio-dependent, which implies that no single analysis can fully demonstrate the sensitivity of the ECL to changes in the macroeconomic variables. The Group has conducted a series of analyses with the aim of identifying the macroeconomic variables which might have the greatest impact on the overall ECL. These encompassed single variable and multi-variable exercises, using simple up/down variation and extracts from actual calculation data, as well as bespoke scenario design assessments.

The primary conclusion of these exercises is that no individual macroeconomic variable is materially influential. The Group believes this is plausible as the number of variables used in the ECL calculation is large. This does not mean that macroeconomic variables are uninfluential; rather, that the Group believes that consideration of macroeconomics should involve whole scenarios, as this aligns with the multi-variable nature of the calculation. The Group faces downside risks in the operating environment related to the uncertainties surrounding the macroeconomic outlook. To explore this, a sensitivity analysis of ECL was undertaken to explore the effect of slower economic recoveries across the Group's footprint markets. Two downside scenarios were considered. In the first scenario the current supply chain disruptions prove more persistent than expected. Labour and material shortages persist throughout 2022 and higher commodity and other input prices add to inflationary pressure. The global recovery in investment and consumption disappoints and financial markets weaken. The impact on the global economy is temporary, however. Supply chain disruptions ease significantly from 2023. In the second scenario, new COVID-19 virus variants are assumed to lead to a new infection wave in emerging markets and developing economies, resulting in the re-introduction of severe lockdown measures. Travel restrictions significantly impact the aviation and hotels & tourism sectors.

The total reported stage 1 and 2 ECL provisions (including both on and off-balance sheet instruments) would be approximately P110 million higher under the Supply Chain Disruption scenario and P545 million higher under the New Covid-19 Variant scenario than the baseline ECL provisions (which excluded the impact of multiple economic scenarios and management overlays which may already capture some of the risks in these scenarios). The proportion of stage 2 assets would increase from 4.2 per cent to 4.6 per cent and 7.7 per cent respectively under the Supply Chain Disruption and New Covid-19 Variant scenarios. This includes the impact of exposures transferring to stage 2 from stage 1 but does not consider an increase in stage 3 defaults.

There was no material change in modelled stage 3 provisions as these primarily relate to unsecured Retail Banking exposures for which the LGD is not sensitive to changes in the macroeconomic forecasts. There is also no material change for non-modelled stage 3 exposures as these are more sensitive to client specific factors than to alternative macroeconomic scenarios.

The actual outcome of any scenario may be materially different due to, amongst other factors, the effect of management actions to mitigate potential increases in risk and changes in the underlying portfolio.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Significant increase in Credit risk (SICR)

Quantitative criteria
SICR is assessed by comparing the risk of default at the reporting date to the risk of default at origination. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria. These quantitative significant deterioration thresholds have been separately defined for each business and where meaningful are consistently applied across business lines.

Assets are considered to have experienced SICR if they have breached both relative and absolute thresholds for the change in the average annualised lifetime probability of default over the residual term of the exposure.

The absolute measure of increase in credit risk is used to capture instances where the PDs on exposures are relatively low at initial recognition as these may increase by several multiples without representing a significant increase in credit risk. Where PDs are relatively high at initial recognition, a relative measure is more appropriate in assessing whether there is a significant increase in credit risk, as the PDs increase more quickly.

The SICR thresholds have been calibrated based on the following principles:

- Stability - The thresholds are set to achieve a stable stage 2 population at a portfolio level, trying to minimise the number of accounts moving back and forth between stage 1 and stage 2 in a short period of time
- Accuracy - The thresholds are set such that there is a materially higher propensity for stage 2 exposures to eventually default than is the case for stage 1 exposures
- Dependency from backstops - The thresholds are stringent enough such that a high proportion of accounts transfer to stage 2 due to movements in forward-looking PDs rather than relying on backward-looking backstops such as arrears
- Relationship with business and product risk profiles - The thresholds reflect the relative risk differences between different products, and are aligned to business processes for Corporate, Commercial & Institutional Banking clients, the relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 50 and 100 bps.

For Consumer, Private and Business Banking clients, the relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 100 and 350 bps depending on the product. Private Banking clients are assessed qualitatively, based on a delinquency measure relating to collateral top-ups or sell-downs.

Debt securities originated before 1 January 2018 with an internal credit rating mapped to an investment grade equivalent are allocated to stage 1 and all other debt securities to stage 2. Debt securities originated after 1 January 2018 apply the same approach and thresholds as for Corporate, Commercial & Institutional Banking clients.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Qualitative criteria
Qualitative factors that indicate that there has been a significant increase in Credit risk include processes linked to current risk management, such as placing loans on non-purely precautionary Early Alert.

Backstop
Across all portfolios, accounts that are 30 or more days past due (DPD) on contractual payments of principal and/or interest that have not been captured by the criteria above are considered to have experienced a significant increase in credit risk.

Expert credit judgement may be applied in assessing significant increase in credit risk to the extent that certain risks may not have been captured by the models or through the above criteria. Such instances are expected to be rare, for example due to events and material uncertainties arising close to the reporting date.

Corporate, Commercial & Institutional Banking clients

Quantitative criteria
Exposures are assessed based on both the absolute and the relative movement in the PD from origination to the reporting date as described above.

To account for the fact that the mapping between internal credit grades (used in the origination process) and PDs is non-linear (e.g. a one-notch downgrade in the investment grade universe results in a much smaller PD increase than in the sub-investment grade universe), the absolute thresholds have been differentiated by credit quality at origination, as measured by internal credit grades being investment grade or sub-investment grade.

Qualitative criteria
All assets of clients that have been placed on Early Alert (for non-purely precautionary reasons) are deemed to have experienced a significant increase in credit risk.

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

All client assets that have been assigned a CG12 rating, equivalent to 'Higher risk', are deemed to have experienced a significant increase in credit risk. Accounts rated CG12 are managed by the GSAM unit. All Corporate, Commercial & Institutional Banking clients are placed in CG12 when they are 30 DPD unless they are granted a waiver through a strict governance process.

Consumer and Business Banking clients

Quantitative criteria
Material portfolios (defined as a combination of country and product, for example Hong Kong mortgages, Taiwan credit cards) for which a statistical model has been built, are assessed based on both the absolute and relative movement in the PD from origination to the reporting date as described previously [page]. For these portfolios, the original lifetime PD term structure is determined based on the original Application Score or Risk Segment of the client.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Qualitative criteria
Accounts that are 30 DPD that have not been captured by the quantitative criteria are considered to have experienced a significant increase in credit risk. For less material portfolios, which are modelled based on a roll-rate or loss-rate approach, SICR is primarily assessed through the 30 DPD trigger for Private Banking clients

For Private Banking clients, SICR is assessed by referencing the nature and the level of collateral against which credit is extended (known as 'Classes of Risk').

Qualitative criteria
For all Private Banking classes, in line with risk management practice, an increase in credit risk is deemed to have occurred where margining or loan-to-value covenants have been breached.

For Class I assets (lending against diversified liquid collateral), if these margining requirements have not been met within 30 days of a trigger, a significant increase in credit risk is assumed to have occurred.

For Class I and Class III assets (real-estate lending), a significant increase in credit risk is assumed to have occurred where the bank is unable to 'sell down' the applicable assets to meet revised collateral requirements within five days of a trigger.

Class II assets are typically unsecured or partially secured or secured against illiquid collateral such as shares in private companies. Significant credit deterioration of these assets is deemed to have occurred when any Early Alert trigger has been breached.

Debt Securities

Quantitative criteria
For debt securities originated before 1 January 2018, the bank is utilising the low credit risk simplified approach, where debt securities with an internal credit rating mapped to an investment grade equivalent are allocated to stage 1 and all other debt securities are allocated to stage 2. Debt securities originated after 1 January 2018 are assessed based on the absolute and relative movements in PD from origination to the reporting date.

Qualitative criteria
Debt securities utilise the same qualitative criteria as the Corporate, Commercial & Institutional Banking client segments, including being placed on Early Alert or being classified as CG12.

Assessment of credit-impaired financial assets

Consumer and Business Banking clients
Consumer and Business Banking clients The core components in determining credit-impaired expected credit loss provisions are the value of gross charge off and recoveries. Gross charge off and/or loss provisions are recognised when it is established that the account is unlikely to pay through the normal process. Recovery of unsecured debt post credit impairment is recognised based on actual cash collected, either directly from clients or through the sale of defaulted loans to third-party institutions. Release of credit impairment provisions for secured loans is recognised if the loan outstanding is paid in full (release of full provision), or the provision is higher than the loan outstanding (release of the excess provision).

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Corporate, Commercial & Institutional Banking, and Private Banking clients
Credit-impaired accounts are managed by the Group's specialist recovery unit, Stressed Assets Risk (SAR), which is independent from its main businesses. Where any amount is considered irrecoverable, a stage 3 credit impairment provision is raised. This stage 3 provision is the difference between the loan-carrying amount and the probability-weighted present value of estimated future cash flows, reflecting a range of scenarios (typically the best, worst and most likely recovery outcomes). Where the cash flows include realisable collateral, the values used will incorporate the impact of forward-looking economic information.

The individual circumstances of each client are considered when SAR estimates future cash flows and the timing of future recoveries which involves significant judgement. All available sources, such as cash flow arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees are considered. In any decision relating to the raising of provisions, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

Write-offs
Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an impairment provision has been raised, that amount will be written off.

Governance and application of expert credit judgement in respect of expected credit losses
The Group's Credit Policy and Standards framework details the requirements for continuous monitoring to identify any changes in credit quality and resultant ratings, as well as ensuring a consistent approach to monitoring, managing and mitigating credit risks. The framework aligns with the governance of ECL estimation through the early recognition of significant deteriorations in ratings which drive stage 2 and 3 ECL.

The models used in determining expected credit losses are reviewed and approved by the Group Credit Model Assessment Committee (CMAC) which is appointed by the Model Risk Committee. CMAC has the responsibility to assess and approve the use of models and to review all IFRS 9 interpretations related to models. CMAC also provides oversight on operational matters related to model development, performance monitoring and model validation activities including standards, regulatory and Group Internal Audit matters.

Prior to submission to CMAC for approval, the models are validated by Group Model Validation (GMV), a function which is independent of the business and the model developers. GMV's analysis comprises review of model documentation, model design and methodology, data validation, review of the model development and calibration process, out-of-sample performance testing, and assessment of compliance review against IFRS 9 rules and internal standards.

A quarterly model monitoring process is in place that uses recent data to compare the differences between model predictions and actual outcomes against approved thresholds. Where a model's performance breaches the monitoring thresholds, an assessment of whether a PMA is required to correct for the identified model issue is completed.

Key inputs into the calculation and resulting expected credit loss provisions are subject to review and approval by the IFRS 9 Impairment Committee (IIC) which is appointed by the Group Risk Committee. The IIC consists of senior representatives from Risk, Finance, and Group Economic Research. It meets at least twice every quarter, once before the models are run to approve key inputs into the calculation, and once after the models are run to approve the expected credit loss provisions and any judgemental overrides that may be necessary.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

The IFRS 9 Impairment Committee:

- Oversees the appropriateness of all Business Model Assessment and Solely Payments of Principal and Interest (SPPI) tests;
- Reviews and approves expected credit loss for financial assets classified as stages 1, 2 and 3 for each financial reporting period;
- Reviews and approves stage allocation rules and thresholds;
- [Approves material adjustments in relation to expected credit loss for fair value through other comprehensive income (FVOCI) and amortised cost financial assets];
- Reviews, challenges and approves base macroeconomic forecasts and the multiple macroeconomic scenarios approach that are utilised in the forward-looking expected credit loss calculations

The IFRS 9 Impairment Committee is supported by an Expert Panel which also reviews and challenges the base case projections and multiple macroeconomic scenarios. The Expert Panel consists of members of Enterprise Risk Management (which includes the Scenario Design team), Finance, Group Economic Research and country representatives of major jurisdictions.

PMAs may be applied to account for identified weaknesses in model estimates. The processes for identifying the need for, calculating the level of, and approving PMAs are prescribed in the Credit Risk IFRS9 ECL Model Family Standards which are approved by the Global Head, Model Risk Management. PMA calculation methodologies are reviewed by GMV and submitted to CMAC as the model approver or the IIC. All PMAs have a remediation plan to fix the identified model weakness, and these plans are reported to and tracked at CMAC.

In addition, Risk Event Overlays account for events that are sudden and therefore not captured in the Base Case Forecast or the resulting ECL calculated by the models. All Risk Event Overlays must be approved by the IIC having considered the nature of the event, why the risk is not captured in the model, and the basis on which the quantum of the overlay has been calculated. Risk Event Overlays are subject to quarterly review and re-approval by the IIC and will be released when the risks are no longer relevant

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Liquidity and Funding Risk
Liquidity and Funding Risk is the risk that we may not have sufficient stable or diverse sources of funding to meet our obligations as they fall due.

The Group's Liquidity and Funding Risk framework requires that it operates within predefined liquidity limits and remains in compliance with Bank liquidity policies and practices, as well as local regulatory requirements.

The Bank achieves this through a combination of setting Risk Appetite and associated limits, policy formation, risk measurement and monitoring, prudential and internal stress testing, governance and review.

Despite the challenging macro-economic environment, the Bank has been resilient throughout and kept a strong liquidity position. The Bank continues to focus on improving the quality of its funding mix and remains committed to supporting its clients.

Primary sources of funding
The Group's funding strategy is largely driven by its policy to maintain adequate liquidity at all times for all currencies, and hence to be in a position to meet all obligations as they fall due. The Group's funding profile is therefore well diversified across different sources, maturities and currencies.

Our assets are funded predominantly by customer deposits, supplemented with wholesale funding (which is diversified by type and maturity).

We maintain access to wholesale funding markets in all major financial centres in which we operate. This seeks to ensure that we have market intelligence, maintain stable funding lines and can obtain optimal pricing when performing our Interest Rate Risk management activities.

Liquidity and Funding Risk metrics
We monitor key liquidity metrics regularly.

The following liquidity and funding Board Risk Appetite metrics define the maximum amount and type of risk that the Bank is willing to assume in pursuit of its strategy: liquidity coverage ratio (LCR), liquidity stress survival horizons, external wholesale borrowing, and advances-to-deposits ratio.

Stressed coverage
The Bank intends to maintain a prudent and sustainable funding and liquidity position, in all currencies, such that it can withstand a severe but plausible liquidity stress.

Our approach to managing liquidity and funding is reflected in the following Board-level Risk Appetite Statement:

"The Bank should hold an adequate buffer of high-quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support."

The Group's internal liquidity stress testing framework covers the following stress scenarios:
Standard Chartered-specific - This scenario captures the liquidity impact from an idiosyncratic event affecting Standard Chartered only i.e. the rest of the market is assumed to operate normally.

Market wide - This scenario captures the liquidity impact from a market-wide crisis affecting all participants in a country, region or globally.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Combined - This scenario assumes both Standard Chartered-specific and Market-wide events affecting the Bank simultaneously and hence is the most severe scenario.

All scenarios include, but are not limited to, modelled outflows for retail and wholesale funding, Off-Balance Sheet Funding Risk, Cross-currency Funding Risk, Intraday Risk, Franchise Risk and risks associated with a deterioration of a firm's credit rating.

Stress testing results show that a positive surplus was maintained under all scenarios at 31 December 2022. The results take into account currency convertibility and portability constraints while calculating the liquidity surplus.

External wholesale borrowing
The Board sets a risk limit to prevent excessive reliance on wholesale borrowing. Within the definition of Wholesale Borrowing, limits are applied and as at the reporting date, the Bank remained within Board Risk Appetite.

Advances-to-deposits ratio
This is defined as the ratio of total loans and advances to customers relative to total customer deposits. An advances-to-deposits ratio of below 100 per cent demonstrates that customer deposits exceed customer loans as a result of the emphasis placed on generating a high level of funding from customers.

The Group's Advances-to-Deposit Ratio has increased by 6.2 per cent to 65.9 per cent, driven by growth in customer deposits, most of which came from corporate customers.

Group/ Company

	2023 P '000	2022 P '000
Total loans and advances to customers	**8,559,800**	7,775,324
Total customer accounts	**13,081,354**	13,024,890
Advances-to-deposits ratio	**65.4%**	59.7%

Liquidity analysis of the Group's balance sheet

Contractual maturity of assets and liabilities
The following table presents assets and liabilities by maturity based on the remaining period to the contractual maturity date as at the balance sheet date on an undiscounted basis.

