



standard
chartered

2022 Annual Report

Leading the way
to a sustainable
future



here for
good™

CONTENTS

2	Living the Brand Promise
4	A Message from the Board Chairperson
6	Chief Executive Officer's Report
8	Management Team
10	Review of Segments and Functions
12	Consumer, Private and Business Banking
14	Corporate, Commercial & Institutional Banking
16	Human Resources
18	Chief Financial Officer's Review
20	Chief Risk Officer's Review
24	Board of Directors
26	Corporate Governance Statement
38	Consolidated and Separate Financial Statements for the year ended 31 December 2022



About this Report

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



@StanChart



[linkedin.com/company/standard-chartered-Bank](https://www.linkedin.com/company/standard-chartered-Bank)



[facebook.com/Standard Chartered Botswana](https://www.facebook.com/Standard-Chartered-Botswana)

Living the brand promise... Here for good



Sustainability



Carbon Performance



Employee Volunteering

Sustainability

The ethos of Standard Chartered Bank, stems from being a good corporate citizen and ensuring that, not only do we do good in and around the communities around us, but that we are also conscious of our own operations and their impact on the environment.

Sustainability is at the core of our operations, and as Standard Chartered, we continue to consistently report absolute carbon and waste as our scorecard metrics that matter. Good progress has been made towards our net zero target and the procurement of clean energy. The Bank launched its second fully operational solar powered project after the unveiling of the Lobatse Express banking Centre in 2021.

The Main Mall, branch in Gaborone, installed a solar system in 2022 that runs 100% on solar power and is self-sufficient.

Over the last 12 months, the system produced 45.07 MWh of clean electricity and exported 6.67 MWh of clean energy back into the grid and displaced 705 tonnes of CO2 emissions, which represents a great saving for the Bank, but more than that, aligns to the Bank's conscious efforts to reduce our carbon footprint.

The country net zero target is energy use intensity or EUI and is measured for all buildings across the portfolio.

We have optimized our remaining portfolio to be as energy efficient as possible through the implementation of Energy Conservation Measures including but not limited to LED lighting, efficient air conditioning control and office control. In 2022, all Bank facilities were fitted with LED Lights, Ozone Friendly & Efficient Air Conditioning Units. Motion Detectors were also installed in storerooms, bathrooms, and all meeting rooms.

2022 Carbon Performance

The Bank has also looked at areas such as space optimisation and energy efficiency across its entire branch network to play our part in creating a sustainable future for all. Furthermore, as part of our 125year commemoration, the Bank has also committed to greening Botswana, through committing to planting 12,500 trees across the country. This mammoth undertaking will ensure that indigenous trees are planted across Botswana into the 2023 financial year. In continuing to contribute to the communities within which we operate, the Bank, as part of the Covid recovery program supported by the Standard Chartered Foundation, launched the third iteration of the Futuremakers – Entrepreneurship and Employability program. The Standard Chartered Foundation supported the roll out of the local program with P3.9 million pula for the 2022/23 program cycle, bringing the total contribution to approximately P5.6million.

The project has seen over 2000 youth, majority of which were women and some visually impaired participants, upskilled and guided to learn, earn, and grow. Of the in-depth programs – aspiring entrepreneurs and entrepreneurial skills training, 89% of participants were economically active after six months – either through running a business, being employed, or having gone for further education. Proof, that indeed the Futuremakers program is assisting with reducing unemployment in Botswana.

Employee Volunteering

Standard Chartered, in its endeavour to enable staff to give back in the communities they operate in, has an employee volunteering program which affords staff three (3) days annually to give back. Botswana was in the top 10 countries across the Standard Chartered group, with 63% of our employees taking their time to go and do community work in the year 2022.

The community work ranged from mentorship of high school students, mentoring entrepreneurs, working with the Botswana Society for the Prevention of Cruelty to Animals (BSPCA), cleaning, debushing and decorating the Lady Olebile Masire Centre in Gaborone West where the Banks Futuremakers project is housed and other activities across the country.



A Message From Board Chairperson

“...Our continued focus on the implementation of our Digitisation strategy has resulted in continued sustainable gains with our operating income growing 22% and the cost-to-income ratio down from 89% to 67% for the year...”

Doreen C. Khama



Economic Update

The year 2022 started with optimism as most of the world came out of the COVID -19 pandemic lockdowns and most businesses returned to the normalcy of working from the office. We held our first face to face Board meeting which provided an opportunity for some of my fellow Directors who were appointed during the pandemic to finally meet. Despite the geo-political unrest in Ukraine and Kenya which had a telling impact on global economies and international trade, the Bank delivered a strong financial performance underpinned by our core principles, “Never Settle” Do the Right Thing” and “Better Together” which are the cornerstone of all of our activities.

Economic Update

Botswana’s economy has continued to recover from the COVID -19 pandemic in 2022. Inflation remained elevated due to geo-political tensions, it increased sharply to a decade-high of 12.2% in 2022 (from 6.7% in 2021) triggered by an upward adjustment of administered prices, a modest recovery in domestic demand, and higher international food and fuel prices emanating from supply chain shocks. Real Domestic Product (GDP) grew by 5.8%, roughly half the growth rate achieved in 2021, the key drivers of growth were Water & Electricity and Diamond Trades which reported an annual growth of more than 20%. Positively, all other sectors reported a growth in 2022, even those that contracted in 2021 such as Agriculture.

Bank of Botswana tightened monetary policy in 2022, raising the newly introduced Monetary Policy Rate by a cumulative 151 basis points. It projects inflation to fall between the 3-6% objective range by the second quarter of 2024.



Performance

Performance

Our prior years’ performance is testament to the hard work and commitment to strategy by the management and employees of the Bank, which penultimately saw the Bank’s income increase year on year by 22%. The positive performance signified a continuing resuscitation of the countries’ economy and the Banks performance. The Bank reported a profit before tax of P253 million representing a 229% year on year increase. Our focus on the implementation of our Digitisation strategy has resulted in continued sustainable gains with our operating income growing 22% and the cost-to-income ratio down from 89% to 67% for the year. It is important to note that the delivery of our strategy, results in us delivering value to our shareholder, and this is evidenced by an increase in the banks share price.

People & Culture

Globally we all emerged from what was a difficult and uncertain period, and as the year drew to a close, we remembered and commemorated our fallen colleagues and those colleagues who lost loved ones during the turmoil of the pandemic. One of the strategic pillars for 2022 was ensuring that our Employees well-being was placed at the centre of the strategy. The bank introduced specific programmes to improve the working culture, with a focus on remuneration as well as ensuring that we achieve a balance between work, wellness and home. Employee engagement was also intensified as the entire workforce came back to the office.



People & Culture



Outlook & Strategy

Outlook & Strategy

As you will see, our results are proof that the Bank’s strategy is bearing the desired results for the shareholder, our employees, and importantly, our clients. We are always exploring avenues of giving our stakeholders a better experience of our services. 2023 will see us working harder to truly unleash the full potential of the franchise as we seek to improve our efficiencies and continue to build on the great work started in 2022, all this with a view, to better serve our partners.

As we look towards 2023, I assure you that we have the right mix of skills and experience in our Board, Management team and the employees, who will continue to lead the Bank forward. We will continue to be deliberate in our actions as we drive to not only grow the business, but to also ensure that we impact our employees and the communities we operate in. Being “Here for good” is not just a brand statement, but a statement of our intent to always do good, treat our customers fairly and ensure that we carry out our responsibilities to our stakeholders with dedication and a firm commitment to serve you!