Within the tables below, cash and balances with central Banks, interbank placements (placements with other Banks) and investment securities that are fair value through other comprehensive income are used by the Bank principally for liquidity management purposes.

As at the reporting date, assets remain predominantly short-dated.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Group:

2023	One month or less P '000	Between one month and three months P '000	Between three months and six months P '000	Between six months and nine months P '000	Between nine months and one year P '000
Assets					
Cash and balances at central Banks	854,469	-	-	-	-
Derivative financial instruments	2,827	2,938	-	5,686	4,692
Loans and advances to Banks	6,881	-	-	-	-
Loans and advances to customers	26,604	1,342,099	11,984	27,288	33,223
Investment securities	2,151,254	151,153	238,844	-	27,680
Other assets	-	171,805	-	-	-
Due from related parties	3,632,041	-	-	-	-
Total assets	6,674,076	1,667,995	250,828	32,974	65,595
Liabilities					
Deposits by Banks	210,908	25,600	49,650	20,000	24,679
Customer deposits	5,690,678	2,404,498	858,040	395,574	124,028
Derivative financial instruments	2,641	10,004	100	5,726	4,692
Debt securities in issue	2,059	4,119	6,178	6,178	6,178
Lease liabilities	844	2,092	5,636	2,483	4,997
Accruals and deferred income	83,447	-	-	-	-
Due to related parties	994,597	-	-	-	-
Other liabilities	1,364,690	48,786	-	-	-
Subordinated liabilities and other borrowed funds	3,879	-	3,879	3,879	3,922
Total liabilities	8,353,744	2,495,099	923,482	433,840	168,496
Net liquidity gap	(1,679,667)	(827,104)	(672,655)	(400,866)	(102,901)

Included in loans and advances to customers, is accrued interest receivable relating to loans secured by mortgage on residential properties and other loans, advances and bills held as per note 35.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

Between one year and two years P '000	Between two years and five years P '000	More than five years and undated P '000	Total P '000
-	-	-	854,469
-	-	-	16,143
25	-	-	6,906
152,671	5,042,443	6,024,600	12,660,912
236,697	162,688	1,376,664	4,344,979
-	-	-	171,805
-	-	-	3,632,041
389,393	5,205,131	7,401,264	21,687,255
48	-	-	330,885
2,662,298	1,085,322	7,649	13,228,087
-	-	-	23,163
118,314	285,844	-	428,869
18,591	1,722	-	36,365
-	-	-	83,447
-	-	-	994,597
-	-	-	1,413,476
400,638	-	-	416,197
3,199,889	1,372,888	7,649	16,955,086
(2,810,496)	3,832,243	7,393,615	4,732,169

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

2022	One month or less P '000	Between one month and three months P '000	Between three months and six months P '000	Between six months and nine months P '000	Between nine months and one year P '000
Assets					
Cash and balances at central Banks	491,618	-	-	-	-
Derivative financial instruments	770	-	-	-	-
Loans and advances to Banks	45,054	-	-	-	-
Loans and advances to customers	342,115	2,894	38,330	11,784	26,192
Investment securities	225,014	901,395	803,674	150,000	27,680
Other assets	-	28,349	-	-	11,603
Due from related parties	5,266,269	-	-	-	-
Total assets	6,370,840	932,638	842,004	161,784	65,475
Liabilities					
Deposits by Banks	688,216	87,398	61,934	17,090	5,000
Customer deposits	4,506,611	1,115,268	598,274	661,062	261,178
Derivative financial instruments	446	-	23	-	-
Debt securities in issue	-	-	-	-	-
Lease liabilities	696	1,895	6,205	2,780	6,797
Accruals and deferred income	97,112	-	-	-	-
Due to related parties	377,750	-	-	-	-
Other liabilities	24,442	65,679	-	-	-
Subordinated liabilities and other borrowed funds	5,305	-	5,130	4,007	3,879
Total liabilities	5,700,578	1,270,240	671,566	684,939	276,854
Net liquidity gap	670,262	(337,602)	170,438	(523,155)	(211,379)

Included in loans and advances to customers, is accrued interest receivable relating to loans secured by mortgage on residential properties and other loans, advances and bills held as per note 35.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

Between one year and two years P '000	Between two years and five years P '000	More than five years and undated P '000	Total P '000
-	-	-	491,618
-	-	-	770
24	-	-	45,078
309,873	3,689,088	5,023,801	9,444,077
27,680	400,935	25,735	2,562,113
-	-	139	40,091
-	-	-	5,266,269
337,577	4,090,023	5,049,675	17,850,016
601	-	-	860,239
5,053,879	1,029,407	-	13,225,679
-	-	-	469
-	93,603	229,963	323,566
15,607	19,697	-	53,677
-	-	-	97,112
-	-	-	377,750
-	-	-	90,121
15,560	400,638	-	434,519
5,085,647	1,543,345	229,963	15,463,132
(4,748,070)	2,546,678	4,819,712	2,386,884

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Company

2023	One month or less P '000	Between one month and three months P '000	Between three months and six months P '000	Between six months and nine months P '000	Between nine months and one year P '000
Assets					
Cash and balances at central Banks	851,591	-	-	-	-
Derivative financial instruments	2,827	2,938	-	5,686	4,692
Loans and advances to Banks	6,881	-	-	-	-
Loans and advances to customers	26,604	1,342,099	11,984	27,288	33,223
Investment securities	2,151,254	151,153	238,844	-	27,680
Other assets	-	171,744	-	-	-
Due from related parties	3,558,096	-	-	-	-
Total assets	6,597,253	1,667,934	250,828	32,974	65,595
Liabilities					
Deposits by Banks	210,908	25,600	49,650	20,000	24,679
Customer deposits	5,690,678	2,404,498	858,040	395,574	124,028
Derivative financial instruments	2,641	10,004	100	5,726	4,692
Debt securities in issue	1,619	4,856	9,711	14,567	19,422
Lease liabilities	844	2,092	5,636	2,483	4,997
Accruals and deferred income	83,408	-	-	-	-
Due to related parties	994,597	-	-	-	-
Other liabilities	1,364,690	36,335	-	-	-
Subordinated liabilities and other borrowed funds	3,879	-	3,879	3,879	3,992
Total liabilities	8,353,264	2,483,385	927,016	442,228	181,810
Net liquidity gap	(1,756,011)	(815,451)	(676,188)	(409,254)	(116,215)

Included in loans and advances to customers, is accrued interest receivable relating to loans secured by mortgage on residential properties and other loans, advances and bills held as per note 35.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

Between one year and two years P '000	Between two years and five years P '000	More than five years and undated P '000	Total P '000
-	-	-	851,591
-	-	-	16,143
25	-	-	6,906
208,978	5,042,443	5,968,292	12,660,911
236,697	162,688	1,376,664	4,344,979
-	-	-	171,744
-	-	-	3,558,096
445,700	5,205,131	7,344,956	21,610,370
48	-	-	330,885
2,662,298	1,085,322	7,649	13,228,087
-	-	-	23,163
132,447	269,977	-	452,597
18,591	1,722	-	36,365
-	-	-	83,408
-	-	-	994,597
-	-	-	1,401,025
400,638	-	-	416,267
3,214,022	1,357,020	7,649	16,966,394
(2,768,322)	3,848,110	7,337,307	4,643,975

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

2022	One month or less P '000	Between one month and three months P '000	Between three months and six months P '000	Between six months and nine months P '000	Between nine months and one year P '000
Assets					
Cash and balances at central Banks	488,740	-	-	-	-
Derivative financial instruments	770	-	-	-	-
Loans and advances to Banks	45,054	-	-	-	-
Loans and advances to customers	342,115	2,894	38,330	11,784	26,192
Investment securities	225,014	901,395	803,674	150,000	27,680
Other assets	-	4,603	-	-	11,603
Due from related parties	5,266,269	-	-	-	-
Total assets	6,367,962	908,892	842,004	161,784	65,475
Liabilities					
Deposits by Banks	688,216	87,398	61,934	17,090	5,000
Customer deposits	4,506,611	1,115,268	598,274	661,062	261,178
Derivative financial instruments	446	-	23	-	-
Debt securities in issue	-	-	-	-	-
Lease liabilities	696	1,895	6,205	2,780	6,797
Accruals and deferred income	97,112	-	-	-	-
Due to related parties	377,750	-	-	-	-
Other liabilities	57,938	65,079	-	-	-
Subordinated liabilities and other borrowed funds	5,305	-	5,130	4,007	3,879
Total liabilities	5,734,074	1,269,640	671,566	684,939	276,854
Net liquidity gap	633,888	(360,748)	170,438	(523,155)	(211,379)

*The prior year disclosure has been updated to provide better comparability to the disclosure in the current year

Included in loans and advances to customers, is accrued interest receivable relating to loans secured by mortgage on residential properties and other loans, advances and bills held as per note 35.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

	Between one year and two years P '000	Between two years and five years P '000	More than five years and undated P '000	Total P '000
	-	-	-	488,740
	-	-	-	770
	24	-	-	45,078
	309,873	3,689,088	5,023,801	9,444,077
	27,680	400,935	25,735	2,562,113
	-	-	139	16,345
	-	-	-	5,266,269
	337,577	4,090,023	5,049,675	17,823,392
	601	-	-	860,239
	5,053,879	1,029,407	-	13,225,679
	-	-	-	469
	-	93,603	229,963	323,566
	15,607	19,697	-	53,677
	-	-	-	97,112
	-	-	-	377,750
	-	-	-	123,017
	15,560	400,638	-	434,519
	5,085,647	1,543,345	229,963	15,496,028
	(4,748,070)	2,546,678	4,819,712	2,327,364

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Group

	2023			2022		
	One year P '000	More than one year P '000	Total P '000	One year P '000	More than one year P '000	Total P '000
Assets						
Cash and balances at central Banks	854,469	-	854,469	491,618	-	491,618
Derivative financial instruments	16,144	-	16,144	770	-	770
Loans and advances to Banks	6,881	25	6,906	45,054	24	45,078
Loans and advances to customers	1,425,549	7,134,251	8,559,800	421,315	7,354,009	7,775,324
Investment securities	3,877,402	397,566	4,274,968	2,053,491	390,997	2,444,488
Other assets	171,805	-	171,805	40,036	139	40,175
Current tax assets	7,651	-	7,651	-	-	-
Prepayments and accrued income	220,788	48,605	269,393	112,382	54,026	166,408
Goodwill and intangible assets	-	63,366	63,366	-	63,150	63,150
Property, plant and equipment	-	81,223	81,223	-	101,599	101,599
Deferred tax assets	-	18,525	18,525	-	30,126	30,126
Due from related parties	3,632,041	-	3,632,041	5,266,269	-	5,266,269
Total assets	**10,212,730**	**7,743,561**	**17,956,291**	**8,430,935**	**7,994,070**	**16,425,005**
Liabilities						
Deposits by Banks	330,837	48	330,885	859,638	601	860,239
Customer deposits	9,406,064	3,675,290	13,081,354	7,142,393	5,882,497	13,024,890
Derivative financial instruments	23,163	-	23,163	469	-	469
Debt securities in issue	-	323,566	323,566	-	323,566	323,566
Accruals and deferred income	122,614	-	122,614	129,366	-	129,366
Due to related parties	994,597	-	994,597	377,750	-	377,750
Other liabilities	1,447,427	-	1,447,427	139,986	-	139,986
Current tax liabilities	-	-	-	20,634	-	20,634
Provisions for liabilities and charges	1,059	-	1,059	2,445	-	2,445
Subordinated liabilities and other borrowed funds	-	389,000	389,000	-	389,000	389,000
Total liabilities	**12,325,761**	**4,387,904**	**16,713,665**	**8,672,681**	**6,595,664**	**15,268,345**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Company

	2023			2022		
	One year P '000	More than one year P '000	Total P '000	one year P '000	More than one year P '000	Total P '000
Assets						
Cash and balances at central Banks	851,591	-	851,591	488,740	-	488,740
Derivative financial instruments	16,144	-	16,144	770	-	770
Loans and advances to Banks	6,881	25	6,906	45,054	24	45,078
Loans and advances to customers	1,425,550	7,134,250	8,559,800	421,315	7,354,009	7,775,324
Investment securities	3,877,402	397,566	4,274,968	2,053,491	390,997	2,444,488
Investment in subsidiary undertaking	-	30	30	-	30	30
Other assets	171,743	-	171,743	16,206	-	16,206
Current tax assets	7,035	-	7,035	-	-	-
Prepayments and accrued income	220,788	48,605	269,393	112,382	54,026	166,408
Goodwill and intangible assets	-	63,366	63,366	-	63,150	63,150
Property, plant and equipment	-	81,223	81,223	-	101,599	101,599
Deferred tax assets	-	16,232	16,232	-	27,977	27,977
Due from related parties	3,558,096	-	3,558,096	5,266,269	-	5,266,269
Total assets	**10,135,230**	**7,741,297**	**17,876,527**	**8,404,227**	**7,991,812**	**16,396,039**
Liabilities						
Deposits by Banks	330,837	48	330,885	859,638	601	860,239
Customer deposits	9,406,064	3,675,290	13,081,354	7,142,393	5,882,497	13,024,890
Derivative financial instruments	23,163	-	23,163	469	-	469
Debt securities in issue	-	323,566	323,566	-	323,566	323,566
Accruals and deferred income	122,575	-	122,575	129,366	-	129,366
Due to related parties	994,597	-	994,597	377,750	-	377,750
Other liabilities	1,434,976	-	1,434,976	169,775	-	169,775
Current tax liabilities	-	-	-	18,749	-	18,749
Provisions for liabilities and charges	1,059	-	1,059	2,445	-	2,445
Subordinated liabilities and other borrowed funds	-	389,000	389,000	-	389,000	389,000
Total liabilities	**12,313,271**	**4,387,904**	**16,701,175**	**8,700,585**	**6,595,664**	**15,296,249**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Behavioural maturity of financial assets and liabilities
The cashflows presented in the previous section reflect the cashflows that will be contractually payable over the residual maturity of the instruments. However, contractual maturities do not necessarily reflect the timing of actual repayments or cashflow. In practice, certain assets and liabilities behave differently from their contractual terms, especially for short-term customer accounts, credit card balances and overdrafts, which extend to a longer period than their contractual maturity. On the other hand, mortgage balances tend to have a shorter repayment period than their contractual maturity date. Expected customer behaviour is assessed and managed on a country basis using qualitative and quantitative techniques, including analysis of observed customer behaviour over time.