Doreen C. Khama
Board Chairperson

Chief Executive Officer's Report



“...Our aspiration is to cultivate a purpose-led workforce that is ambitious and committed to delivering the strategic intent of the Bank...”

Mpho Masupe

In 2020, we refreshed our strategic priorities in line with the Group's sharpened strategic pillars. Diligent execution of this strategy has borne great results and value for our stakeholders.

The strategy is anchored on the following growth pillars; Network, Affluent, Personal banking and Sustainability, which are enabled by People & Culture, New Ways of Working, and Innovation & Technology.

Our digital platform and proposition remains unmatched and we continue to improve our digital services to our clients. We now offer over 72 services on the digital platform and are the first and still the only Bank in the market that offers end to end digital account opening – since the launch of this functionality we have opened over 39,000 accounts from all over Botswana driving financial inclusion.

With client centricity in mind, we leveraged on our unique global network, as we launched the Chinese Renminbi (RMB) as a fifth major currency in Botswana. This is a first in the market that allows clients to hold a Renminbi account in Botswana and transfer payments directly to suppliers and beneficiaries in China. Our goal for 2023 is to scale business profitably, powered by digitisation and partnerships and become the top network Bank for our clients, leveraging on our international footprint and digital capabilities.

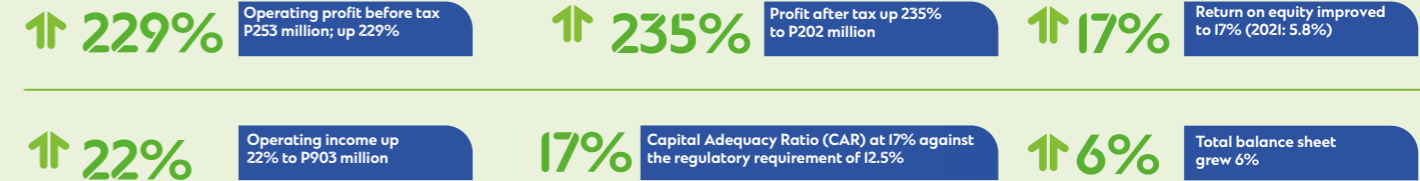
The Bank has maintained focus on growing the affluent segment and has adopted a new operating model that is well resourced. We will be accelerating our growth in this segment as we leverage on our global and local insights to offer personalised wealth advice.

In line with our sustainability agenda, we launched the installation of a solar system at our flagship branch in Main Mall which will displace 10.4 tons of Carbon Dioxide per year, this is another first by the Bank. Our people also engaged in various employee volunteering including tree planting and mentorship of youth and running masterclass lessons for young entrepreneurs.

People

Achieving our strategy has required us to be more deliberate in how we manage our business, more targeted in how we deploy our resources and skills, and more focused on how we prioritise our efforts to deliver the most impact for our colleagues and clients in an increasingly competitive talent market. As part of our broader strategy to invest in our people to build a future-ready workforce that is innovative, inclusive and collaborative. We have instilled a learning culture through investments

Key Financial highlights



made in digital/technology platforms that enable our employees to learn on the go, better manage their teams, collaborate more and ultimately serve our clients better.

To maintain good conduct and raise awareness of our valued behaviours, on a quarterly basis, we rewarded staff who role modelled the right behaviours. Re-defining our culture will continue to be key in ensuring that the Bank is recognized as the best place to work for current & future talent and the best place to Bank.

Our aspiration is to cultivate a purpose-led workforce that is ambitious and committed to delivering the strategic intent of the Bank.

Financial Performance

The Bank recorded a strong Profit Before Tax of P253 million, this is as a result of a well-executed and effective strategy. We remain relentless in our quest to continuously deliver value to our shareholders, and this is reflected by the following key metrics; ROE of 17%, in line with our target of delivering double digit returns, operating expenses decreased 8% due to prudent cost management measures employed by the Bank over the past 3 years.

The results show our continued commitment to our strategy, and our purpose to drive commerce and prosperity with our unique diversity.

Outlook

Standard Chartered Bank Botswana is the first and currently only global Bank serving in this market. Our experience of over 125 years in Botswana, speaks to our ability to remain relevant and evolve over time to meet the needs of our clients and shareholders.

Our ability to remain resilient, both globally and at home, have seen us successfully navigate through the multiple upheavals that have affected our operating environment.

Most recently, we have undergone tremendous pressure through the COVID – 19 pandemic, which devastated the global economy, this, coupled with elevated inflations which were exacerbated by geo-political tensions made for a challenging operating environment. Despite these, the Bank has remained resilient and has made good progress and is on track to deliver and surpass the strategy it launched in 2020.

As we make significant strides with our digital strategy, we recently launched Agent Banking which allows us to deliver holistic everyday banking solutions to a larger population. In the year 2023, we will continue to invest in partnerships and innovation as these are instrumental to our business, enabling us to increase our reach and relevance to serve clients in a meaningful way.

We are optimistic about 2023, largely based on the sound fundamentals that we have in place for sustainable business growth.

Moreover, given the encouraging macroeconomic fundamentals and stable outlook, we are confident that these positive sentiments will translate into growth within the economy and thus giving us an opportunity to pursue business and deliver value to our shareholders.

Our Brand promise - Here for good, is a commitment that we have made over the years, one which lies at the very core of what we do, as we serve our employees, clients, partners, communities, and shareholders.

Here for good holds us accountable to how we show up, as we focus on creating value for our stakeholders and even as we aim to maximise returns for our shareholders.

Our evolution is guided by our clients, who remain at the centre of what we do. We look forward to serving this nation and our valued clients for another 125years, as we continue to leverage our global reach and local expertise for the benefit of all.



Mpho Masupe
Chief Executive Officer

Management Team



Mpho Masupe
Chief Executive Officer



Lloyd Kusano
Consumer Private & Business Banking
Chief Operating Officer



Jared Obongo
Chief Risk Officer



Bame Moremong
Head, Corporate Affairs, Brand & Marketing



Mosetsana Kapeko
Head, Consumer Private & Business Banking (Acting)



Asuquo Nkposong
Head, Corporate, Commercial and Institutional Banking



Shathani Molefe
Head, Conduct, Financial Crime and Compliance



Tapiwa Butale
Chief Financial Officer



Kenneth Mbaiwa
Head, Human Resources



Galeboi Sennanyana
Head, Financial Markets (Acting)



Neo Kwape
Head, Internal Audit



Luzibo Benza
Head, Legal and Company Secretary (Acting)

Review of Segments and functions

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



Consumer, Private and Business Banking

Segment Overview

The Consumer, Private and Business Banking (CPBB) continued to grow through digital channels and introduce new ways of distribution to serve individuals and small-medium businesses. The introduction of agency banking in the last quarter of 2022 will continue to be a focus, as we increase the number of touchpoints and partners across the country.

The business further expanded the focus on the affluent segment through the renewed focus on investment products. With over 72 services available on self-service platforms such as the SC Mobile app, digital adoption stands at 76% and our acquisition rate is 99% digital. The segment continues to pursue the Bank's sustainability agenda having launched the Bank's first solar powered branch in Main Mall branch in the first half of 2022.

Segment performance has been strong, despite the slow pace of economic recovery and market headwinds. We continue to build on the strong foundations that we have laid this year and strengthen our focus on growing the key value drivers of our business.