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

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

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

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

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

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

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

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

	At 31 Dec P'000	Average P'000	Maximum P'000	Minimum P'000
2023				
Foreign currency risk	16	57	276	2
Interest rate risk	1,558	1,291	2,444	626
Overall	**1,574**	**1,348**	**2,720**	**628**
2022				
Foreign currency risk	25	120	856	-
Interest rate risk	1,477	1,215	1,907	123
Overall	**1,502**	**1,335**	**2,763**	**123**

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

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

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Group - 31 December 2023	Zero rate	Floating rate	Fixed Rate instruments					
			0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Total Assets	2,696,809	8,616,000	4,718,000	1,229,000	-	696,482	-	17,956,291
Total Liabilities	(3,878,809)	(9,673,000)	(1,833,000)	(1,761,000)	(540,000)	(270,482)	-	(17,956,291)
Net Mismatch	**(1,182,000)**	**(1,057,000)**	**2,885,000**	**(532,000)**	**(540,000)**	**426,000**	**-**	**-**

Interest sensitivity gap- Floating rate bucket	
Impact of decrease in interest rates	
50 basis points	**5,285**
100 basis points	**10,570**

Group - 31 December 2022	Zero rate	Floating rate	Fixed Rate instruments					
			0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Total Assets	1,831,005	7,689,000	5,131,000	1,457,000	166,000	151,000	-	16,425,005
Total Liabilities	(599,005)	(11,021,000)	(2,078,000)	(1,842,000)	(773,000)	(112,000)	-	(16,425,005)
Net Mismatch	**1,232,000**	**(3,332,000)**	**3,053,000**	**(385,000)**	**(607,000)**	**39,000**	**-**	**-**

Interest sensitivity gap- Floating rate bucket	
Impact of decrease in interest rates	
50 basis points	**16,660**
100 basis points	**33,320**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Company - 31 December 2023

	Zero rate	Floating rate	Fixed Rate instruments					
			0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Total Assets	2,616,532	8,616,000	4,718,000	1,229,000	-	696,995	-	17,876,527
Total Liabilities	(3,798,502)	(9,673,000)	(1,833,000)	(1,761,000)	(540,000)	(271,025)	-	(17,876,527)
Net Mismatch	**(1,181,970)**	**(1,057,000)**	**2,885,000**	**(532,000)**	**(540,000)**	**425,970**	**-**	**-**

Interest sensitivity gap- Floating rate bucket	
Impact of decrease in interest rates	
50 basis points	**5,285**
100 basis points	**10,570**

Company - 31 December 2022

2021	**Zero rate**	**Floating rate**	**Fixed Rate instruments**					
			0-1 month	**1-6 months**	**6-12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	P'000	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	**P'000**	
Total Assets	1,802,039	7,689,000	5,131,000	1,457,000	166,000	151,000	-	16,396,039
Total Liabilities	(570,039)	(11,021,000)	(2,078,000)	(1,842,000)	(773,000)	(112,000)	-	(16,396,039)
Net Mismatch	**1,232,000**	**(3,332,000)**	**3,053,000**	**(385,000)**	**(607,000)**	**39,000**	**-**	**-**

Interest sensitivity gap- Floating rate bucket	
Impact of decrease in interest rates	
50 basis points	**16,660**
100 basis points	**33,320**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Sensitivity analysis (PV01)

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

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

Group

Fair Value PV01 Sensitivity analysis (BWP "000")

2023	0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years
Marketable Securities	3,383,000	298,000	231,000	374,000	20,000
Sensitivity (PV01_1bps change in interest rate)	(8)	(11)	(26)	(49)	(9)

2022	0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years
Marketable Securities	1,003,000	1,411,000	587,000	359,000	20,000
Sensitivity (PV01_1bps change in interest rate)	(5)	(38)	(24)	(89)	(9)

Company

2023	0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years
Marketable Securities	3,383,000	298,000	231,000	374,000	20,000
Sensitivity (PV01_1bps change in interest rate)	(8)	(11)	(26)	(49)	(9)

2022	0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years
Marketable Securities	1,003,000	1,411,000	587,000	359,000	20,000
Sensitivity (PV01_1bps change in interest rate)	(5)	(38)	(24)	(89)	(9)

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

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

The foreign exchange positions arise from the following activities:

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

The Group's Financial Markets division is responsible for:

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

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

The table below sets out principal structural foreign exchange exposures of the Group for only major currencies at 31 December 2023 and 2022.

Group and Company

	2023			2022		
	Assets / (liabilities) P'000	Sensitivity* 1%	5%	Assets / (liabilities) P'000	Sensitivity* 1%	5%
American Dollar	5,687	(57)	(284)	1284	(12.84)	(64.18)
British Pound	119	(1)	(6)	268	(2.68)	(13.38)
Euro	192	(2)	(10)	1	(0.01)	(0.05)
South African Rand	198	(2)	(10)	873	(8.73)	(43.63)

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

Operational and Technology risk
Operational Risk is defined as the "Potential for loss from inadequate or failed internal processes, technology, human error, or from the impact of external events (including legal risks)". It is inherent in the Bank carrying out business and can be impacted from a range of operational risks.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Operational and Technology risk profile
In 2022, the Group and Company have taken steps for further embedding of the enhanced framework to augment the management of operational risk with the aim of ensuring that risk is managed within Risk Appetite and we continue to deliver services to our clients.

The Group and Company have included information on operational and technology risk for the first time to enhance disclosure on bank approach to risk management as the bank is moving on to digital space hence the refocus on technology.

Operational Risk events and losses
Operational losses are one indicator of the effectiveness and robustness of the non-financial risk control environment. As at 31 December 2023, recorded impact from operational losses for the year is lower than 2022.

The Group's profile of operational loss events in 2023 and 2022 is summarised in the table below. It shows the percentage distribution of gross operational losses by Basel business line.

Group and Company (Operational loss summary)

The Group's profile of operational loss events in 2023 and 2022 is summarised in the table below. It shows the percentage distribution of gross operational losses by Basel business line.

	% Loss	
Distribution of Operational Losses by Basel business line	**2023**	**2022**
Agency services	0.0%	0.0%
Commercial Banking	0.0%	5.6%
Corporate Items	0.0%	43.2%
Payment and Settlements	0.0%	35.8%
Retail Banking	96.0%	10.1%
Retail Brokerage	0.0%	0.0%
Trading and Sales	4.0%	10.2%

The Group's profile of operational loss events in 2022 and 2021 is also summarised by Basel event type in the table below. It shows the percentage distribution of gross operational losses by Basel event type.

	% Loss	
Distribution of Operational Losses by Basel event type	**2023**	**2022**
Business disruption and system failures	0.0%	3.4%
Client's products and business practices	2.0%	1.1%
Damage to physical assets	0.0%	0.0%
Employment practices and workplace safety	0.0%	0.0%
Execution delivery and process management	0.0%	79.7%
External fraud	98.0%	9.0%
Internal fraud	0.0%	6.7%

Other principal risks
Losses arising from operational failures for other principal risks are reported as operational losses. Operational losses do not include Operational Risk-related credit impairments.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Capital review

The Capital review provides an analysis of the Group's capital and leverage position, and requirements.

Capital summary

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

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

	2023	2022
CET1 capital	6.3%	5.6%
Tier 1 capital	11.8%	10.4%
Capital adequacy ratio	19.3%	17.0%
Risk-weighted assets (RWA) P '000	7,237,599	8,429,266

Capital analysis is for the group in line with the Bank of Botswana guidelines.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

3. Financial Risk Management and Capital Review (cont.)

Capital review continued	2023 P '000	2022 P '000
CET1 capital instruments and reserves		
Stated capital	179,273	179,273
Other revenue reserves	617,194	543,043
Capital contribution	28,213	28,213
Statutory credit risk reserve	19,152	19,152
Less regulatory adjustments	(81,891)	(63,150)
CET1 capital	**761,941**	706,531
Additional Tier 1 Capital (AT1)	**400,000**	400,000
Tier 1 capital	**1,161,941**	1,106,531
Non-specific impairment	80,680	95,434
*Subordinated debt	155,600	233,400
Tier 2 capital	**236,280**	328,834
Credit		
Market	6,454,363	7,634,730
Operational	21,159	29,456
Total risk-weighted assets	762,077	758,749
Total risk-weighted assets	**7,237,599**	8,422,935
Capital adequacy ratio	**19.3%**	**17.0%**

During the year, dividends amounting to P203million were declared and paid (2022: P60million).

A distribution of P30.3million was paid to holders of subordinated undated AT1 capital securities during the year (2022: P30.3million).

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

4. Net interest income

Accounting policy

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

Interest income and expense presented in the statement of profit or loss include:

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

Interest in suspense
If there are any recoveries on stage 3 loans, any contractual interest earned while the asset was in stage 3 is recognised in the credit impairment line. Interest that was previously suspended worth 17m (2022: Nil) was released to income statement due to stage 3 accounts that cured during the year

	Group		Company	
	2023 P '000	**2022 P '000**	**2023 P '000**	**2022 P '000**
Loans and advances to Banks	1,842	2,189	1,842	2,189
Loans and advances to customers	858,717	756,875	858,717	756,875
Investment securities*	31,573	35,413	31,466	35,413
Other eligible bills*	62,772	47,385	62,879	47,385
Due from related parties	183,206	77,427	183,206	77,427
Interest income	**1,138,110**	919,289	**1,138,110**	919,289
Deposits by Banks	26,309	26,045	26,309	26,045
Customer deposits	252,441	261,490	252,441	261,490
Due to related parties	28,292	22,770	28,292	22,770
Subordinated liabilities	23,038	23,603	23,038	23,603
Interest expense on IFRS 16 lease liabilities	2,236	2,232	2,236	2,232
Interest expense	332,316	336,140	332,316	336,140
Net interest income	**805,794**	583,149	**805,794**	583,149

*Investment securities and other eligible bills are at fair value through other comprehensive income

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

5. Net fees and commission

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

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

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

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

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

Insurance Brokerage
For commission on brokerage activities, customers are entitled to a pro-rata refund of insurance premiums paid in advance if their loans are early settled. As a result, a portion of the commission on brokerage activities may need to be refunded. Refund on commission earned on these insurance premiums collected are accounted for as variable consideration. The commission income is estimated and recognised only to the extent that it is highly probable that a significant reversal of revenue will not occur (the constraint). The amount received but not recognised as revenue is accounted for as a claw-back liability, until such time as the premiums is refunded or the constraint is removed. Clawback liability is included in other liabilities note (21).

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

5. Net fees and commission (cont.)

Group

	2023 P '000	2022 P '000
Fee income earned from services that are provided over time:		
Corporate Finance	9,559	11,837
Lending and Portfolio Management	41	65
	9,600	**11,902**
Fee income from providing financial services at a point in time		
Fiduciary Activities	16,727	15,558
Financial Markets	10,865	13,520
Transaction banking	10,727	29,537
Retail Products	182,989	176,620
Insurance brokerage	25,995	23,816
	247,303	259,051
Fees and commission income	**256,903**	**270,953**
Fees and commission expenses		
Transaction banking	356	(112)
Card expenses	(25,157)	(27,571)
Sales commission	(7,455)	(7,083)
Total	(32,256)	(34,766)
Net fees and commission	**224,647**	**236,187**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

5. Net fees and commission (cont.)

Company

	2023 P '000	2022 P '000
Fee income earned from services that are provided over time:		
Corporate Finance	9,559	(2)
Lending and Portfolio Management	41	4,925
	9,600	**4,923**
Fee income from providing financial services at a point in time		
Fiduciary Activities	16,727	2,038
Financial Markets	10,865	13,012
Transaction Banking	10,727	29,537
Retail Products	182,989	197,627
	221,308	242,214
Fees and commission income	**230,908**	**247,137**
Fees and commission expenses		
Transaction banking	356	(112)
Card expenses	(25,157)	(27,571)
Sales commission	(7,455)	(7,083)
Total	(32,256)	(34,766)
Net fees and commission	**198,652**	**212,371**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

6. Net trading income

Accounting policy

Net trading income comprises foreign exchange gains and losses, gains and losses from changes in the fair value of financial instruments, income from the sale and purchase of trading positions and margins on marking instruments which are included in the profit or loss in the period they arise.

Gains and losses arising from changes in the fair value of financial instruments held at fair value through profit or loss are recorded in net trading income in the period in which they arise. This includes contractual interest receivable or payable. Income is recognised from the sale and purchase of trading positions, margins on market making and customer business and fair value changes.

When the initial fair value of a financial instrument held at fair value through profit or loss relies on unobservable inputs, the difference between the initial valuation and the transaction price is amortised to net trading income as the inputs become observable or over the life of the instrument, whichever is shorter. Any unamortised 'day one' gain is released to net trading income if the transaction is terminated.

	Group		Company	
	2023 P '000	2022 P '000	2023 P '000	2022 P '000
Net trading income	**10,848**	**81,727**	**10,848**	**81,727**
Gains on instruments held for trading	10,848	81,727	10,848	81,727

The net trading income reduced significantly when compared to the previous reporting period. The movement is attributable to the losses incurred on the sale and purchase of trading positions.

7. Other operating income

Accounting policy

Dividend income is recognised when the right to receive dividend income is established. Usually this is the ex-dividend date for quoted equity securities. The dividend income forms part of revenue. Dividends on equity instruments are recognised when the Group's right to receive payment is established.

On disposal of fair value through other comprehensive income debt instruments, the cumulative gain or loss recognised in other comprehensive income is recycled to the profit or loss in other operating income/expense.

When the Group loses control of the subsidiary or disposal group, the difference between the consideration received and the carrying amount of the subsidiary or disposal group is recognised as a gain or loss on sale of the business.

	Group		Company	
	2023 P '000	2022 P '000	2023 P '000	2022 P '000
Other operating income includes:				
Modification gains	-	1,878	-	1,422
Other operating income	**-**	**1,878**	**-**	**1,422**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

8. Operating expenses

Accounting policy
Short-term employee benefits: salaries and social security expenses are recognised over the period in which the employees provide the service. Variable compensation is included within share-based payments costs and wages and salaries.

Pension costs: contributions to defined contribution pension schemes are recognised in profit or loss when payable. Further details are provided in Note 27.

	Group		Company	
	2023 P'000	**2022 P'000**	**2023 P'000**	**2022 P'000**
Staff costs				
Salaries and wages	219,877	197,489	219,877	197,489
Contributions to defined contribution pension plan	19,340	17,516	19,340	17,516
Other staff costs	10,702	7,801	10,702	7,802
Restructuring	4,485	11,704	4,485	11,700
Total staff costs	**254,404**	**234,510**	**254,404**	**234,507**
General administrative expenses				
Audit fees	2,742	2,272	2,742	2,272
Consultancy costs	11,308	7,709	11,308	7,709
Directors Fees	2,623	1,479	2,491	1,362
Repairs and maintenance	15,263	14,394	15,263	14,394
Communication costs	14,219	14,948	14,211	14,948
Group recharges	208,252	189,593	208,252	189,593
Advertising and sponsorship	15,368	13,320	15,368	13,320
Technical support	9,762	7,868	9,762	7,868
Printing and stationery	1,592	2,412	1,592	2,412
Security	17,767	16,660	17,767	16,660
Irrecoverable VAT and WHT on group recharges	31,975	36,226	31,975	36,226
Other expenses*	40,136	23,911	27,156	12,893
Total general administrative expenses	**371,007**	**330,792**	**357,887**	**319,657**

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

Details of Directors' pay benefits, pensions and benefits and interests in shares are disclosed in Note 30.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

8. Operating expenses (cont.)

	Group		Company	
	2023 P '000	**2022 P '000**	**2023 P '000**	**2022 P '000**
Staff costs	254,404	234,510	254,404	234,507
Premises and equipment expenses:				
Rental of premises	909	912	909	912
	909	**912**	**909**	**912**
General administrative expenses:				
Other general administrative expenses	371,007	330,792	357,887	319,657
	371,007	**330,792**	**357,887**	**319,657**
Depreciation and amortisation:				
Property, plant and equipment:				
Premises	18,186	17,156	18,186	17,156
Equipment	7,059	11,321	7,059	11,321
	25,245	28,477	25,245	28,477
Intangibles:				
Software	12,339	12,185	12,339	12,185
	37,584	40,662	37,584	40,662
Total operating expenses	**663,904**	**606,876**	**650,784**	**595,738**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

9. Credit impairment

Accounting policy

Significant accounting estimates and judgements

Expected credit losses
Expected credit loss on loans and advances to Banks (note 16), investments securities (note 14), other financial assets (note 19) and related parties (note 30) is considered immaterial. The sustained drop in Expected Credit Loss (ECL) provisions for the good book is reflective of improved overall quality

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

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

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

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

	Group		Company	
	2023 P'000	2022 P'000	2023 P'000	2022 P'000
Expected credit loss on financial assets				
Expected credit losses	13,375	75,758	13,375	75,758
Recoveries	(38,704)	(32,771)	(38,704)	(32,771)
Credit impairment	**(25,329)**	**42,987**	**(25,329)**	**42,987**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

10. Goodwill, fixed assets and other impairment

Accounting policy
Refer to notes 17 and 18 for the relevant accounting policies. The relevant assets were reviewed for impairment during the current and prior year and no impairment indicators were identified.

11. Taxation

Accounting policy
Income tax payable on profits is based on the applicable tax law in each jurisdiction and is recognised as an expense in the period in which profits arise.

Deferred tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated and separate financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted as at the balance sheet date, and that are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Where permitted, deferred tax assets and liabilities are offset on an entity basis and not by component of deferred taxation.

Current and deferred tax relating to items which are charged or credited directly to equity, is credited or charged directly to equity and is subsequently recognised in the income statement together with the current or deferred gain or loss.

Significant accounting estimates and judgements

- Determining the Group's tax charge for the year involves estimation and judgement, which includes an interpretation of local tax laws and an assessment of whether the tax authorities will accept the position taken. These judgements take account of external advice where appropriate, and the Group's view on settling with the relevant tax authorities
- The Group provides for current tax liabilities at the best estimate of the amount that is expected to be paid to the tax authorities where an outflow is probable. In making its estimates the Group assumes that the tax authorities will examine all the amounts reported to them and have full knowledge of all relevant information
- The recoverability of the Group's deferred tax assets is based on management's judgement of the availability of future taxable profits against which the deferred tax assets will be utilised. In preparing management forecasts the effect of applicable laws and regulations relevant to the utilisation of future taxable profits have been considered

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

11. Taxation (cont.)

	Group		Company	
	2023 P '000	2022 P '000	2023 P '000	2022 P '000
Taxation:				
Profit before tax	**402,714**	**253,078**	**389,839**	**239,944**
Taxation at Statutory rate (22%)	88,597	55,677	85,765	52,788
Non-deductible	1216	348	1185	323
Non-taxable	-	(100)	-	-
Prior year deferred tax adjustments	2,071	-	2,071	-
Prior year current tax adjustments	3,460	(4,673)	3,460	(2,692)
	95,344	**51,252**	**92,481**	**50,419**
Tax Rate reconciliation				
Tax rate	22.0%	22.0%	22.0%	22.0%
Non-deductible	0.3%	0.1%	0.3%	0.1%
Non-taxable	0.0%	0.0%	0.0%	0.0%
Prior year deferred tax adjustments	0.5%	0.0%	0.5%	0.0%
Prior year current tax adjustments	0.9%	(1.8)%	0.9%	(1.1)%
Effective Tax Tate	**23.7%**	**20.3%**	**23.7%**	**21.0%**

	Group		Company	
	2023 P '000	2022 P '000	2023 P '000	2022 P '000
The charge for taxation based upon the profit for the year comprises:				
Current tax:				
Botswana tax at 22 per cent (2021: 22 per cent):				
Current tax charge on income for the year	87,756	45,476	85,717	40,196
Adjustments in respect of prior years	2,071	(6,614)	2,071	(2,590)
	89,827	**38,862**	**87,788**	**37,606**
Deferred tax:				
Origination/reversal of temporary differences	6,637	10,553	6,634	10,553
Adjustments in respect of prior years	(1,120)	1,837	(1,941)	2,260
	5,517	12,390	4,693	12,813
Tax on profits on ordinary activities	**95,344**	**51,252**	**92,481**	**50,419**
Effective tax rate	**23.7%**	**20.3%**	**23.7%**	**21.0%**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

11. Taxation (cont.)

	Group and Company					
	2023			2022		
Tax recognised in other comprehensive income	Current tax P '000	Deferred tax P '000	Total P '000	Current tax P '000	Deferred tax P '000	Total P '000
Items that may be reclassed subsequently to income statement	-	(3,369)	(3,369)	-	1,338	1,338
Debt instruments at fair value through other comprehensive income	-	(3,369)	(3,369)	-	1,338	1,338
Total tax credit/(charge) recognised in equity	-	(3,369)	(3,369)	-	1,338	1,338

Current tax: The following are the movements in current tax during the year:

	Group		Company	
Current tax comprises:	2023 P '000	2022 P '000	2023 P '000	2022 P '000
Current tax assets	-	69	-	69
Current tax liabilities	(20,634)	(787)	(18,749)	-
Net current tax opening balance	**(20,634)**	**(718)**	**(18,749)**	**69**
Movements in income statement	(87,756)	(45,476)	(85,717)	(40,196)
Taxes paid	112,704	26,395	109,647	23,730
Other movements	3,337	(835)	1,854	(2,352)
Net current tax balance as at 31 December	**7,651**	**(20,634)**	**7,035**	**(18,749)**
Current tax assets	7,651	-	7,035	-
Current tax liabilities	-	(20,634)	-	(18,749)
Total	**7,651**	**(20,634)**	**7,035**	**(18,749)**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

11. Taxation (cont.)

Deferred tax: The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the year:

	Group				
	At 01 January 2023 P '000 '000	Exchange & other adjustments P '000	(Charge)/ credit to profit P '000	(Charge)/ credit to equity P '000	At 31 December 2023 P '000
Deferred tax comprises:					
Accelerated tax depreciation	(6,926)	-	(391)	-	(7,317)
Impairment provisions on loans and advances	16,801	-	-	-	16,801
Fair value through other comprehensive income	2,982	-	-	(3,369)	(387)
Premises revaluation	(6,499)	-	-	-	(6,499)
Retirement benefit obligations	482	-	214	-	696
Share-based payments	47	-	21	-	68
Other temporary differences	23,239	-	(8,076)	-	15,163
Net deferred tax assets	**30,126**	**-**	**(8,232)**	**(3,369)**	**18,525**

Other temporary differences are made up of mainly cross border recharges P2,186, leave P2,540 and bonus provision P6,076.

* Impairment provision relates to day one impact on implementation of IFRS 9.

	At 01 January 2022 P '000	Exchange & other adjustments P '000	(Charge)/ credit to profit P '000	(Charge)/ credit to equity P '000	At 31 December 2022 P '000
Deferred tax comprises:					
Accelerated tax depreciation	(3,852)	-	(3,075)	-	(6,927)
Impairment provisions on loans and advances	16,801	-	-	-	16,801
Fair value through other comprehensive income	1,644	-	-	1,338	2,982
Premises revaluation	(6,499)	-	-	-	(6,499)
Retirement benefit obligations	2,119	-	(1,637)	-	482
Share-based payments	40	-	8	-	48
Other temporary differences	28,682	-	(5,443)	-	23,239
Net deferred tax assets	**38,935**	**-**	**(10,147)**	**1,338**	**30,126**

Other temporary differences are made up of mainly Cross border recharges (P14,375).

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

11. Taxation (cont.)

	Company				
	At 01 January 2023 P '000	Exchange & other adjustments P '000	(Charge)/ credit to profit P '000	(Charge)/ credit to equity P '000	At 31 December 2023 P '000
Accelerated tax depreciation	(6,927)	-	391	-	(6,536)
Impairment provisions on loans and advances	16,801	-	-	-	16,801
Fair value through other comprehensive income	2,982	-	-	(3,369)	(387)
Premises revaluation	(6,499)	-	-	-	(6,499)
Retirement benefit obligations	482	-	214	-	696
Share-based payments	48	-	21	-	69
Other temporary differences	21,090	-	(9,002)	-	12,088
Net deferred tax assets	**27,977**	**-**	**(8,376)**	**(3,369)**	**16,232**

Other temporary differences are made up of mainly Cross border recharges P2,186, leave P2,540 and bonus provision P6,076

* Impairment provision relates to day one impact on implementation of IFRS 9.

	At 01 January 2022 P '000	Exchange & other adjustments P '000	(Charge)/ credit to profit P '000	(Charge)/ credit to equity P '000	At 31 December 2022 P '000
Deferred tax comprises:					
Accelerated tax depreciation	(3,852)	-	(3,075)	-	(6,927)
*Impairment provisions on loans and advances	16,801	-	-	-	16,801
Fair value through other comprehensive income	1,644	-	-	1,338	2,982
Premises revaluation	(6,499)	-	-	-	(6,499)
Retirement benefit obligations	2,119	-	(1,637)	-	482
Share-based payments	40	-	8	-	48
Other temporary differences	25,617	-	(4,527)	-	21,090
Net deferred tax assets	**35,870**	**-**	**(9,231)**	**1,338**	**27,977**

Other temporary differences are made up of mainly Cross border recharges (P14,375).
* Impairment provision relates to day one impact on implementation of IFRS 9.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

12. Dividends

Accounting policy

Dividends on ordinary shares and distribution to holders of subordinated capital securities classified as equity are recognised in equity in the year in which they are declared. Dividends on ordinary equity shares are recorded in the year in which they are declared and, in respect of the final dividend, have been approved by the shareholders.

The Board considers a number of factors prior to dividend declaration which includes the rate of recovery in the Group's financial performance, the macroeconomic environment, and opportunities to further invest in our business and grow profitably

Ordinary equity shares

	Group		Company	
	2023 P'000	2022	2023 P'000	2022
Final dividend (Gross of WHT) declared and paid during the year	201,996	60,311	203,535	60,311
Dividend per share (thebe)	68.2	20.4	68.2	20.4

Dividends on ordinary equity shares are recorded in the period in which they are declared and, in respect of the final dividend, have been approved by the shareholders. Accordingly, the final ordinary equity shares dividends set out above relate to the respective prior years.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

13. Earnings per ordinary share

Accounting policy
The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per ordinary share is calculated by dividing the basic earnings which require adjustment for the effects of dilutive potential ordinary shares, by the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares, excluding own shares held. Throughout the financial year, there were no dilutive potential shares which would result in Diluted EPS being different to EPS.

The table below provides the basis of underlying earnings.

	2023 P '000	2022 P '000
Profit for the period attributable to equity holders	307,370	201,826
Distributions to holders of subordinated capital securities	(30,300)	(30,300)
Profit for the period attributable to ordinary shareholders	277,070	171,526
Basic - Weighted average number of shares (thousands)	295,844	295,844
Treasury shares (thousands)	2,506	2,506
Total weighted average number of ordinary shares (thousands)	298,350	298,350
Basic earnings per ordinary share (thebe)	93.65	57.98

There were no dilutive potential shares during 2023 and 2022 and as such, diluted earnings per share is equal to basic earnings per share.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments

Classification and measurement

Accounting policy

The Group classifies its financial assets into the following measurement categories: amortised cost; fair value through other comprehensive income (FVOCI); and fair value through profit or loss. Financial liabilities are classified as either amortised cost or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

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

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

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

- Contingent events that would change the amount and timing of cash flows
- Leverage features
- Prepayment and extension terms
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements);
- Features that modify consideration of the time value of money - e.g. periodical reset of interest rates

Whether financial assets are held at amortised cost or at FVOCI depend on the objectives of the business models under which the assets are held. A business model refers to how the Group manages financial assets to generate cash flows. The Group makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed, and information is provided to management. Factors considered include:

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

The Group's business model assessment is as follows:

Business model	**Business objective**	**Characteristics**	**Businesses**	**Products**
Hold to collect	Intent is to originate financial assets and hold them to maturity, collecting the contractual cash flows over the term of the instrument	• Providing financing and originating assets to earn interest income as primary income stream • Performing credit risk management activities • Costs include funding costs, transaction costs and impairment losses	• Corporate Lending • Financial Markets • Transaction Banking • Retail Lending • Treasury Markets (Loans and Borrowings)	• Loans and advances
Hold to collect and sell	Business objective met through both hold to collect and by selling financial assets	• Portfolios held for liquidity needs; or where a certain interest yield profile is maintained; or that are normally rebalanced to achieve matching of duration of assets and liabilities • Income streams come from interest income, fair value changes, and impairment losses	• Treasury Markets	• Debt securities
Fair value through profit or loss	All other business objectives, including trading and managing financial assets on a fair value basis	• Assets held for trading • Assets that are originated, purchased, and sold for profit taking or underwriting activity • Performance of the portfolio is evaluated on a fair value basis • Income streams are from fair value changes or trading gains or losses	• Financial Markets • All other business lines	• Derivatives • Trading portfolios • Financial Markets reverse repos • Financial Markets (FM Bond and Loan Syndication)

Equity instruments designated as held at FVOCI
Non-trading equity instruments acquired for strategic purposes rather than capital gain may be irrevocably designated at initial recognition as held at FVOCI on an instrument-by-instrument basis. Dividends received are recognised in profit or loss. Gains and losses arising from changes in the fair value of these instruments, including foreign exchange gains and losses, are recognised directly in equity and are never reclassified to profit or loss even on derecognition.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Financial assets and liabilities held at fair value through profit or loss
Financial assets which are not held at amortised cost or that are not held FVOCI are held at fair value through profit or loss. Financial assets and liabilities held at fair value through profit or loss are either mandatorily classified fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

Mandatorily classified at fair value through profit or loss
Financial assets and liabilities which are mandatorily held at fair value through profit or loss are split between two subcategories as follows:

Trading, including:

- Financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short-term
- Derivatives

Non-trading mandatorily at fair value through profit or loss, including:

- Instruments in a business which has a fair value business model (see the Group's business model assessment) which are not trading or derivatives
- Hybrid financial assets that contain one or more embedded derivatives
- Financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics
- Equity instruments that have not been designated as held at FVOCI
- Financial liabilities that constitute contingent consideration in a business combination

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques.

Initial recognition
Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognised on the trade-date (the date on which the Group commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on the settlement date (the date on which cash is advanced to the borrowers). All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in the income statement but is amortised or released to the income statement as the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement
Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest method (see Interest income and expense). Foreign exchange gains and losses are recognised in the income statement.

Where a financial instrument carried at amortised cost is the hedged item in a qualifying fair value hedge relationship, its carrying value is adjusted by the fair value gain or loss attributable to the hedged risk.

Financial assets held at FVOCI
Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in income. Changes in expected credit losses are recognised in the profit or loss and are accumulated in equity. On derecognition, the cumulative fair value gains or losses, net of the cumulative expected credit loss reserve, are transferred to the profit or loss.

Equity investments designated at FVOCI are subsequently carried at fair value with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. On derecognition, the cumulative reserve is transferred to retained earnings and is not recycled to profit or loss.

Financial assets and liabilities held at fair value through profit or loss
Financial assets and liabilities mandatorily held at fair value through profit or loss and financial assets designated at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value, including contractual interest income or expense, recorded in the net trading income line in the profit or loss unless the instrument is part of a cash flow hedging relationship.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Derecognition of financial instruments

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

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

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

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively. However, where a financial liability has been modified, it is derecognised if the difference between the modified cash flows and the original cash flows is more than 10 per cent, or if less than 10 per cent, the Group will perform a qualitative assessment to determine whether the terms of the two instruments are substantially different.

If the Group purchases its own debt, it is derecognised and the difference between the carrying amount of the liability and the consideration paid is included in 'Other income' except for the cumulative fair value adjustments attributable to the credit risk of a liability that are held in other comprehensive income which are never recycled to the profit or loss.

The movements in the applicable expected credit loss loan positions are disclosed in further detail in Risk Review.

Under the Phase 2 Interest Rate Benchmark Reform amendments to IFRS 9, changes to the basis for determining contractual cash flows as a direct result of interest rate benchmark reform are treated as changes to a floating interest rate to that instrument, provided that the transition from the IBOR benchmark rate to the alternative RFR takes place on an economically equivalent basis. Where the instrument is measured at amortised cost or FVOCI, this results in a change in the instrument's effective interest rate, with no change in the amortised cost value of the instrument. If the change to the instrument does not meet these criteria, the Group applies judgement to assess whether the changes are substantial and if they are, the financial instrument is derecognised and a new financial instrument is recognised. If the changes are not substantial, the Group adjusts the gross carrying amount of the financial instrument by the present value of the changes not covered by the practical expedient, discounted using the revised effective interest rate.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Reclassifications

Financial assets are reclassified at their fair value on the date of reclassification and previously recognised gains and losses are not restated. Moreover, reclassifications of financial assets between financial assets held at amortised cost and financial assets held at fair value through other comprehensive income do not affect effective interest rate or expected credit loss computations.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

The Group and Company classification of its financial assets and liabilities is summarised in the following tables.