Strategic Priorities

- Deliver business growth, and positive returns
- Digitize to drive growth and improve client experience and service
- Differentiate through Affluent to deliver our strategy.
- Improve efficiency and achieve a well-controlled environment
- Turnaround non-profitable Segments and Products

Progress & Highlights

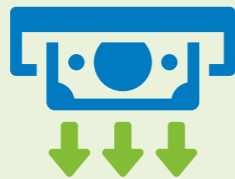


Operating profit grew **58% year on year**



Digital adoption from **70% to 76%**

- Implemented Digital Tariff Guide to monetize digital transactions - \$880K
- Went live with Agency Banking - 11 locations



Re-Launch Investment products - **Offshore Fixed Income and Mutual funds**

- Refreshed the Affluent team & held a series of Affluent events
- Established a two RM presence in the North



Delivered over **BWP40m gross cost savings and improved cost to income ratio to**

77% from 83% in prior year.



Delivered double digit growth in Business Banking & Affluent segments

(19% & 75% respectively).



“By enhancing our client value proposition, we have grown income as well as attracted new clients by offering outstanding personalised wealth advice and exceptional service...”

Mosetsana Kapeko



Corporate, Commercial and Institutional Banking

CCIB long term strategy to focus on specific client segments and differentiate through product and system capabilities is yielding sustainable year on year improvement in financial performance.

We have streamlined the business segment to our areas of comparative advantage and eliminated drags on the business.

The segment recorded income growth of 69% year on year. This was a balanced growth across all product lines as our clients overcame the challenges brought about by the Russia/Ukraine war in the first half of the year. This enabled pipeline conversion to resume. The introduction of Chinese Renminbi as the first Bank to offer this currency for onshore trading, is yielding results as we claw back market share. Bottom line profit grew 12x to end the year at BWP 154million compared to prior year of BWP 14million.

Our Balance sheet grew on the back of pipeline conversion and key mandates won. Our asset book grew 62% year on year. The composition of our asset book has historically been skewed towards short term, transactional trade. We took a specific decision to increase our medium assets, expanding our risk appetite within our target segments. Deposits from clients grew 8% year on year as we managed our deposit mix, leveraging on system differentiation to win key transaction banking mandates.

Our investments in our digital platform to deliver our digital strategy continues to support our differentiation strategy and yield positive results. This is evidenced by improvements to our Straight2Bank platform as we migrate more of our services and product capabilities such as Security services and Trade financing onto the platform.

The digital strategy aims to avail a full digital experience to our clients for any transaction they undertake with the Bank and reduce cost to serve (cost declined 27% year on year). Credit impairments remain well controlled.

We look forward to 2023 and beyond with optimism as the economy rebounds and business resume investments. We are well positioned to provide a broad range of local and international product offerings to our clients.

Key among these include infrastructure and transition finance to our investor clients who are looking for broader products to accommodate the expected pension inflows. Our strategy on digital is an ongoing one as we plan to continue to increase efficiency on our world class banking platform.

Our focus is to continue to build and deepen key client relationships by increasing cross sell opportunities and leveraging on our international network to provide our clients with one central access point to the world.



“We continue to build on the strong foundations that we have laid this year and strengthen our focus on growing the key value drivers of our business...”

Asuquo Nkposong



Human Resources

Our Brand promise

We strive to make Standard Chartered a great place to work by creating an engaging, inclusive and safe environment that rewards success and encourages employees to take control of their personal development.

At the core of the Bank's people strategy is our focus on employee engagement and being the employer of choice. Engagement is a key driver of productivity and performance, which creates the foundation of our performance culture. We encourage and focus on the behaviours that bring out the very best from every employee, assessing their performance not just on results but on how those results were achieved.

Remuneration

To further embed these behaviors we have a remuneration programme in place, carefully designed to incentivize our employees to live our values every day. We have always taken a view that our remuneration policies should support and drive our business strategy and reinforce our values. We believe these are sound and aligned to external best practice standards with risk-based and robust governance structures.

Our annual performance bonuses are discretionary and are delivered in a combination of cash and deferred shares. They are set with regard to an assessment of risk and other factors such as achievement of our management agenda, risk management and economic backdrop, as well as profit.

The below is an illustration of the Executive Management Remuneration:

Annual total base	8,897,453
Gross Pay	11,976,710.40
Short-term incentives	3,625,006.00
Long Term incentive	121,473

Diversity & Inclusion

Our purpose and valued behaviours demonstrate our belief that a successful business thrives in diverse and inclusive societies.

We are committed to enabling a culture of respect and inclusion by valuing, engaging and supporting our people. Central to driving diversity and inclusion (D&I), we have been able to move the dial and incorporate this agenda into our people processes;

- 60% female representation in senior and critical positions
- Embedded understanding of D&I into our core people processes and programmes to ensure an increased representation in the broadest sense (gender, ethnicity, disability and generational diversity).
- Leverage employee listening to better understand the needs of different demographic groups and taking targeted actions to build inclusive, innovative and high performing culture to maximise diversity of thought and experience.

Wellbeing & recognition

We are committed to establishing and maintaining a workplace that fosters and promotes a culture of physical, mental and social wellbeing, and supports an individual's desire to make healthy lifestyle choices. It is to this end that all our colleagues within the Bank are eligible for 30 days annual leave.

Colleagues have access to multiple wellbeing tools to enable them in their various wellbeing journeys. The Bank contributes 100% medical cover for all colleagues and ensures that there is adequate cover in instances of disability at any given time.

We spark change within the larger organisation to align with new Ways of Working (nWoW). We believe that approaching our work with the right behaviour and mindset is an important aspect of bringing our best selves to the workplace. Indeed, qualities such as grit, resilience, innovation, agility, and empowering others are crucial ingredients in making – or breaking – a team.

To ensure the colleagues are manage their mental wellbeing, the bank provides a number of tools such as Unmind (the brain doctor) and an employee assistance program which is on standby 24/7 to provide support to colleagues and their families.

Staff development is one of the key pillars of the bank's people agenda and it is to this end that the bank has heavily invested in partnerships with some of the best universities in the world to create a learning management system which houses over 3000 courses in different subjects which staff has access to and can utilise at any given time. Further to this the bank also has a sponsorship program where colleagues can be sponsored up to 100% of their tuition in program aligned to their career aspirations.

The bank's reward and benefits program is both competitive and meaningful to our colleagues. The bank ensures staff participate on the profitability of the bank by joining in the staff share scheme. A clear and defined bonus program which is communicated continuously motivate staff and ensure they are aligned to short and long term priorities of the bank.



“By engaging employees and fostering a positive experience for them, we can better serve our clients and deliver on our Purpose and Stands...”

Kenneth Mbaiwa



Chief Financial Officer's Review

Business Performance

Statement of Profit or Loss

	31 Dec 22 P'000	31 Dec 21 P'000
Net Interest Income	583,149	444,811
Other Income	319,792	294,340
Operating Income	902,941	739,151
Operating Expenses	(606,876)	(659,462)
Profit before Impairment and Taxation	296,065	79,689
Credit loss expense on financial assets	(42,987)	(2,722)
Profit before Taxation	253,078	76,967
Taxation	(51,252)	(16,656)
Profit for the period	201,826	60,311

Our transition to becoming a truly digital Bank delivered yet another strong financial year despite the uncertainty characterised by both our local and global operating environment. Our growth focus, cost and capital efficiency have lifted return on tangible equity (RoTE) to 16%, surpassing our group target of 10%. The Bank continued to build momentum by delivering strong income growth, maintaining discipline in managing its cost base ending with a notable increase in operating profit. Double digit net revenue growth of 22% year on year was supported by positive Corporate Commercial and Institutional Banking (CCIB) momentum and a favourable interest rate environment.

Our core business areas continued to deliver strong performances, with CCIB registering 69% revenue growth on the back of strong underlying business momentum and positive progress made against our strategic pillars. Our Consumer, Private & Business Banking (CPBB) segment, grew revenue by 8% largely benefiting from the higher policy rates in 2022. The digital business agenda remains critical to transform CPBB's growth and the transformation is gaining pace with digital adoption improving by 6% year on year to 76%. The business is also on a path to scale the personal segment through strategic partnerships following the launch of Agency banking in 2022. Operating expenses reduced by 8% reflecting

operational efficiencies with cost-to-income ratio improving from 89% to 67% year on year. Expense efficiency is core to enabling the Bank to create positive operating leverage, whilst creating capacity to continue investing in strategic initiatives. Our credit quality remains strong, and we are well positioned to support economic growth despite continued economic uncertainty.

Net Interest Income and Margins

	31 Dec 22 P'000	31 Dec 21 P'000
Net Interest Income	583,149	444,811
Average Interest-earning Assets	10,895,549	13,739,200
Average Interest-bearing Liabilities	11,426,963	10,483,129
Gross Yield (%)	8.44	5.60
Rate Paid (%)	2.94	2.80
Net Yield	5.50	2.80
Net Margin (%)	5.35	3.24

Interest expense continues to be elevated by market liquidity constraints, resulting in 14bps increase in rate paid. Interest expense management and achieving optimal funding mix strategies remains a focus area for the Bank.

Credit Quality

	31 Dec 22 P'000	31 Dec 21 P'000
Gross loans and Advances to customers	8,010,982	7,950,369
Of which Stage 1 and 2	7,851,430	7,736,039
Of which Stage 3	159,552	214,330
Expected Credit loss provisions	235,658	234,402
Of which Stage 1 and 2	127,992	88,409
Of which Stage 3	107,666	145,993
Net loans and Advances to customers	7,775,324	7,715,967
Of which Stage 1 and 2	7,723,438	7,647,630
Of which Stage 3	51,886	68,337
Collateral	5,897,369	4,159,089
Stage 1 and stage 2 exposures	5,797,402	3,956,960
Stage 3 exposures	99,967	202,129

Stage 1 and 2 impairment charge increased by 45% to BWP128mn, reflective of the tough operating environment characterised by job losses and the high unemployment rate. Stage 3 impairment remained stable, the CCIB book comprises of strong global institutions, and acceptable risk on sovereign entities, with no material credit horizon risk on these names.

CPBB impairment increased due to higher charge-offs resulting from redundancies. Ageing credit-impaired loans have resulted in increased provisioning in recognition of the doubtful recovery, due to clients' inability to pay as well as protracted litigation processes. Strict collections procedures are being followed to minimise losses from the ageing impaired accounts.

The Bank is monitoring looming retrenchments and implementing measures to minimize their impact on advances. The lending environment has been competitive with relaxed credit risk measures; however, our credit risk requirements remain robust without compromising our risk appetite.

Balance Sheet and Liquidity

	31 Dec 22 P'000	31 Dec 21 P'000
Assets		
Loans and advances to banks	5,311,347	4,057,690
Loans and advances to customers	7,775,324	7,715,967
Other Assets	3,338,334	3,763,312
Total assets	16,425,005	15,536,969
Liabilities		
Deposits from banks	1,237,989	653,341
Deposits from customers	13,024,890	12,618,006
Other Liabilities	1,005,466	1,217,141
Total liabilities	15,268,345	14,488,488
Equity	1,156,660	1,048,481
Advances-to-deposits Ratio (%)	60	61
Liquid Assets Ratio (%)	15.7	12.5



“The lending environment has been competitive with relaxed credit risk measures; however, our credit risk requirements remain robust without compromising our risk appetite...”

Tapiwa Butale

Total loans and advances up by 1% to BWP7.8bn. Balance sheet growth was largely driven by CCIB assets on the back of pipeline conversion and key mandates won. CPBB assets volumes reflected signs of recovery in the second half after a slow start to the year.

Customer deposits grew by 3% year on year to BWP13bn. Current Account and Savings Account (CASA) mobilisation initiatives have yielded positive results in deposits growth as total CASA grew by 18% YoY. The proportion of CASA to total deposits is expected to increase in 2023 from the ongoing efforts to reduce cost of funds through CASA mobilisation. As a result of a drop in assets at year end, advance to deposit ratio closed at 60%.

Risk Weighted Assets (RWA)

	31 Dec 22 P'000	31 Dec 21 P'000
By Risk Type		
Credit	7,634,730	7,263,789
Market	29,456	26,057
Operational	758,749	724,479
Total RWA	8,422,935	8,014,325

Total Risk Weighted Assets (RWA) increased by BWP458mn (6%) ending the year at BWP8.4bn from BWP8bn in 2021, largely due to Credit Risk RWA which closed at BWP7.6bn (6% increase) driven by intergroup placements.

Favourable interest rates in the international market presented opportunities for intergroup placements which contributed to a positive return on RWA (RoRWA).

Capital Base and Ratios

	31 Dec 22 P'000	31 Dec 21 P'000
CET1 Capital	706,531	596,858
Additional Tier 1 Capital (AT1)	400,000	400,000
Tier 1 Capital	1,106,531	996,858
Tier 2 Capital	328,834	321,809
Total Capital	1,435,365	1,318,667
Capital adequacy ratio (%)	17.0	16.5
Regulatory Threshold (%)	12.5	12.5

Capital ratios remain within regulatory limits with CET 1 ending the year at 8% against regulatory limit of 4.5%, Tier 1 at 12% against regulatory limit of 7.5% and Capital Adequacy Ratio at 17% against temporary CAR relief of 12.5%.

Chief Risk Officer's Review

“Staying vigilant in the face of an uneven global economic recovery”

The Bank takes measured risks in order to meet its strategic priorities within Board Approved Risk Appetite, Management Action Trigger limits and reasonable Risk Profile.

Risk Management

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

Enterprise Risk Management Framework

The Enterprise Risk Management Framework (ERMF) which outlines how we manage risk across the Bank, was approved by the Board on 10th August 2022. It gives us the structure to manage existing risks effectively in line with our Risk Appetite, as well as allowing for holistic risk identification.

We apply a three Lines of Defence ('LOD') model to the day-to-day risk management activities and control framework. The first LOD businesses and functions that are engaged in, or support, revenue generating activities own and manage the risks.

The second LOD comprise the control functions teams who are independent of the First Line and provide oversight and challenge of risk management to provide confidence to the Chief Risk Officer, Senior Management, and the Board. The third LOD comprises the internal audit team who provides independent assurance on the effectiveness of controls that support First Line's risk management of business activities, and the processes maintained by the Second Line.

As part of the annual review of the ERMF, we have repositioned our Cross-Cutting Risks to Integrated Risk Types (IRT), which are defined as “risks that are significant in nature and materialize primarily through the relevant Principal Risk Types”.