Group

Assets	Notes	Assets at fair value						
		Trading mandatorily at fair value through Profit or loss	Non-trading mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	Total financial assets at fair value	Assets held at amortised cost	Total
		P '000	P '000	P '000	P '000	P '000	P '000	P '000
Cash and balances at central Banks		-	-	-	-	-	854,469	854,469
Derivative financial instruments	14	16,144	-	-	-	16,144	-	16,144
Loans and advances to Banks	15	-	-	-	-	-	6,906	6,906
Loans and advances to customers	15	-	-	-	-	-	8,559,800	8,559,800
Accrued interest on loans and advances to customers	35	-	-	-	-	-	197,778	197,778
Investment securities								
Debt securities, alternative tier one and other eligible bills		-	-	-	4,274,968	4,274,968	-	4,274,968
Accrued interest on investment securities	35	-	-	-	7,339	7,339	-	7,339
Other assets	19	-	-	-	-	-	171,805	171,805
Due from related parties		-	-	-	-	-	3,632,041	3,632,041
Total at 31 December 2023		**16,144**	**-**	**-**	**4,282,307**	**4,298,451**	**13,422,799**	**17,721,250**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Assets		Assets at fair value						
		Trading mandatorily at fair value through Profit or loss	Non-trading mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	Total financial assets at fair value	Assets held at amortised cost	Total
	Notes	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Cash and balances at central Banks		-	-	-	-	-	491,618	491,618
Derivative financial instruments	14	770	-	-	-	770	-	770
Loans and advances to Banks	15	-	-	-	-	-	45,078	45,078
Loans and advances to customers	15	-	-	-	-	-	7,775,324	7,775,324
Accrued interest on loans and advances to customers	35	-	-	-	-	-	87,152	87,152
Investment securities								
Debt securities, alternative tier one and other eligible bills		-	-	-	2,444,488	2,444,488	-	2,444,488
Accrued interest on investment securities	35	-	-	-	8,672	8,672	-	8,672
Other assets	19	-	-	-	-	-	40,091	40,091
Due from related parties		-	-	-	-	-	5,266,269	5,266,269
Total at 31 December 2022		**770**	**-**	**-**	**2,453,160**	**2,453,930**	**13,705,532**	**16,159,462**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Liabilities	Notes	Liabilities at fair value: Trading mandatorily at fair value through Profit or loss P '000	Liabilities at fair value: Designated at fair value through profit or loss P '000	Liabilities at fair value: Total financial liabilities at fair value P '000	Amortised cost P '000	Total P '000
Derivative financial instruments	14	23,163	-	23,163	-	23,163
Deposits by Banks		-	-	-	330,885	330,885
Customer deposits		-	-	-	13,081,354	13,081,354
Debt securities in issue	20	-	-	-	323,566	323,566
Accruals and deferred income	36	-	-	-	83,447	83,447
Other liabilities	21	-	-	-	1,447,427	1,447,427
Subordinated liabilities	24	-	-	-	389,000	389,000
Due to related parties		-	-	-	994,597	994,597
Total 31 December 2023		**23,163**	**-**	**23,163**	**16,650,276**	**16,673,439**

Liabilities	Notes	Liabilities at fair value: Trading mandatorily at fair value through Profit or loss P '000	Liabilities at fair value: Designated at fair value through profit or loss P '000	Liabilities at fair value: Total financial liabilities at fair value P '000	Amortised cost P '000	Total P '000
Derivative financial instruments	14	469	-	469	-	469
Deposits by Banks		-	-	-	860,239	860,239
Customer deposits		-	-	-	13,024,890	13,024,890
Debt securities in issue	20	-	-	-	323,566	323,566
Accruals and deferred income	36	-	-	-	97,112	97,112
Other liabilities	21	-	-	-	142,075	142,075
Subordinated liabilities	24	-	-	-	389,000	389,000
Due to related parties		-	-	-	377,750	377,750
Total 31 December 2022		**469**	**-**	**469**	**15,214,632**	**15,215,101**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Company

Assets	Notes	Assets at fair value						
		Trading mandatorily at fair value through profit or loss	Non-trading mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	Total financial assets at fair value	Assets held at amortised cost	Total
		P '000	P '000	P '000	P '000	P '000	P '000	P '000
Cash and balances at central Banks		-	-	-	-	-	851,591	851,591
Derivative financial instruments	14	16,144	-	-	-	16,144	-	16,144
Loans and advances to Banks	15	-	-	-	-	-	6,906	6,906
Loans and advances to customers	15	-	-	-	-	-	8,559,800	8,559,800
Accrued interest on loans and advances to customers	35	-	-	-	-	-	197,778	197,778
Investment securities								
Debt securities, alternative tier one and other eligible bills		-	-	-	4,274,968	4,274,968	-	4,274,968
Accrued interest on investment securities		-	-	-	7,339	7,339	-	7,339
Other assets	**19**	-	-	-	-	-	171,744	171,744
Due from related parties		-	-	-	-	-	3,558,096	3,558,096
Total at 31 December 2023		**16,144**	**-**	**-**	**4,282,307**	**4,298,451**	**13,345,915**	**17,644,366**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Assets	Notes	Assets at fair value: Trading mandatorily at fair value through profit or loss	Non-trading mandatorily at fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	Total financial assets at fair value	Assets held at amortised cost	Total
		P '000	P '000	P '000	P '000	P '000	P '000	P '000
Cash and balances at central Banks		-	-	-	-	-	488,740	488,740
Derivative financial instruments	14	770	-	-	-	770	-	770
Loans and advances to Banks	15	-	-	-	-	-	45,078	45,078
Loans and advances to customers	15	-	-	-	-	-	7,775,324	7,775,324
Accrued interest on loans and advances to customers	35	-	-	-	-	-	87,152	87,152
Investment securities								
Debt securities, alternative tier one and other eligible bills		-	-	-	2,444,488	2,444,488	-	2,444,488
Accrued interest on investment securities		-	-	-	8,672	8,672	-	8,672
Other assets	19	-	-	-	-	-	16,122	16,122
Due from related parties		-	-	-	-	-	5,266,269	5,266,269
Total at 31 December 2022		**770**	**-**	**-**	**2,453,160**	**2,453,930**	**13,678,685**	**16,132,615**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Liabilities	Notes	Liabilities at fair value: Trading	Liabilities at fair value: Designated at fair value through profit or loss	Liabilities at fair value: Total financial liabilities at fair value	Amortised cost	Total
		P '000	P '000	P '000	P '000	P '000
Derivative financial instruments	14	469	-	469	-	469
Deposits by Banks		-	-	-	860,239	860,239
Customer deposits		-	-	-	13,024,890	13,024,890
Debt securities in issue	20	-	-	-	323,566	323,566
Accruals and deferred income	36	-	-	-	97,112	97,112
Other liabilities	21	-	-	-	172,883	172,883
Subordinated liabilities	24	-	-	-	389,000	389,000
Due to related parties		-	-	-	377,750	377,750
Total at 31 December 2022		**469**	**-**	**469**	**15,245,440**	**15,245,909**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Valuation of financial instruments

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. Wherever possible, fair values have been calculated using unadjusted quoted market prices in active markets for identical instruments held by the Group. Where quoted market prices are not available, or are unreliable because of poor liquidity, fair values have been determined using valuation techniques which, to the extent possible, use market observable inputs, but in some cases use non market observable inputs. Valuation techniques used include discounted cash flow analysis and pricing models and, where appropriate, comparison with instruments that have characteristics similar to those of the instruments held by the Group.

The Valuation Methodology function is responsible for independent price verification, oversight of fair value and appropriate value adjustments and escalation of valuation issues. Independent price verification is the process of determining that the valuations incorporated into the financial statements are validated independent of the business area responsible for the product. The Valuation Methodology function has oversight of the fair value adjustments to ensure the financial instruments are priced to exit. These are key controls in ensuring the material accuracy of the valuations incorporated in the financial statements. The market data used for price verification (PV) may include data sourced from recent trade data involving external counterparties or third parties such as Bloomberg, Reuters, brokers and consensus pricing providers. Valuation Methodology perform an ongoing review of the market data sources that are used as part of the PV and fair value processes which are formally documented on a semi-annual basis detailing the suitability of the market data used for price testing. Price verification uses independently sourced data that is deemed most representative of the market the instruments trade in. To determine the quality of the market data inputs, factors such as independence, relevance, reliability, availability of multiple data sources and methodology employed by the pricing provider are taken into consideration.

The Valuation and Benchmarks Committee (VBC) is the valuation governance forum consisting of representatives from Group Market Risk, Product Control, Valuation Methodology and the business, which meets monthly to discuss and approve the independent valuations of the inventory. For Principal Finance, the Investment Committee meeting is held on a quarterly basis to review investments and valuations.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Significant accounting estimates and judgements

The Group evaluates the significance of financial instruments and material accuracy of the valuations incorporated in the financial statements as they involve a high degree of judgement and estimation uncertainty in determining the carrying values of financial assets and liabilities at the balance sheet date.

- Fair value of financial instruments is determined using valuation techniques and estimates (see below) which, to the extent possible, use market observable inputs, but in some cases use non-market observable inputs. Changes in the observability of significant valuation inputs can materially affect the fair values of financial instruments
- When establishing the exit price of a financial instrument using a valuation technique, the Group estimates valuation adjustments in determining the fair value
- In determining the valuation of financial instruments, the Group makes judgements on the amounts reserved to cater for model and valuation risks, which cover both Level 2 and Level 3 assets, and the significant valuation judgements in respect of Level 3 instruments
- Where the estimated measurement of fair value is more judgemental in respect of Level 3 assets, these are valued based on models that use a significant degree of non-market-based unobservable input.

Valuation techniques

Refer to the fair value hierarchy explanation - Level 1, 2 and 3

- Financial instruments held at fair value
  - Debt securities - asset-backed securities: Asset-backed securities are valued based on external prices obtained from consensus pricing providers, broker quotes, recent trades, arrangers' quotes, etc. Where an observable price is available for a given security, it is classified as Level 2. In instances where third-party prices are not available or reliable, the security is classified as Level 3. The fair value of Level 3 securities is estimated using market standard cash flow models with input parameter assumptions which include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type, and credit ratings
  - Debt securities in issue: These debt securities relate to structured notes issued by the Group. Where independent market data is available through pricing vendors and broker sources these positions are classified as Level 2. Where such liquid external prices are not available, valuations of these debt securities are implied using input parameters such as bond spreads and credit spreads and are classified as Level 3. These input parameters are determined with reference to the same issuer (if available) or proxies from comparable issuers or assets
  - Derivatives: Derivative products are classified as Level 2 if the valuation of the product is based upon input parameters which are observable from independent and reliable market data sources. Derivative products are classified as Level 3 if there are significant valuation input parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying variable. Examples are foreign exchange basket options, equity options based on the performance of two or more underlying indices and interest rate products with quanto payouts. In most cases these unobservable correlation parameters cannot be implied from the market, and methods such as historical analysis and comparison with historical levels or other benchmark data must be employed.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

- Equity shares - private equity: The majority of private equity unlisted investments are valued based on earnings multiples - Price-to-Earnings (P/E) or enterprise value to earnings before income tax, depreciation and amortisation (EV/EBITDA) ratios - of comparable listed companies. The two primary inputs for the valuation of these investments are the actual or forecast earnings of the investee companies and earnings multiples for the comparable listed companies. To ensure comparability between these unquoted investments and the comparable listed companies, appropriate adjustments are also applied (for example, liquidity and size) in the valuation. In circumstances where an investment does not have direct comparable or where the multiples for the comparable companies cannot be sourced from reliable external sources, alternative valuation techniques (for example, discounted cash flow models), which use predominantly unobservable inputs or Level 3 inputs, may be applied. Even though earnings multiples for the comparable listed companies can be sourced from third-party sources (for example, Bloomberg), and those inputs can be deemed Level 2 inputs, all unlisted investments (excluding those where observable inputs are available, for example, Over-the-counter (OTC) prices) are classified as Level 3 on the basis that the valuation methods involve judgements ranging from determining comparable companies to discount rates where the discounted cash flow method is applied
- Loans and advances: These primarily include loans in the FM Bond and Loan Syndication business which were not syndicated as of the balance sheet date and other financing transactions within Financial Markets and loans and advances including reverse repurchase agreements that do not have SPPI cash flows or are managed on a fair value basis. These loans are generally bilateral in nature and, where available, their valuation is based on observable clean sales transactions prices or market observable spreads. If observable credit spreads are not available, proxy spreads based on comparable loans with similar credit grade, sector and region, are used. Where observable credit spreads and market standard proxy methods are available, these loans are classified as Level 2. Where there are no recent transactions or comparable loans, these loans are classified as Level 3
- Other debt securities: These debt securities include convertible bonds, corporate bonds, credit and structured notes. Where quoted prices are available through pricing vendors, brokers or observable trading activities from liquid markets, these are classified as Level 2 and valued using such quotes. Where there are significant valuation inputs which are unobservable in the market, due to illiquid trading or the complexity of the product, these are classified as Level 3. The valuations of these debt securities are implied using input parameters such as bond spreads and credit spreads. These input parameters are determined with reference to the same issuer (if available) or proxied from comparable issuers or assets.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Financial instruments held at amortised cost
The following sets out the Group's basis for establishing fair values of amortised cost financial instruments and their classification between Levels 1, 2 and 3. As certain categories of financial instruments are not actively traded, there is a significant level of management judgement involved in calculating the fair values:

- Cash and balances at central Banks: The fair value of cash and balances at central Banks is their carrying amounts.
- Debt securities in issue, subordinated liabilities: The aggregate fair values are calculated based on quoted market prices. For those notes were quoted market prices are not available, a discounted cash flow model is used based on a current market related yield curve appropriate for the remaining term to maturity.
- Deposits and borrowings: The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest-bearing deposits and other borrowings without quoted market prices is based on discounted cash flows using the prevailing market rates for debts with a similar Credit Risk and remaining maturity.
- Investment securities: For investment securities that do not have directly observable market values, the Group utilises a number of valuation techniques to determine fair value. Where available, securities are valued using input proxies from the same or closely related underlying (for example, bond spreads from the same or closely related issuer) or input proxies from a different underlying (for example, a similar bond but using spreads for a particular sector and rating). Certain instruments cannot be proxies as set out above, and in such cases the positions are valued using non-market observable inputs. This includes those instruments held at amortised cost and predominantly relates to asset-backed securities. The fair value for such instruments is usually proxies from internal assessments of the underlying cash flows.
- Loans and advances to Banks and customers: For loans and advances to Banks, the fair value of floating rate placements and overnight deposits is their carrying amounts. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using the prevailing money market rates for debts with a similar Credit Risk and remaining maturity. The Group's loans and advances to customers' portfolio is well diversified by geography and industry. Approximately a quarter of the portfolio re-prices within one month, and approximately half re-prices within 12 months. Loans and advances are presented net of provisions for impairment. The fair value of loans and advances to customers with a residual maturity of less than one year generally approximates the carrying value. The estimated fair value of loans and advances with a residual maturity of more than one year represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates and Credit Risk. Expected cash flows are discounted at current market rates to determine fair value. The Group has a wide range of individual instruments within its loans and advances portfolio and as a result providing quantification of the key assumptions used to value such instruments is impractical.
- Other assets: Other assets comprise primarily of cash collateral and trades pending settlement. The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are either short-term in nature or re-price to current market rates frequently.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Fair value adjustments

When establishing the exit price of a financial instrument using a valuation technique, the Group considers adjustments to the modelled price which market participants would make when pricing that instrument. The main valuation adjustments (described further below) in determining fair value for financial assets and financial liabilities are as follows:

- Bid-offer valuation adjustment: Generally, market parameters are marked on a mid-market basis in the revaluation systems, and a bid-offer valuation adjustment is required to quantify the expected cost of neutralising the business' positions through dealing away in the market, thereby bringing long positions to bid and short positions to offer. The methodology to calculate the bid-offer adjustment for a derivative portfolio involves netting between long and short positions and the grouping of risk by strike and tenor based on the hedging strategy where long positions are marked to bid and short positions marked to offer in the systems.
- Credit valuation adjustment (CVA): The Group accounts for CVA against the fair value of derivative products. CVA is an adjustment to the fair value of the transactions to reflect the possibility that our counterparties may default and we may not receive the full market value of the outstanding transactions. It represents an estimate of the adjustment a market participant would include when deriving a purchase price to acquire our exposures. CVA is calculated for each subsidiary, and within each entity for each counterparty to which the entity has exposure and takes account of any collateral we may hold. The Group calculates the CVA by using estimates of future positive exposure, market-implied probability of default (PD) and recovery rates. Where market-implied data is not readily available, we use market-based proxies to estimate the PD. Wrong-way risk occurs when the exposure to a counterparty is adversely correlated with the credit quality of that counterparty, and the Group has implemented a model to capture this impact for key wrong-way exposures. The Group also captures the uncertainties associated with wrong-way risk in the Group's Prudential Valuation Adjustments framework.
- Debit valuation adjustment (DVA): The Group calculates DVA adjustments on its derivative liabilities to reflect changes in its own credit standing. The Group's DVA adjustments will increase if its credit standing worsens and conversely, decrease if its credit standing improves. For derivative liabilities, a DVA adjustment is determined by applying the Group's probability of default to the Group's negative expected exposure against the counterparty. The Group's probability of default and loss expected in the event of default is derived based on bond and CDS spreads associated with the Group's issuances and market standard recovery levels. The expected exposure is modelled based on the simulation of the underlying risk factors over the expected life of the deal. This simulation methodology incorporates the collateral posted by the Group and the effects of master netting agreements.
- Model valuation adjustment: Valuation models may have pricing deficiencies or limitations that require a valuation adjustment. These pricing deficiencies or limitations arise due to the choice, implementation and calibration of the pricing model.
- Funding valuation adjustment (FVA): The Group makes FVA adjustments against derivative products. FVA reflects an estimate of the adjustment to its fair value that a market participant would make to incorporate funding costs or benefits that could arise in relation to the exposure. FVA is calculated by determining the net expected exposure at a counterparty level and then applying a funding rate to those exposures that reflect the market cost of funding. The FVA for uncollateralised (including partially collateralised) derivatives incorporates the estimated present value of the market funding cost or benefit associated with funding these transactions.