The ERMF sets out the roles and responsibilities and minimum governance requirements for the management of IRTs. Additionally, the Capital and Liquidity Principal Risk Type has been renamed to Treasury Risk and the scope of the risk type has been expanded to cover Interest Rate Risk in the Banking Book (IRRBB). Given their integrated nature, Digital Asset and Third-Party Risks, have been newly identified as IRTs in the ERMF, in addition to Climate Risk.

Strengthening our Risk Culture

Our risk culture provides guiding principles for the behaviours expected from our people when managing risk. Our ERMF sets out the guiding principles for our colleagues, enabling us to have integrated and holistic risk conversations across the Bank and the three lines of defence. We expect all employees to demonstrate the highest level of integrity by being transparent and proactive in disclosing and managing all types of risks.

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

Strategic Risk Management

Our approach to strategic risk management is by validating the Corporate Plan against the approved or proposed Risk Appetite Statement to the Board.

The Board approves the strategy review and the five-year Corporate Plan with a confirmation from the Chief Risk Officer that it is aligned to the ERMF and the Risk Appetite Statement where projections allow.

Risk Appetite and profile

The Board approved the Bank's Risk Appetite Statement on 10th August 2022 and the statement is underpinned by a set of financial and operational control parameters known as Risk Appetite metrics and their associated thresholds. These directly constrain the aggregate risk exposures that can be taken across the Bank. The Risk Appetite Statement is supplemented by an overarching statement outlining the Bank's Risk Appetite Principles.

Risk Appetite Principles

Risk Appetite is defined in accordance with risk management principles that inform our overall approach to risk management and our risk culture. We follow the highest ethical standards required by our stakeholders and ensure a fair outcome for our clients, as well as facilitating the effective operation of financial markets, while at the same time meeting expectations of regulators and law enforcement agencies.

We set our Risk Appetite to enable us to grow sustainably and to avoid shocks to earnings or our general financial health, as well as manage our Reputational and Sustainability Risk in a way that does not materially undermine the confidence of our investors and all internal and external stakeholders.

Stress testing

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



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

Jared Obongo



Chief Risk Officer’s Review cont.

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

Principal Risk Types

Principal Risk Types are risks that are inherent in our strategy and our business model and have been formally defined in the ERMF.

These risks are managed through distinct Risk Type Frameworks (RTF) which are approved by the Chief Risk Officer and the Board of Directors .

The Principal Risk Types and associated Risk Appetite Statements are approved by the Board.

In addition to principal risks, the Bank will define Risk Appetite Statement for Climate Risk and will consider standalone Risk Appetite Statements for additional integrated risks in 2023.

Principal Risk Types	How these are managed
Credit Risk	The Bank manages its credit exposures following the principle of diversification across products, geographies, client segments and industry sectors.
Traded Risk	The Bank should control its trading portfolio and activities to ensure that Traded Risk losses (financial or reputational) do not cause material damage to the Bank’s franchise.
Treasury Risk	The Bank should maintain a sufficient level, composition or distribution of capital, own funds and eligible liabilities to support the Bank’s activities under normal environments and stressed conditions. It should have sufficient stable or diverse sources of funding to meet its contractual and contingent obligations as they fall due. The Bank should also maintain an interest rate profile ensuring that the reduction in earnings or economic value due to movements in interest rates on the banking book (non-traded) does not cause material damage to the Bank’s franchise. In addition, the Bank needs to ensure that it maintains sufficient funding of its Pension plan or other long term benefit obligation to avoid material damage to the Bank’s franchise.
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 Bank’s franchise.
Information and Cyber Security Risk (ICS)	The Bank seeks to minimize ICS Risk from threats to the Bank’s most critical information assets and systems, and has a low appetite for material incidents affecting these or the wider operations and reputation of the Bank
Compliance Risk	The Bank has no appetite for breaches in laws and regulations related to regulatory non-compliance; recognizing that whilst incidents are unwanted, they cannot be entirely avoided.
Financial Crime Risk	The Bank has no appetite for breaches in laws and regulations related to financial crime, recognizing that while incidents are unwanted, they cannot be entirely avoided
Reputational and Sustainability Risk	The Bank aims to protect the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight. This includes a potential failure to uphold responsible business conduct or lapses in our commitment to do no significant environmental and social harm
Strategic	A possible source of loss (or lost opportunity) that might arise from the pursuit of an unsuccessful business plan.
Integrated Risk Types	How these are managed
Climate Risk	The Bank aims to measure and manage financial and non-financial risks from climate change, and reduce emissions related to our own activities and those related to the financing of clients, in alignment with the Paris Agreement
Digital Asset Risk	This integrated risk type is currently supported by risk appetite metrics embedded within relevant principal risk types.
Third-Party Risk	This integrated risk type is currently supported by risk appetite metrics embedded within relevant principal risk types.
Conduct Risk	This integrated risk type is currently supported by risk appetite metrics embedded within relevant principal risk types.

Principal Risk Types

Our risk profile was rated amber as of December 2022. Credit, Treasury, Compliance, Financial Crime, Information & Cyber Security and Operational & Technology risks remain elevated mainly on account of existing risks that management continues to monitor. Traded and Reputational &

Sustainability risks remain low and within risk appetite. However, overall, the Bank remains in a safe and sound financial condition.

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

The second order impact of COVID-19 pandemic dominated the economic climate throughout 2022. Continued focus on enhancing risk management capabilities and leveraging our technology will ensure that we are more sustainable, innovative, resilient and client centred Bank.



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 celebrated 20 years of service in private practice in 2021. She 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

Mr. Bedu Addo's career has spanned public policy, international development, banking and finance. He has worked in the Ministry of Finance in the 1990s during Ghana's Structural Adjustments reforms and joined Standard Chartered in 2000. He held senior Corporates & 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 part Chairman of the Ghana Stock Exchange and is currently the chairman of the International Banks Association in South Africa and a board member of Bankers Association, South Africa



Mpho Masupe
Chief Executive Officer

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
Chairman: Risk Committee

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
Chairman: Audit Committee

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

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



Rodgers Majwabe Thusi
Independent Non-Executive Director

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

He holds a Bachelors Degree of Science specialising in Mineral Processing from the University of Wales, a post Graduate Diploma in Management Studies from Management College of Southern Africa and a Certificate in Advanced Operations Management from the University of Cape Town.

He is a 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

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 Ministry of Health. 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
Independent Non-Executive Director

Rapelang Rabana was appointed to the board as an Independent Non-Executive Director in December 2020. Ms Rabana is an internationally lauded technology entrepreneur.

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

She is the founder of Rekindle Learning and a partner at FFWD Innovation. She also serves as an executive board member to Imagine Worldwide in San Francisco, United States of America.



Luzibo Benza
Head: Legal and Company Secretary (Acting)

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.

She is currently enrolled with the University of Witwatersrand, South Africa pursuing a postgraduate certificate on the law of banking and financial markets.

Corporate Governance Statement

Corporate governance has become crucial in the world of business, as a key player in the banking industry, Standard Chartered Bank Botswana Limited (“the Company”) is committed to conducting business in an ethical manner adhering to the highest standards of corporate governance. The company has an integrated approach to governance which ensures prudent management of the Bank in line with an approved strategy and with regard to the requirements of key stakeholders.

To ensure adherence to the highest standards of corporate governance, the company has adopted several policies and standards. It has an approved 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

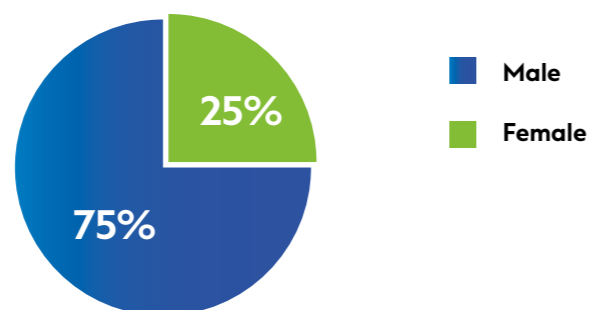
The Board has a good mix of skills and experience to drive the business strategy whilst maintaining control on risk management and good corporate governance. The Board is committed to ensuring its overall effectiveness and that it achieves the appropriate composition and balance of skills.

The Board Charter sets out an approach to be adopted to ensure that diversity remains a key feature. The areas of expertise, gender and independence status of the directors is as set out below:-

DIRECTOR	AREA OF EXPERTISE	TYPE OF DIRECTORSHIP	GENDER	APPOINTMENT DATE
Doreen Cilla Khama*	Law	Independent Non - Executive	Female	September 26, 2018
John Yendall Stevens	Accounting and Financial Management	Independent Non - Executive	Male	August 1, 2013
Rodgers Majwabe Thusi	Operations, Technology and Risk Management	Independent Non - Executive	Male	July 19, 2019
Thari Gilbert Pheko	Information Technology	Independent Non - Executive	Male	February 20, 2020
Solomon Molebatsi Sekwakwa	Economist	Independent Non - Executive	Male	April 28, 2022
Rapelang Rabana	Digital Transformation, Innovation and Strategy Development	Independent Non - Executive	Female	February 1, 2021
Kweku Bedu - Addo	Banking and Economics	Non - Executive	Male	January 9, 2018
Mpho Calvin Masupe**	Banking and Financial Management	Executive	Male	September 20, 2017

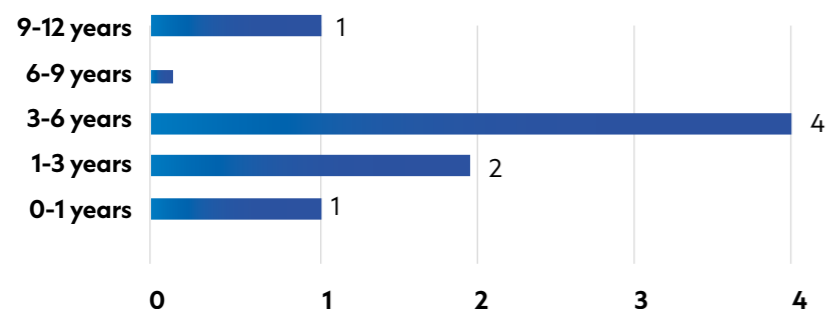
* Board Chairperson
** Chief Executive Officer

2022 Gender Representation



“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...”

Corporate Governance Statement cont.



- Director John Stevens remains the longest serving Director having completed 3 tenures as at 2022.
- In line with the Corporate King IV Principles, this triggered an Independence assessment
- In Q4 2022, an independence assessment was conducted to ensure the Director remained objective and there was no interest position, association, or relationship which, when judged from the perspective of a reasonable and informed third party, is likely to influence unduly or cause bias in his decision making

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 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. 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 Bank has a comprehensive and tailored induction training for new directors on business operations with specific focus on risks, compliance, legal and regulatory functions.

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 and 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 code 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. Further and pursuant the annual board evaluation exercise, areas that require further training are identified and these are addressed annually through trainings. In the year 2022, the directors received mandatory training and learning on the below:

- Cloud Strategy Training
- AI and data regulation reforms across the UK and EU: What they mean for SCB
- Responsible Use of Artificial Intelligence
- Digital Assets/ Crypto Currency
- Data Governance

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. Upon identification are addressed appropriately to the satisfaction of the Board.

The annual board evaluation was conducted in the fourth quarter of the 2022, the approved action plans are on track for closure. The Board evaluation process entails;



Corporate Governance Statement cont.

Role of the Board Chairperson and the Chief Executive Officer

The Board Chairperson and the Chief Executive Officer 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 in the programme to ensure that there is focus on key matters at appropriate times.

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

Board meetings and Attendance

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

Board meetings were convened in a hybrid manner during the year. 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	3/4	75
R. Thusi	4/4	100
T. Pheko	4/4	100
R. Rabana	4/4	100
K. Bedu -Addo	3/4	75
M. Masupe	4/4	100
S. Sekwakwa	2/2	100

NB: Director Sekwakwa was appointed to the Board on the 28th April 2022.

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 international best

practise and standards. The respective Committee chairpersons report to the Board at each scheduled 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 Committee Composition

Members	
J. Stevens	Chairperson
R. Thusi*	Member
R. Rabana	Member
S. Sekwakwa**	Member
T. Butale***	Chief Financial Officer
N. Kwape***	Head of Internal Audit
S. Molefe***	Head Conduct, Financial Crime and Compliance
L. Benza***	Company Secretary (Acting)
Ernst & Young***	Statutory Auditors

Note:

*Director Thusi was re-assigned to the Board Risk Committee on the 19th September 2022

**Director Sekwakwa was assigned to the Board Audit Committee on the 19th September 2022

***Attendees by invitation

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

Role and functions

The Committee is governed by Terms of Reference that set out the responsibilities, procedures including conduct of special investigations.

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

Key responsibilities of the Committee include:

Financial reporting

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

Oversight over Internal Controls

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

The Committee further receives regular reports from Head of Internal Audit on internal audits, compliance and legal risks and on the assurance framework. 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 2022

In 2022, 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 2022

Member	Scheduled Meeting	Percentage (%)
J. Stevens	3/4	75
R. Thusi	3/3	100
R. Rabana	4/4	100
S. Sekwakwa	2/2	100

Board Risk Committee Committee Composition

Members	
T. Pheko	Chairperson
K. Bedu - Addo	Member
M. Masupe*	Member
R. Thusi**	Member
J. Obongo***	Chief Risk Officer
L. Benza***	Company Secretary (Acting)

Note:

* M. Masupe ceased to be a member to the committee on the 19th September 2022, and now attends by invitation.

**R. Thusi was re-assigned on the 19th September 2022.

*** By invitation

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.

Corporate Governance Statement cont.

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

Highlights for 2022

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 and credit risk appetite
- Reviewed its membership and revised its Terms of Reference to ensure all risks were reviewed and monitored by the Committee

Committee Meeting Attendance

Member	Attendance
T. Pheko	4/4
K. Bedu – Addo	3/4
M. Masupe	4/4
R. Thusi	2/2

Remuneration Committee

The Standard Chartered Group has an established Group Remuneration Committee and its remit covers the remuneration of all employees. The 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 and has been exempted from establishing a local remuneration committee.

Corporate Governance Policies

Board Charter

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

The charter is accessible to the public in the company's website.

Internal Controls

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

The company's business is conducted within a developed control framework underpinned by policy statements, written procedures and control manuals. This ensures that there are written policies and procedures to identify and manage risk including operational risk, country risk, liquidity risk, regulatory risk, legal risk, reputational risk, market risk and credit risk. The Board has established a management framework that clearly defines roles, responsibilities and reporting lines. Delegated authorities are documented and communicated. The company has adopted processes to ensure that changes in legislation are captured and effectively monitored. All new laws impacting on the business of the company are reviewed by the legal department with a view to determine impact of the changes on the company. The compliance department ensures that the various business units have implemented controls to ensure compliance with the various laws and regulations.