Other fair value adjustments: The Group calculates the fair value on the interest rate callable products by calibrating to a set of market prices with differing maturity, expiry and strike of the trades.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

- Day one and other deferrals: In certain circumstances the initial fair value is based on a valuation technique which differs to the transaction price at the time of initial recognition. However, these gains can only be recognised when the valuation technique used is based primarily on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses inputs which are not observable in the market, the difference between the transaction price and the valuation model is not recognised immediately in the income statement. The difference is amortised to the income statement until the inputs become observable, or the transaction matures or is terminated. Other deferrals primarily represent adjustments taken to reflect the specific terms and conditions of certain derivative contracts which affect the termination value at the measurement date.

In addition, the Group calculates own credit adjustment (OCA) on its issued debt designated at fair value, including structured notes, in order to reflect changes in its own credit standing. Own issued note liabilities are discounted utilising spreads as at the measurement date. These spreads consist of a market level of funding component and an idiosyncratic own credit component. Under IFRS 9 the change in the own credit component (OCA) is reported under other comprehensive income. The Group's OCA reserve will increase if its credit standing worsens and conversely, decrease if its credit standing improves. The Group's OCA reserve will reverse over time as its liabilities mature.

Fair value hierarchy - financial instruments held at fair value
Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the observability of the significant inputs used to determine the fair values. Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Group recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

- Level 1: Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Fair value measurements are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3: Fair value measurements are those where inputs which could have a significant effect on the instrument's valuation are not based on observable market data.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

The following tables show the classification of financial instruments held at fair value into the valuation hierarchy:

Group and Company

Assets	Level 1 P '000	Level 2 P '000	Level 3 P '000	Total P '000
Financial instruments held at fair value through profit or loss				
Derivative financial instruments	299	15,845	-	16,144
Of which:				
Foreign exchange	299	15,845	-	16,144
Investment securities				
Debt securities and other eligible bills	-	4,274,968	-	4,274,968
Of which:				
Issued by Central Banks & Governments	-	4,274,968	-	4,274,968
Other Assets	-	-	-	-
Total financial instruments at 31 December 2023	**299**	**4,290,813**	**-**	**4,291,112**
Liabilities				
Financial instruments held at fair value through profit or loss				
Derivative financial instruments	430	22,733	-	23,163
Of which:				
Foreign exchange	430	22,733	-	23,163
Commodity	-	-	-	-
Total financial instruments at 31 December 2023	**430**	**22,733**	**-**	**23,163**

Level 2 fair values of investments have been generally derived using the market approach.
Included in the investment securities balances are assets worth P398.5 million (2022:P412 million) pledged as security for the use of credit facility with Bank of Botswana.

Instruments	Applicable to level	Valuation Technique	Significant observable inputs	Significant unobservable inputs	Range of unobservable inputs
Investment Securities	2	Bonds: Fair value through market rate from a quoted market Treasury Bills: Fair value through market rate	Market rates from quoted market	Not applicable	Not applicable

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Assets	Level 1 P '000	Level 2 P '000	Level 3 P '000	Total P '000
Financial instruments held at fair value through profit or loss				
Derivative financial instruments	670	100	-	770
Of which:				
Foreign exchange	670	100	-	770
Investment securities				
Debt securities and other eligible bills	-	2,444,488	-	2,444,488
Of which:				
Issued by Central Banks & Governments	-	2,444,488	-	2,444,488
Issued by financial institutions[1]	-	-	-	-
Total financial instruments at 31 December 2022[2]	**670**	**2,444,588**	**-**	**2,445,258**
Liabilities				
Financial instruments held at fair value through profit or loss				
Derivative financial instruments	425	44	-	469
Of which:				
Foreign exchange	425	44	-	469
Interest rate	-	-	-	-
Commodity	-	-	-	-
Total financial instruments at 31 December 2022[2]	**425**	**44**	**-**	**469**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Fair value hierarchy - financial instruments measured at amortised cost
The following table shows the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. These fair values may be different from the actual amount that will be received or paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

Group

		Fair value			
	Carrying value	Level 1	Level 2	Level 3	Total
	P '000	P '000	P '000	P '000	P '000
Assets					
Cash and balances at central banks[1]	854,469	-	854,469	-	854,469
Loans and advances to Banks	6,906	-	6,906	-	6,906
Loans and advances to customers	8,559,800	-	-	8,559,800	8,559,800
Accrued interest on loans and advances to customers	-	-	-	197,778	197,778
Due from related parties	3,632,041	-	3,632,041	-	3,632,041
Other assets[1]	171,805	-	171,805	-	171,805
At 31 December 2023	**16,857,062**	**-**	**8,297,262**	**8,757,578**	**17,054,840**
Liabilities					
Deposits by Banks	330,885	-	330,885	-	330,885
Customer deposits	13,081,354	-	13,081,354	-	13,081,354
Debt securities in issue	323,566	-	323,566	-	323,566
Accruals and deferred income	83,447	-	83,447	-	83,447
Subordinated liabilities	389,000	-	389,000	-	389,000
Due to related parties	994,597	-	994,597	-	994,597
Other liabilities[1]	1,447,427	-	1,447,427	-	1,447,427
At 31 December 2023	**17,644,873**	**-**	**16,650,276**	**-**	**16,650,276**

[1] The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are short-term in nature or reprice to current market rates frequently. Disclosure has been included in the current year to provide more information to the users.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
	P '000	P '000	P '000	P '000	P '000
Assets					
Cash and balances at central banks[1]	491,618	-	491,618	-	491,618
Loans and advances to Banks	45,078	-	45,078	-	45,078
Loans and advances to customers	7,775,324	-	-	7,775,324	7,775,324
Accrued interest on loans and advances to customers	87,152	-	-	87,152	87,152
Other assets[1]	40,091	-	40,091	-	40,091
Due from subsidiary undertakings and other related parties	5,266,269	-	5,266,269	-	5,266,269
At 31 December 2022	**13,705,532**	**-**	**5,843,056**	**7,862,476**	**13,705,532**
Liabilities					
Deposits by Banks	860,239	-	860,239	-	860,239
Customer deposits	13,024,890	-	13,024,890	-	13,024,890
Debt securities in issue	323,566	-	323,566	-	323,566
Accruals and deferred income	97,112	-	97,112	-	97,112
Subordinated liabilities	389,000	-	389,000	-	389,000
Other liabilities[1]	142,075	-	142,075	-	142,075
Due to parent companies, subsidiary undertakings & other related parties	377,750	-	377,750	-	377,750
At 31 December 2022	**15,214,632**	**-**	**15,214,632**	**-**	**15,214,632**

[1] The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are short-term in nature or reprice to current market rates frequently. Disclosure has been included in the current year to provide more information to the users.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Company

	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
	P '000	P '000	P '000	P '000	P '000
Assets					
Cash and balances at central banks[1]	851,591	-	851,591	-	851,591
Loans and advances to Banks	6,906	-	6,906	-	6,906
Loans and advances to customers	8,559,800	-	-	8,559,800	8,559,800
Accrued interest on loans and advances to customers	197,778	-	-	197,778	197,778
Other assets[1]	171,744	-	171,744	-	171,744
Due from related parties	3,632,041	-	3,632,041	-	3,632,041
At 31 December 2023	**13,419,860**	**-**	**4,662,282**	**8,757,578**	**13,419,860**
Liabilities					
Deposits by Banks	330,885	-	330,885	-	330,885
Customer deposits	13,081,354	-	13,081,354	-	13,081,354
Debt securities in issue	323,566	-	323,566	-	323,566
Accruals and deferred income	83,408	-	83,408	-	83,408
Subordinated liabilities	389,000	-	389,000	-	389,000
Other liabilities[1]	1,434,976	-	1,434,976	-	1,434,976
Due to related parties	994,597	-	994,597	-	994,597
At 31 December 2023	**16,637,786**	-	**16,637,786**	-	**16,637,786**

[1] The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are short-term in nature or reprice to current market rates frequently. Disclosure has been included in the current year to provide more information to the users.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

	Carrying value	Fair value			
		Level 1	Level 2	Level 3	Total
	P '000	P '000	P '000	P '000	P '000
Assets					
Cash and balances at central banks[1]	488,740	-	488,740	-	488,740
Loans and advances to Banks	45,078	-	45,078	-	45,078
Loans and advances to customers	7,775,324	-	-	7,775,324	7,775,324
Accrued interest on loans and advances to customers	87,152	-	-	87,152	87,152
Other assets[1]	16,122	-	16,122	-	16,122
Due from subsidiary undertakings and other related parties	5,266,269	-	5,266,269	-	5,266,269
At 31 December 2022	**13,678,685**	**-**	**5,816,209**	**7,862,476**	**13,678,685**
Liabilities					
Deposits by Banks	860,239	-	860,239	-	860,239
Customer deposits	13,024,890	-	13,024,890	-	13,024,890
Debt securities in issue	323,566	-	323,566	-	323,566
Accruals and deferred income	97,112	-	97,112	-	97,112
Subordinated liabilities	389,000	-	389,000	-	389,000
Other liabilities[1]	172,883	-	172,883	-	172,883
Due to parent companies, subsidiary undertakings & other related parties	377,750	-	377,750	-	377,750
At 31 December 2022	**15,245,440**	**-**	**15,245,440**	**-**	**15,245,440**

[1]The carrying amount of these financial instruments is considered to be a reasonable approximation of fair value as they are short-term in nature or reprice to current market rates frequently. Disclosure has been included in the current year to provide more information to the users.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

14. Financial instruments (cont.)

Loans and advances to customers by client segment

	2023					
	Carrying value			Fair value		
	Stage 3 P '000	Stage 1 and stage 2 P '000	Total P '000	Stage 3 P '000	Stage 1 and stage 2 P '000	Total P '000
Corporate, Commercial & Institutional Banking	23,618	1,360,898	1,384,516	23,618	1,360,898	1,384,516
Consumer, Private & Business Banking	31,159	7,144,125	7,175,284	31,159	7,144,125	7,175,284
At 31 December 2023	**54,777**	**8,505,023**	**8,559,800**	**54,777**	**8,505,023**	**8,559,800**

	2022					
	Carrying value			Fair value		
	Stage 3 P '000	Stage 1 and stage 2 P '000	Total P '000	Stage 3 P '000	Stage 1 and stage 2 P '000	Total P '000
Corporate, Commercial & Institutional Banking[2]	19,633	516,247	535,880	19,633	516,247	535,880
Consumer, Private & Business Banking[2]	32,253	7,207,191	7,239,444	32,253	7,207,191	7,239,444
At 31 December 2022	**51,886**	**7,723,438**	**7,775,324**	**51,886**	**7,723,438**	**7,775,324**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

15. Derivative financial instruments

Accounting policy
Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorised as trading unless they are designated as hedging instruments.

Derivatives are initially recognised and subsequently measured at fair value, with revaluation gains recognised in profit or loss (except where cash flow or net investment hedging has been achieved, in which case the effective portion of changes in fair value is recognised within other comprehensive income).

Fair values may be obtained from quoted market prices in active markets, recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. Where the initially recognised fair value of a derivative contract is based on a valuation model that uses inputs which are not observable in the market, it follows the same initial recognition accounting policy as for other financial assets and liabilities. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Derivatives

	Group and Company					
	2023			2022		
Derivatives	Notional principal amounts P '000	Assets P '000	Liabilities P '000	Notional principal amounts P '000	Assets P '000	Liabilities P '000
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	1,075,439	10,456	9,891	1,528,078	770	469
Currency swaps and options	888,733	5,819	13,273	-	-	-
	1,964,172	**16,275**	**23,164**	**1,528,078**	**770**	**469**
Interest rate derivative contracts:						
Forward rate agreements and options	1,340,483	(131)	(1)	-	-	-
Gross total derivatives	**3,304,655**	**16,144**	**23,163**	**1,528,078**	**770**	**469**
Offset	-	-	-	-	-	-
Net Total derivatives	**3,304,655**	**16,144**	**23,163**	**1,528,078**	**770**	**469**

The Group limits exposure to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are only presented net in these accounts where they are subject to legal right of offset and intended to be settled net in the ordinary course of business.

The Group applies balance sheet offsetting only in the instance where we are able to demonstrate legal enforceability of the right to offset (e.g. via legal opinion) and the ability and intention to settle on a net basis (e.g. via operational practice).

The notional principal amounts disclosed above indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

16. Loans and advances to Banks and customers

Accounting policy
Refer to Note 14 Financial instruments for the relevant accounting policy.

	Group and Company	
	2023 P '000	**2022 P '000**
Loans and advances to Banks	6,907	45,083
Expected credit loss	(1)	(5)
	6,906	45,078
Loans and advances to customers	8,771,762	8,010,982
Expected credit loss	(211,962)	(235,658)
	8,559,800	7,775,324
Total loans and advances to Banks and customers	8,566,706	7,820,402

Analysis of loans and advances to customers by client segment together with their related impairment provisions are set out within the Risk review and Capital review Note 3.

17. Goodwill and intangible assets

Accounting policy

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets and contingent liabilities of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in Investments in associates. Goodwill included in intangible assets is assessed at each balance sheet date for impairment and carried at cost less any accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Detailed calculations are performed based on discounting expected cash flows of the relevant cash generating units (CGU) and discounting these at an appropriate discount rate, the determination of which requires the exercise of judgement. Goodwill is allocated to CGUs for the purpose of impairment testing. CGU represent the lowest level within the Group which generate separate cash inflows and at which the goodwill is monitored for internal management purposes. The Group's reportable segments are set out in Note 2.

Significant accounting estimates and judgements
The carrying amount of goodwill is based on the application of judgements including the basis of goodwill impairment calculation assumptions. Judgement is also applied in determination of cash generating units.

Estimates include forecasts used for determining cash flows for CGUs, the appropriate long-term growth rates to use and discount rates which factor in country risk-free rates and applicable risk premiums. The Group undertakes an annual assessment to evaluate whether the carrying value of goodwill is impaired. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgement and is subject to potential change over time.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

17. Goodwill and intangible assets (cont.)

Acquired intangibles
At the date of acquisition of a subsidiary or associate, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity and are amortised on the basis of their expected useful lives (4 to 16 years). At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Computer software
Acquired computer software licences are capitalised if the principles of development are met on the basis of the costs incurred to acquire and bring to use the specific software.

Internally generated software represents substantially all of the total software capitalised. Direct costs of the development of separately identifiable internally generated software are capitalised where it is probable that future economic benefits attributable to the asset will flow from its use (internally generated software). These costs include salaries and wages, materials, service providers and contractors, and directly attributable overheads. Costs incurred in the ongoing maintenance of software are expensed immediately when incurred. Internally generated software is amortised over each asset's useful life to a maximum of a 10 year time period. On an annual basis software assets' residual values and useful lives are reviewed, including assessing for indicators of impairment. Indicators of impairment include loss of business relevance, obsolescence of asset, exit of the business to which the software relates, technological changes, change in use of the asset, reduction in useful life, plans to reduce usage or scope.