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

Conflict of Interest

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

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

Code of Conduct

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

Whistle Blowing Policy

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

Anti-Bribery and Corruption

Anti – bribery and Corruption (ABC) policies aim to prevent employees, directors and or third parties working on behalf of the company from participating in active or passive bribery or corruption or from making

facilitation payments. To emphasise on the policy provisions, the company regularly carries out training to all staff and the Board.

Related Party Transactions Standard

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

Insider Trading

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

Going Concern

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

Relations with Shareholders

The Board recognises the importance of maintaining good communications with shareholders.

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

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

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

Competence, Qualifications and Experience of the Company Secretary As required by the Botswana Stock Exchange Listing Rules, the board has considered, and it is satisfied that the Acting 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 30th June 2022.

Corporate Governance Statement cont.

All remuneration and privileges accorded to the directors and enumerated y are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity.

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 labelled Director's Remuneration shows the Board fees structure for the year 2022.

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

Director's Remuneration

January to July 2022

- Board Chairperson - BWP 140,000.00 per annum
- Other board members - BWP 100,000.00 per annum

* Director's fees were reviewed on the 27th July 2022. Post this date, the Directors fee structure was split into a retainer fee and a sitting fee, payable quarterly.

BOARD FEE STRUCTURE - POST JULY 2022				DIRECTOR FEES 2022	Directors	Director Emoluments For the Year Ended December 2022 (BWP)
US \$		Annual Retainer	Sitting Fee			
Main Board	Board Chair	23,500	2,000		Doreen Khama	276,893.65
	Board Member	11,200	1500		Rapelang Rabana	213,872.91
Board Committee	Committee Chair	7,600	1250		Thari Pheko	245,727.96
	Committee Member	3,750	1000		Rodgers Thusi	213,872.90
					John Stevens	210,244.09
					Solomon Sekwakwa	151,339.48

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 Code Report

The company has over the years always committed to aligning and adopting the recommendations of the King Code on governance. Having adopted the Code, the Board developed a programme for implementation of its principles in the company's business environment. As at 31st December 2022, most of the principles were being applied as set out below;

King IV Principle	Status	Explanation
Principle 1: The governing body should lead ethically and effectively	Complied	The Bank has adopted a code of conduct. The Board and all employees are subject to the Code of Conduct.
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 Bank's Employee Volunteering programme encourages staff to seek opportunities to impact their communities in various ways. On an annual basis, every employee is expected to dedicate 3 working days towards the programme
Principle 4: The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	Complied	The Board receives updates on a regular basis on the Bank's strategy, risks, opportunities and performance. There is oversight exercised by the Board to ensure delivery of the strategy.
Principle 5: The governing body should ensure that reports issued by the organization enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects.	Complied	The Bank 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, policies and exercises oversight to ensure alignment with provisions of the various codes and policies.

Corporate Governance Statement 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.

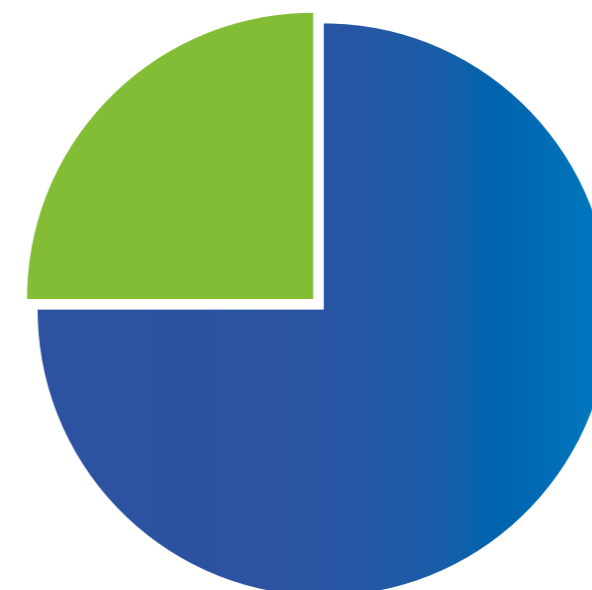
King IV Principle	Status	Explanation
Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and external reporting purposes.	Complied	The Bank has an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

Shareholder Information

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

● 4 non public shareholders ● 1161 public shareholders

24%
(72119040 shares)



76%
(226231571 shares)

Note: The company has secured dispensation from complying with the 30% public float requirement set out in the Botswana Stock Exchange listing rules.



Standard Chartered Bank Botswana Limited
 Consolidated and Separate Annual Financial Statements
 for the year ended 31 December 2022

Company Registration No: BW00000404816

40	Director's Report
41	Directors' Responsibility Statement
42	Independent Auditor's Report
48	Statement of Profit or Loss and Other Comprehensive Income
49	Statement of Comprehensive Income
50	Statement of Financial Position
51	Statement of Changes in Equity
52	Cashflow Statements
54	Notes to the Financial Statements
204	Annual General Meeting Notice
205	Proxy Form

Directors' Report For the year ended 31 December 2022

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 2022.

Activities

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

Results

The Group results are disclosed in the statements of profit and loss and other comprehensive income on page 50 and reflect the following:

P253 million Profit before taxation (2021: P77 million)	P202 million Profit after taxation (2021: P60 million)
--	---

Dividends

During the year, dividends of P60 million were declared and paid (2021: P48 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 (2021: 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 30th of March 2023. The Directors have made a comprehensive assessment of the Bank's ability to continue as a going concern, and this entailed a review of the impact of COVID-19 on the business (present and expected), macroeconomic outlook and any other horizon risks.

In particular, the review entailed.

A re-assessment of the Bank's strategy, and the revised corporate plan for 5 years to 2027 (profitability, capital adequacy, liquidity and cashflows, with special emphasis in the next 12 months). A detailed analysis of capital adequacy and its makeup, liquidity profile and diversification of sources, current and forecast performance against prudential ratio thresholds and the ICAAP (a summary of the Bank's capital and risk assessment processes, assesses its capital requirements and the adequacy of resources to meet them).

An assessment of current performance in terms of profitability against budgets, liquidity and funding against Risk Appetite thresholds, loan book quality and impairments, regulatory compliance and any impeding legal matters.

A consideration of the Bank's performance under an ICAAP stress scenario. The liability and asset maturity profile, the liquid assets profile, outstanding debts and the Bank's overall solvency and leverage.