For capitalised software, judgement is required to determine which costs relate to research (and therefore expensed) and which costs relate to development (capitalised). Further judgement is required to determine the technical feasibility of completing the software such that it will be available for use. Estimates are used to determine how the software will generate probable future economic benefits, these estimates include; cost savings, income increases, balance sheet improvements, improved functionality or improved asset safeguarding.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

17. Goodwill and intangible assets (cont.)

	Group and Company							
	2023				2022			
	Goodwill	Customer relationships	Computer software	Total	Goodwill	Customer relationships	Computer software	Total
	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Cost								
At 1 January	29,880	94,684	140,799	265,363	29,880	94,684	115,096	239,660
Exchange translation differences	-	-	12,555	12,555	-	-	26,330	26,330
Additions	-	-	-	-	-	-	-	-
Amounts written off	-	-	(240)	(240)	-	-	(627)	(627)
At 31 December	**29,880**	**94,684**	**153,114**	**277,678**	29,880	94,684	140,799	265,363
Amortisation								
At 1 January	18,621	94,684	88,908	202,213	18,621	94,684	77,350	190,655
Amortisation for the year	-	-	12,339	12,339	-	-	12,185	12,185
Amounts written off	-	-	(240)	(240)	-	-	(627)	(627)
At 31 December	**18,621**	**94,684**	**101,007**	**214,312**	**18,621**	**94,684**	**88,908**	**202,213**
Net book value	**11,259**	**-**	**52,107**	**63,366**	**11,259**	**-**	**51,891**	**63,150**

At 31 December 2023, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to P 18 million (31 December 2022: P 18 million), of which P Nil was recognised in 2023 (31 December 2022: P Nil million).

18. Property, plant and equipment

Accounting policy
All property, plant and equipment is stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the assets. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

At each balance sheet date the assets' residual values and useful lives are reviewed, and adjusted if appropriate, including assessing for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down to the recoverable amount. Gains and losses on disposals are included in the income statement.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

18. Property, plant and equipment (cont.)

Where the Group is a lessee of a right-of-use asset, the leased assets are capitalised and included in Property, plant and equipment with a corresponding liability to the lessor recognised in other liabilities, in accordance with the Group's leased assets accounting policy as disclosed on policy named 'Leases' under the Property and equipment policies on pages 39-40'.

	2023							
						Right-of-use assets		
	Land and building	Lease hold	Equipment	Furniture & fixtures	WIP	Buildings	ATMs	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Cost or valuation								
At 1 January	41,738	16,503	109,500	27,537	4,807	58,770	8,443	267,298
Additions	-	-	2,407	-	7,796	-	1,209	11,412
Transfers	-	-	-	-	(3,874)	-	-	(3,874)
Disposals	-	-	(5,156)	(5,064)	-	(1,969)	-	(12,189)
As at 31 December	**41,738**	**16,503**	**106,750**	**22,473**	**8,729**	**56,801**	**9,652**	**262,647**
Accumulated Depreciation								
Accumulated at 1 January	(12,122)	(11,273)	(101,126)	(24,445)	-	(8,290)	(8,443)	(165,699)
Depreciation	(695)	(473)	(5,808)	(1,251)	-	(16,582)	(435)	(25,245)
Disposals	-	-	5,156	4,364	-	-	-	9,520
Accumulated at 31 December	**(12,817)**	**(11,746)**	**(101,778)**	**(21,332)**	**-**	**(24,872)**	**(8,878)**	**(181,424)**
Net book amount at 31 December	**28,921**	**4,757**	**4,973**	**1,140**	**8,729**	**31,929**	**774**	**81,223**

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

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

Property, equipment comprises of some assets with original cost BWP 181million (2022: BWP 171million) which are fully depreciated and still in use.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

18. Property, plant and equipment (cont.)

	Group and Company							
	2022							
						Right-of-use assets		
	Land and building	Lease hold	Equipment	Furniture & fixtures	WIP	Buildings	ATMs	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
Cost or valuation								
At 1 January	44,965	16,503	107,553	27,537	4,988	72,230	8,443	282,219
Additions	-	-	1,947	-	(181)	33,472	-	35,238
Disposals	(3,227)	-	-	-	-	(46,932)	-	(50,159)
As at 31 December	**41,738**	**16,503**	**109,500**	**27,537**	**4,807**	**58,770**	**8,443**	**267,298**
Accumulated Depreciation								
Accumulated at 1 January	(12,085)	(10,800)	(92,562)	(21,687)	-	(40,333)	(8,264)	(185,731)
Depreciation	(1,614)	(473)	(8,564)	(2,758)	-	(14,889)	(179)	(28,477)
Disposals	1,577	-	-	-	-	46,932	-	48,509
Accumulated at 31 December	(12,122)	(11,273)	(101,126)	(24,445)	-	(8,290)	(8,443)	(165,699)
Net book amount at 31 December	**29,616**	**5,230**	**8,374**	**3,092**	**4,807**	**50,480**	**-**	**101,599**

Fair value hierarchy

The fair value of the land and buildings was determined by an external independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued.

The valuation was performed on 01 December 2021 using discounted cash flow valuation model. The model considers the present value of property rentals taking into account rental growth rates. The net cash-flows are discounted using risk adjusted discount rates of 10%. The valuer provides the fair value of the Group's land and buildings at least every three years; however, the Directors consider the fair value of land and buildings at each reporting date.

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

The Directors have assessed assumptions and estimates in the fair value calculation in determining the fair value of land and buildings.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

18. Property, plant and equipment (cont.)

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

19. Other assets

Accounting policy
Refer to Note 14 Financial instruments for the relevant accounting policy.

Financial assets represent physical holdings where the Group has title and exposure to the Market Risk associated with the holding.

Commodities are fair valued with the fair value derived from observable spot or short-term futures prices from relevant exchanges.

	Group		Company	
Other assets include:	**2023 P '000**	**2022 P '000**	**2022 P '000**	**2022 P '000**
Financial assets held at amortised cost (Note 13):				
Unsettled trades and other financial assets	**171,805**	40,091	**171,743**	16,122
	171,805	40,091	**171,743**	16,122
Non-financial assets:				
Other assets	**-**	84	**-**	84
	171,805	**40,175**	**171,743**	**16,206**

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

20. Debt securities in issue

Accounting policy
Refer to Note 13 Financial instruments for the relevant accounting policy.

	Group and Company	
Securities	2023 P '000	2022 P '000
P 93 603 million fixed of 6.5% rate senior notes due 2025	**93,603**	93,603
P229 963 million fixed and floating rate of 3.15% senior notes due 2028	**229,963**	229,963
Total Senior Notes issued	**323,566**	**323,566**

	Interest rate	Maturity	2023 P '000	2022 P '000
Senior Unsecured debt was issued on 28 June 2021. Interest is payable semi-annually. Claims in respect of the loan capital and interest thereon are subordinate to the claims of other creditors and depositors	Fixed interest rate of 6.50% per annum	28 December 2025	**93,603**	93,603
Senior Unsecured debt was issued on 28 June 2021. Interest is payable semi-annually. Claims in respect of the loan capital and interest thereon are subordinate to the claims of other creditors and depositors	Fixed & floating interest rate of 3.15% per annum	28 December 2028	**229,963**	229,963

1 Issued by Standard Chartered Bank Botswana
2 In the balance sheet Senior Unsecured debt is presented as Debt Security in issue

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

21. Other liabilities

Accounting policy
Refer to Note 14 Financial instruments for the relevant accounting policy for financial liabilities and 'Leases' under the Property and equipment policies on pages 39-40 for the accounting policy for leases.

	Group		Company	
	2023 P '000	2022 P '000	2023 P '000	2022 P '000
Financial liabilities held at amortised cost				
Property leases	33,951	49,866	33,951	49,866
Unsettled trades* and other balances on suspense accounts	1,413,476	92,209	1,401,025	123,017
	1,447,427	142,075	1,434,976	172,883
Non-financial liabilities				
Other liabilities	-	(2,089)	-	(3,108)
Total other liabilities	**1,447,427**	**139,986**	**1,434,976**	**169,775**

*Unsettled trades relate to treasury bills placed with the central bank of which their settlement had not cleared by the reporting date

Group and Company

	2023 P '000	2022 P '000
Lease liabilities		
Interest on lease payments	2,236	2,232
Expenses relating to property leases	909	912
Amounts recognised in statement of cashflows		
Lease liability payments	19,572	21,010
Interest	2,236	2,232
Principal	17,336	18,778
The Group's commitments under non-cancellable short-term leases expiring:		
Within 1 year		
After 1 year but less than 5 years	16,052	17,596
After 5 years	20,312	36,081
	-	-

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

22. Provisions for liabilities and charges

Accounting policy
The Group recognises a provision for a present legal or constructive obligation resulting from a past event when it is more likely than not that it will be required to transfer economic benefits to settle the obligation and the amount of the obligation can be estimated reliably. Where a liability arises based on participation in a market at a specified date, the obligation is recognised in the financial statements on that date and is not accrued over the period.

Significant accounting estimates and judgements
The recognition and measurement of provisions for liabilities and charges requires significant judgement and the use of estimates about uncertain future conditions or events.

Estimates include the best estimate of the probability of outflow of economic resources, cost of settling a provision and timing of settlement. Judgements are required for inherently uncertain areas such as legal decisions (including external advice obtained), and outcome of regulator reviews.

	Group and Company					
	2023			2022		
	Provision for credit commitments	Other provisions	Total	Provision for credit commitments	Other provisions	Total
	P '000	P '000	P '000	P '000	P '000	P '000
At 1 January	**1,379**	**1,066**	**2,445**	**1,522**	**207**	**1,729**
Exchange translation differences	(41)	-	(41)	3	-	3
Charge against profit	(703)	3,085	2,382	(146)	2,682	2,536
Provisions utilised	-	(3,727)	(3,727)	-	(1,823)	(1,823)
At 31 December	**635**	**424**	**1,059**	**1,379**	**1,066**	**2,445**

Provision for credit commitment comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations. Other provisions comprises of long aged uncleared suspense account items.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

23. Contingent liabilities and commitments

Accounting policy
Financial guarantee contracts and loan commitments
The Group issues financial guarantee contracts and loan commitments in return for fees. Financial guarantee contracts and any loan commitments issued at below-market interest rates are initially recognised at their fair value as a financial liability, and subsequently measured at the higher of the initial value less the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers and their expected credit loss provision. Loan commitments may be designated at fair value through profit or loss where that is the business model under which such contracts are held. Notional values of financial guarantee contracts and loan commitments are disclosed in the table below.

Capital commitments are contractual commitments the Group has entered into to purchase non-financial assets.
The table below shows the contract or underlying principal amounts of unmatured off-balance sheet transactions at the balance sheet date. The contract or underlying principal amounts indicate the volume of business outstanding and do not represent amounts at risk.

	2023 P '000	2022 P '000
Financial guarantees and trade credits		
Financial guarantees, trade credits and irrevocable letters of credit	**359,810**	236,252
Expected credit loss (Note 3)	**(506)**	(508)
	359,304	**235,744**
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend		
One year and over	5,824,094	5,213,597
Unconditionally cancellable	487,747	662,862
	6,311,841	5,876,459
Expected credit loss (Note 3)	**(129)**	**(871)**
	6,311,712	5,875,588
Total contingent liabilities and commitments	**6,671,016**	**6,111,332**

There were no capital commitments at 31 December 2023 (2022: Nil)

The Group has contingent liabilities in respect of certain legal and regulatory matters for which it is not practicable to estimate the financial impact as there are many factors that may affect the range of possible outcomes.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

24. Legal and regulatory matters

Standard Chartered Bank Botswana Limited together with African Banking Corporation Botswana, African Banking Corporation Zambia and Standard Chartered Bank Johannesburg Branch (Lenders) are defendants in a dispute before the Gauteng High Court, instituted by Mapula Solutions (Proprietary) L "Mapula". Mapula is claiming damages, to the sum of BWP527 million, for an alleged breach of contract in respect of a Debt Rescheduling Agreement "DRA". The DRA was signed between the Lenders and Blue Financial Services Limited. Blue breached the terms of the DRA and the Lenders cancelled the DRA, this cancellation was confirmed by the Johannesburg High Court. Mapula assumed rights by cession from a Related Party of Blue, based on that cession of rights Mapula instituted action against the Lenders. Mapula in claiming that the Lenders had no right to cancel the DRA. The matter is going through the litigation process at the Johannesburg High Court; accordingly, this has been disclosed as a contingent liability and no provision has been recognised.

25. Subordinated liabilities

Accounting policy
Subordinated liabilities are classified as financial instruments. Refer to Note 14 Financial instruments for the accounting policy.

All subordinated liabilities are unsecured, unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by Banks. The Group has the right to settle these debt instruments in certain circumstances as set out in the contractual agreements. Where a debt instrument is callable, the issuer has the right to call.

	Interest rate	Maturity	2023 P '000	2022 P '000
Subordinated debt issued for capital injection	4% above the 91-day BOBC rate	29 July 2025	389,000	389,000

MoPR was adopted for Subordinated debt due to unavailability of the 91 day BoBC

26. Stated capital, other equity instruments and reserves

Accounting policy
Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue available number of own equity instruments. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

26. Stated capital, other equity instruments and reserves (cont.)

Where the Company or other members of the consolidated Group purchase the Company's equity share capital, the consideration paid is deducted from the total shareholders' equity of the Group and/or of the Company as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity of the Group and/or the Company.

	Stated capital P '000	Capital contribution P '000
At 01 January 2022	179,273	428,213
At 31 December 2022	179,273	428,213
At 31 December 2023	**179,273**	**428,213**

Stated capital

Authorised ordinary shares
The Company's stated capital consists of 400 000 000 ordinary shares of no par value (2022: 400 000 000).

Issued Ordinary shares
298 350 611 ordinary shares of no par value (2021: 298 350 611). All issued shares are fully paid.

Unissued ordinary shares
As at 31 December 2023, unissued shares totalled 101 619 389 (2022: 101 649 389).

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

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

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

26. Stated capital, other equity instruments and reserves (cont.)

Reserves
The constituents of the reserves are summarised as follows:

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

Statutory credit risk reserve
This reserve represents a statutory reserve required under the Banking Act, 1995 which was based on a threshold percentage of the credit risk weighted assets prior to the implementation of IFRS 9, Financial Instruments. Post implementation, the requirement to determine the reserve amount annually became no longer applicable and the regulator advised that the balance be maintained as is. The Group treats the reserve as non-distributable reserve (NDR).

Capital contribution
This represents the part of the consideration for the acquisition of the custody business (P28m) paid by Standard Chartered PLC, the ultimate parent company of Standard Chartered Bank Botswana Limited. The contribution is a non - distributable capital with no diluting effect on ordinary shareholders. The other amount of P400m is made up of the subordinated undated capital securities.

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

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

Treasury share reserve
The reserve for the company's treasury shares comprises the cost of the Bank's shares held by the Group. As at the reporting date, the Group held 0.84% of the Company's shares (2022: 0.84%) as treasury shares.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

27. Retirement benefit obligations

Accounting policy

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

Retirement benefit charge comprises:

	2023 P '000	2022 P '000
Defined contribution plans	19,340	17,516
Charge against profit	**19,340**	17,516

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

28. Cash flow statement

Adjustment for non -cash and other adjustments included within income statement

	Group		Company	
	2023 P '000	2022 P '000	2023 P '000	2021 P '000
Taxation	95,344	51,252	92,481	50,419
Depreciation	25,245	28,477	25,245	28,477
Amortisation on intangibles	12,339	12,185	12,339	12,185
Net impairment loss on loans and advances	(23,696)	1,255	(23,696)	1,255
Unrealised foreign exchange (gains)/losses	9,016	(20,034)	9,016	(20,034)
Profit on sale of asset	-	(1,062)	-	(1,062)

Disclosures

	Group		Company	
	2023 P '000	2022 P '000	2023 P '000	2022 P '000
Subordinated debt (including accrued interest):				
Opening balance	389,000	389,000	389,000	389,000
Interest paid - Cash flow item	(26,548)	(23,604)	(26,548)	(23,604)
Accrued Interest - Non-cash flow item	26,548	23,604	26,548	23,604
Closing balance	**389,000**	389,000	**389,000**	389,000

	Group		Company	
	2023 P '000	2022 P '000	2023 P '000	2022 P '000
Debt Security (including accrued interest):				
Opening balance	323,566	323,566	323,566	323,566
Interest paid - Cash flow item	(25,424)	(22,550)	(25,424)	(22,550)
Accrued Interest - Non-cash flow item	25,424	22,550	25,424	22,550
Closing balance	**323,566**	323,566	**323,566**	323,566

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

29. Cash and cash equivalents

Accounting policy
For the purposes of the cash flow statement, cash and cash equivalents comprise cash, on demand and overnight balances with central Banks (unless restricted) and balances with less than three months' maturity from the date of acquisition, including treasury bills and other eligible bills, loans and advances to Banks, and short-term government securities.

The following balances with less than three months' maturity from the date of acquisition have been identified by the Group as being cash and cash equivalents.

The Cash and cash equivalents balances include an unrestricted primary reserve requirement of P261million (2022: P215 million).

	Group		Company	
	2023 P '000	2022 P '000	2023 P '000	2022 P '000
Cash and balances at central Banks	854,469	491,618	851,591	488,740
Loans and advances to Banks	6,906	45,078	6,906	45,078
Amounts owed by and due to subsidiary undertakings	3,632,041	5,266,269	3,558,096	5,266,269
Total	**4,493,416**	5,802,965	**4,416,593**	5,800,087

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

30. Related party transactions

Directors and officers

Details of Directors' remuneration and interests in shares are disclosed in the Directors' remuneration report. IAS 24 Related party disclosures requires the following additional information for key management compensation. Key management comprises non-executive Directors, executive Directors of Standard Chartered Botswana, the Directors of Standard Chartered Bank and the persons discharging managerial responsibilities (PDMR) of Standard Chartered Botswana.

Key management personnel and non-executive Directors' balances:

Balances and transactions with Directors and key management personnel

The aggregate value of transactions, compensation and outstanding balances related to key management personnel for both Group and Company were as follows

(i) Directors and key personnel compensation

	2023 P '000	2022 P '000
Directors' fees - short term employee benefits	2,623	1,479
Directors and key management personnel compensation - short term employee benefits	30,204	24,030
Directors and key management personnel compensation - long term employment benefits	1,980	1,589
Directors' holding in Company shares (No. of shares)	538	483

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

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

	Assets		Liabilities	
Loans	**2023 P '000**	**2022 P '000**	**2023 P '000**	**2022 P '000**
Auto, mortgages and personal	13,813	13,070	-	-
Deposits	-	-	2,424	258

Expected credit losses on auto, mortgages and personal loan relating to key management personnel and non-executive Directors are included in the ECL balance (Refer to Note 16).

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

30. Related party transactions (cont.)

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

Details of related party at year end are as follows:

	Group		Company	
	2023 P '000	**2022 P '000**	**2023 P '000**	**2022 P '000**
Balances due from:				
Standard Chartered Bank PLC	2,010,893	204,875	2,010,893	204,875
Standard Chartered Bank New York	851,895	4,788,648	851,895	4,788,648
Standard Chartered Bank Johannesburg	–	25	–	25
Standard Chartered Bank China	29,618	–	29,618	–
Standard Chartered Bank Mauritius	702,771	114,066	702,771	114,066
Other group companies	36,864	158,655	27,692	158,655
Standard Chartered Insurance Agency	–	–	(64,773)	69,096
	3,632,041	**5,266,269**	**3,558,096**	**5,335,365**
Balances due to:				
Standard Chartered Bank PLC	433,140	564,698	433,140	564,699
Standard Chartered Bank New York	713,908	101,085	713,908	101,085
Standard Chartered Bank Johannesburg	50,553	28,892	50,553	28,892
Standard Chartered Hong Kong	-	51,240	-	51,240
Other group companies	185,996	20,834	185,996	20,834
Standard Chartered Insurance Agency	–	–	–	–
	1,383,597	**766,750**	**1,383,597**	**766,750**

Balances due to related parties include surbordinated liabilites and other borrowed funds.

Balances due to related companies are unsecured, carry variable interest rates, and are short term in nature. Related party balances due from related parties form part of cash and cash equivalents for cashflow purposes.

There were no expenses recognised during the period in respect of bad or doubtful debts due from related parties (2022: Nil).

ECL related to the amount of outstanding balances was P95m (2022: P74m)

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

30. Related party transactions (cont.)

Related parties continued

	Interest income	Interest expense	Group recharges	Group share scheme expense
	P '000	P '000	P '000	P '000
Group and Company - 2023				
SCB UK Treasury	83,941	27,454	152,741	184
SCB Singapore DBU	–	7	–	–
SCB Mauritius	32,623	–	354	–
SCB Japan	–	5	–	–
SCB Kenya	–	6	–	–
SCB New York	60,989	–	–	–
SCB Johannesburg	5,654	770	358	–
SCB Poland	–	–	280	–
SCB Hong Kong	–	50	–	–
SCB India	–	–	–	–
SCB Malaysia	–	–	2,456	–
SCB Germany	–	–	–	
SCB China	–	–	–	–
SCB others	–	–	–	
	183,206	**28,292**	**156,189**	**184**
Group and Company - 2022				
SCB UK Treasury	1,457	22,155	137,806	65
SCB Singapore DBU	–	6	–	–
SCB Zimbabwe	5,980	–	(985)	–
SCB Japan	2,751	57	–	–
SCB Kenya	–	2	–	–
SCB New York	63,793	–	–	–
SCB Johannesburg	3,415	–	–	–
SCB Poland	–	–	194	–
SCB Hong Kong	–	18	–	–
SCB India	–	2	35,331	–
SCB Malaysia	–	–	2,192	–
SCB Germany	–	530	–	
SCB China	–	–	406	–
SCB others	31	–	–	
	77,427	**22,770**	**174,942**	**65**

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

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

31. Post balance sheet events

Dividend declared
There have been no events, facts or circumstances of a material nature that have occurred subsequent to the reporting date which necessitate an adjustment to the disclosure in these Annual Financial Statements or the notes thereto. The Directors have resolved to award a final dividend of P307m (2022; P203m) gross of withholding tax.

32. Auditor's remuneration

Auditor's remuneration is included within other general administration expenses. The amounts paid by the Group to their principal auditor, Ernst & Young Botswana, are set out below. All services are approved by the Board of Directors and are subject to controls to ensure the external auditor's independence is unaffected by the provision of other services.

	2023 P '000	2022 P '000
Audit of Standard Chartered Bank Botswana Ltd (Current year)	2,397	2,272
Audit of Standard Chartered Bank Botswana Ltd (Prior year under provision)	345	–
Total audit fees	**2,742**	**2,272**

The disclosure has been added to provide more useful information to the users

The following is a description of the type of services included within the categories listed above:

- Audit fees for the Group statutory audit are in respect of fees payable to Ernst & Young for the statutory audit of the Bank and Group consolidation
- Other assurance services include agreed-upon-procedures in relation to statutory and regulatory filings

Financial markets transaction services are fees payable to Ernst & Young for issuing comfort letters.

Expenses for costs incurred and disbursements made in respect of their role as auditor, were reimbursed to EY. Such expenses did not exceed 1% of total fees charged above.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

33. Subsidiaries and other structured entities

As at 31 December 2023, the Group's interests in related undertakings are disclosed below. Unless otherwise stated, the stated capital disclosed comprises ordinary or common shares which are held by subsidiaries of the Group. Standard Chartered Bank Insurance Agency (Proprietary) Limited, Standard Chartered Bank Investment Services (Proprietary) Limited, Standard Chartered Botswana Education Trust, Standard Chartered Botswana Nominees (Proprietary) Limited are directly held subsidiaries.

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

Subsidiaries are entities which the Bank controls. The Bank controls an entity when it is exposed to, 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 investee. The assessment of power is based on the Group's practical ability to direct the relevant activities of the entity unilaterally for the Group's own benefit and is subject to re-assessment if and when one or more of the elements of control change. Subsidiaries are fully consolidated from the date on which the Bank effectively obtains control. They are de-consolidated from the date that control ceases, and where any interest in the subsidiary remains, this is re-measured to its fair value and the change in carrying amount is recognised in the income statement. The Group does not have significant restrictions on its ability to access or use assets, and settle liabilities of the group.

In the Group's financial statements, investments in subsidiaries are held at cost less impairment. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in the Group accounts.

Subsidiaries and other structured entities

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

Subsidiary Undertakings

Subsidiary Name	Country of incorporation	Stated capital	Ownership interest	
			2023	2022
Standard Chartered Bank Insurance Agency (Proprietary) Ltd	Botswana	30 100	100%	100%
Standard Chartered Bank Investment Services (Proprietary) Ltd	Botswana	100	100%	100%
Standard Chartered Botswana Education Trust	Botswana	-	100%	100%
Standard Chartered Botswana Nominees (Proprietary) Ltd	Botswana	100	100%	100%

The amounts for stated capital are presented in Pula and are not rounded.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

33. Subsidiaries and other structured entities (cont.)

Standard Chartered Botswana Education Trust is a structured entity that was set up to promote educational activities. Standard Chartered Botswana Education Trust acquired 0.84% shareholding in Standard Chartered Bank Botswana Limited. Standard Chartered Bank Botswana has no contractual obligation to provide financial support to the Trust. No financial support has been extended to the Trust.

	2023	2022
Investment in subsidiaries	**P'000**	**P'000**
As at 1 January	30	30
Additions	-	-
As at 31 December	30	30

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

34. Fiduciary activities

In the normal course of business, the Group is a party to financial investments with off-balance sheet risk to meet the financing needs of customers. These instruments involve, to varying degrees, elements of credit risk which are not reflected in the statement of financial position. The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amount of those instruments. A large majority of these expire without being drawn upon, and as a result the contracted nominal principal amounts are not representative of the actual future credit exposure or liquidity requirements of the Group. Expected credit loss for contingent liabilities and commitments of P0.6m (2022; P1.4m) was recognised under IFRS 9 at the current reporting date.

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

These instruments are held in trust on behalf of customers and are therefore not treated as assets of the Bank and accordingly, have not been included in these financial statements.

	Group		Company	
	2023 P '000	2022 P '000	2023 P '000	2022 P '000
Assets held in custody	32,400,405	31,128,450	32,400,405	31,128,450

35. Prepayments and accrued income

	Group		Company	
	2023 P '000	2022 P '000	2023 P '000	2022 P '000
Prepayments	64,276	70,584	64,276	70,584
Accrued interest receivable:				
Central Banks and Central Governments	7,339	8,672	7,339	8,672
Loans secured by mortgage on residential properties	13,157	12,793	13,157	12,793
Other loans, advances and bills held	184,621	74,359	184,621	74,359
Total Accrued interest receivable	**205,116**	95,824	**205,116**	95,824
Total	**269,393**	**166,408**	**269,393**	**166,408**

An amount of P58.8m included on the Other loans, advances and bills held for the prior year was reclassified to prepayments and deferred expenses in order to provide better comparability to the current year amounts.

Notes to the financial statements
for the year ended 31 December 2023 **cont.**

36. Accruals and deferred income

	Group		Company	
	2023 P '000	2022 P '000	2023 P '000	2022 P '000
Accrued interest payable	58,897	86,598	58,897	86,598
Holiday Pay accrual	11,548	7,630	11,548	7,630
Bonus Accrual	27,619	24,624	27,619	24,624
Sundry accruals and deferred income	24,550	10,514	24,511	10,514
Total	**122,614**	**129,366**	**122,575**	**129,366**

Annual General Meeting Notice
For the year ended at 31st December 2023

Notice is hereby given that the 49th Annual General Meeting of the members of Standard Chartered Bank Botswana Limited will be held on Wednesday 26th June 2024 at 1500 hours at Plot 1124-30, 5th Floor, Standard Chartered House, Main Mall, Gaborone for the following purposes:

1. To consider and adopt minutes of the meeting held on the 29th June 2023
2. To receive, consider and adopt the Chairperson's report
3. To receive, consider and adopt the Chief Executive Officer's report
4. To receive, consider and approve the Annual Financial Statements for the year ended 31st December 2023, together with the Auditor's reports therein.
5. To confirm and ratify the declaration of a final dividend of 103.00 thebe per ordinary share paid to the shareholders on or about the 21st May 2024.
6. To re- elect as a Director Doreen Cilla Khama who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers herself for re-election. Director Khama is the founder and senior partner of Doreen Khama Attorneys, a private law firm established in 1982 which provides legal advice to corporate and individual clients on commercial matters and general litigation. She has over 20 years of service in private practice and is the honorary Counsel for Austria. She has sat on the boards of Botswana Savings Bank, ABC Holdings and Banc ABC Botswana where she served as an Independent Non-Executive Director and a Chairperson respectively.
7. To re- elect as a Director Rodgers Majwabe Thusi who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers himself for re-election. Mr Thusi is the co – founder of Gidary Technical Solutions, a consultancy company which has undertaken a number of projects covering technical investigations, mineral resource evaluation including projects and operations management support at various mines. He is a member of Botswana Institute of Engineers and a project management professional through the Project Management Institute.
8. To confirm and ratify the appointment of Mpho Judith Dimbungu as an Independent Non-Executive Director effective 13th April 2023 and in accordance with Section 90 of the Companies' constitution. Mrs. Mpho Judith Dimbungu is a seasoned financial management professional who has worked in the diamond mining industry for the majority of her career, spanning well over 30 years. She has held various senior management positions at DTC Botswana, Debswana Mining Company and De Beers Consolidated Mines. Ms. Dimbungu is a professional accountant, a Fellow Chartered Accountant – FCA, Associate Member of Chartered Global Management Accountant (CGMA), and Associate Certified Management Accountant - ACMA.
9. To confirm and ratify the Directors remuneration report and the remuneration paid to the Directors for the year ending 31st December 2023 and to authorise the Board to fix the Directors remuneration for the ensuing year.
10. To confirm and ratify the remuneration of the auditors, Ernst & Young Botswana for the year ended 31st December 2023.
11. To confirm and ratify the appointment of the auditors Ernst & Young Botswana and to authorise the Board to determine the external auditor's remuneration ` for the ensuing year.
12. To receive and consider questions and or comments from the shareholders.

Notes:

Any member entitled to attend and vote, is entitled to appoint a proxy to attend and speak and, on a poll, vote in his/her stand. The person so appointed needs not be a member. The instrument appointing such a proxy should be forwarded to reach the Secretary, at Standard Chartered Bank Botswana Limited, Head Office, 5th Floor, Standard House, The Mall, P O Box 496, Gaborone, alternatively via e-mail at **bwinvestorrelations@sc.com** not less than 48 hours before the meeting.

A copy of the Annual Report is available for download at **www.sc.com/bw.**

By order of the Board

Luzibo Benza
Company Secretary

Proxy Form

Please complete in block letters

I/WE____

Being a shareholder of Standard Chartered Bank Botswana Limited, hereby appoint:

____or failing him or her

____or failing him or her

____or failing him or her

as my proxy to vote on my behalf at the annual general meeting of the company to be held on the 26th June 2024 and at any adjournment of the meeting thereof as follows;

	Resolution	For	Against	Abstain
1.	To receive, consider and approve the Annual Financial Statements for the year ended 31st December 2023, together with the Auditor's reports therein.			
2.	To confirm and ratify the declaration of a final dividend of 103.00 thebe per ordinary share paid to the shareholders on the 21st May 2024.			
3.	To re- elect as a Director Doreen Cilla Khama who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers herself for re-election			
4.	To re- elect as a Director Rodgers Majwabe Thusi who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers himself for re-election.			
5.	To confirm and ratify the appointment of Mpho Judith Dimbungu as an Independent Non-Executive Director effective 13th April 2023			
6.	To confirm and ratify the Directors remuneration report and the remuneration paid to the Directors for the year ending 31st December 2023 and to authorise the Board to fix the Directors remuneration for the ensuing year.			
7.	To confirm and ratify the remuneration of the auditors, Ernst & Young Botswana for the year ended 31st December 2023.			
8.	To confirm and ratify the appointment of the auditors Ernst & Young Botswana and to authorise the Board to determine the external auditor's remuneration for the ensuing year.			

Unless otherwise indicated, my proxy may vote as he/she thinks fit.

Signature____________________ Date _________________2024

Notes____

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1. Any alteration of this form must be initialled by the signatory

2. This form of proxy should be completed and returned so as to reach the Secretary of the Company at Plot 1124-30, 5th floor, Standard House, The Mall, P O Box 496, Gaborone, alternatively via e-mail at **bwinvestorrelations@sc.com** no later than Friday 21st June 2024.

Notes