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

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

Holding company

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

Directors

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

Doreen Khama Mpho Masupe John Yendall Stevens Jerry Kweku Boi Bedu -Addo Rodgers Majwabe Thusi Thari Gilbert Pheko Rapelang Rabana Solomon Molebatsi Sekwakwa	(Board Chairperson) (Executive)
	(Appointed on 28th April 2022)

Company Secretary:

Luzibo Benza

Auditors

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



By order of the Board

Luzibo Benza
Acting Company Secretary

Directors' Responsibility Statement For the year ended 31 December 2022

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 2022, 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 significant 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 30th of March 2023 and are signed by:

Doreen Khama
Board 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

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 48 to 203, which comprise the consolidated and separate statements of financial position as at 31 December 2022, 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 significant accounting policies.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Standard Chartered Bank Botswana Limited as at 31 December 2022, 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
<p>Credit Impairment (Consolidated and separate financial statements)</p> <p>At 31 December 2022 the Group and Company reported total expected credit loss provision of P236 million (2021: P234 million) on loans and advances to customers of P8 billion (2021: P8 billion), as disclosed in note 16 to the financial statements.</p> <p>Management's judgements and estimates are especially subjective due to significant uncertainty associated with the estimation of expected future losses. Assumptions with increased complexity in respect of the timing and measurement of expected credit losses (ECL) include:</p> <ul style="list-style-type: none"> ▶ Staging - the determination of significant increase in credit risk and resultant timely allocation of assets to the appropriate stage in accordance with IFRS 9; ▶ Model output and adjustments - Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECL, including the appropriateness, completeness and valuation of post-model adjustments applied to model output to address risks not fully captured by the models; ▶ Economic scenarios - Significant judgements involved with the determination of 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 and time to collect. <p>In 2022, the most material factors impacting the ECL were in relation to the enhanced ECL models and the impact of the global economic environment including the impact of relaxing pandemic restrictions. We consider that the combination of these factors has increased the risk of a material misstatement to the ECL.</p> <p>The disclosure associated with credit impairment of loans and advances is set out in the financial statements in the following notes:</p> <ul style="list-style-type: none"> ▶ Note 1 - Accounting policies ▶ Note 3 - Financial risk management and capital review 	<p>Our audit procedures included the following, amongst others:</p> <p>We evaluated the design of controls relevant to the Group and Company's processes over material ECL balances, including the judgements and estimates noted, involving EY specialists to assist us in performing our procedures to the extent it was appropriate. Based on our evaluation we selected the controls upon which we intended to rely and tested those for operating effectiveness.</p> <p>We performed an overall stand-back assessment of the ECL allowance levels by stage to determine if they were reasonable by considering the overall credit quality of the Group and Company's portfolios and risk profiles. Our assessment also included the evaluation of the consequences of the easing of global restrictions from the pandemic. We performed peer benchmarking where available to assess overall staging and provision coverage levels.</p> <p>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.</p> <p>To test credit monitoring which largely drives the probability of default estimates used in the staging calculation, 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 the vulnerable and cyclical sectors.</p> <p>Modelled output and adjustments - We performed a risk assessment on models involved in the ECL calculation using EY independently determined criteria to select a sample of models to test. We engaged our modelling specialists to evaluate a sample of ECL models by assessing the reasonableness of underpinning assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design, formulae and algorithms, alternative modelling techniques and</p>

<ul style="list-style-type: none"> ▶ Note 9 - Credit impairment ▶ Note 16 - Loans and advances to banks and customers 	<p>recalculating the Probability of Default, Loss Given Default and Exposure at Default parameters. Together with our modelling specialists, we also assessed material post-model adjustments which were applied as a response to risks not fully captured by the models, including the completeness and appropriateness of these adjustments, for which we considered the applied judgments and methodology, and governance thereon. In response to the enhanced models implemented this year to address known weaknesses in previous models, we performed substantive testing procedures, including code review and implementation testing.</p> <p>We reperformed model monitoring procedures for models classified as higher risk in accordance with our EY independent risk assessment.</p> <p>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.</p> <p>Economic scenarios - For all material models we evaluated the output from our independent model monitoring procedures to assess whether the findings indicated that the macroeconomic variables were outside of accepted tolerances.</p> <p>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 external sources.</p> <p>We assessed the reasonableness of the non-linearity impact on ECL allowances. By engaging our economists and modelling specialists, we assessed the Group and Company's choice of scenarios to determine sensitivity analysis of the ECL.</p> <p>We also performed a stand-back assessment by benchmarking the uplift and overall ECL charge and provision coverage to peers.</p> <p>Individually assessed ECL allowances - Our procedures included challenging management's forward-looking economic assumptions of the recovery outcomes identified and assigned individual probability weightings and recalculating a sample of individually assessed</p>
---	--

	<p>provisions.</p> <p>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.</p> <p>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 <i>IFRS 9- Financial Instruments</i>.</p>
--	--

Other Information

Other information consists of the information included in the 159-page document titled "Standard Chartered Bank Botswana Limited Consolidated and Separate Audited Financial Statements for the year ended 31 December 2022", 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.

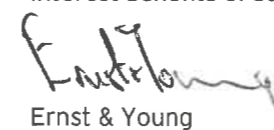
As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- 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 2023)
Gaborone

31 March 2023

Statement of profit or loss for the year ended 31 December 2022

	Notes	Group		Company	
		2022 P '000	2021 P '000	2022 P '000	2021 P '000
Interest income		919,289	743,824	919,289	743,824
Interest expense		(336,140)	(299,013)	(336,140)	(299,013)
Net interest income	4	583,149	444,811	583,149	444,811
Fees and commission income		270,953	249,380	247,137	220,522
Fees and commission expense		(34,766)	(27,123)	(34,766)	(27,123)
Net fee and commission income	5	236,187	222,257	212,371	193,399
Net trading income	6	81,727	72,083	81,727	72,083
Other operating income	7	1,878	-	1,422	-
Operating income		902,941	739,151	878,669	710,293
Staff costs		(234,510)	(259,329)	(234,507)	(259,329)
Premises costs		(912)	(2,356)	(912)	(2,356)
General administrative expenses		(330,792)	(356,349)	(319,657)	(343,475)
Depreciation and amortization	8	(40,662)	(41,428)	(40,662)	(41,428)
Operating expenses	8	(606,876)	(659,462)	(595,738)	(646,588)
Operating profit before impairment losses and taxation		296,065	79,689	282,931	63,705
Credit impairment	9	(42,987)	(2,722)	(42,987)	(2,722)
Profit before taxation		253,078	76,967	239,944	60,983
Taxation	11	(51,252)	(16,656)	(50,419)	(13,426)
Profit for the year		201,826	60,311	189,525	47,557
* Basic and diluted earnings per ordinary share (Thebe per share)	13	57.98	10.14	-	-

Statement was previously presented as Statement of profit or loss and other comprehensive income. In the current year, the statements were presented separately. Statement has been re-presented to align to group presentation and disclosure.

* Basic and diluted earnings per share comparatives have been restated, refer to note 13.
The notes on pages 54 to 203 of these financial statements.

Statement of comprehensive income as at 31 December 2022

	Notes	Group		Company	
		2022 P '000	2021 P '000	2022 P '000	2021 P '000
Profit for the period		201,826	60,311	189,525	47,557
Other comprehensive income					
Items that will not be reclassified to income statement:					
Revaluation of property	18	-	3,701	-	3,701
Taxation relating to revaluation of property	11	-	(1,044)	-	(1,044)
Items that may be reclassified subsequently to income statement:					
Change in fair value of financial instruments at fair value through other comprehensive income	14	(5,021)	2,147	(5,021)	2,147
Taxation relating to components of other comprehensive income		(6,359)	2,753	(6,359)	2,753
Other comprehensive income for the period, net of taxation		1,338	(606)	1,338	(606)
Total comprehensive income for the period		(5,021)	5,848	(5,021)	5,848
Total comprehensive income for the period		196,805	66,159	184,504	53,405

Statement was previously presented as statement of profit or loss and other comprehensive income. In the current year, the statements were presented separately and disclosed the amounts gross and tax components.

Statement of financial position
as at 31 December 2022

	Notes	GROUP			COMPANY		
		2022 P '000	2021 Restated P '000	01 January 2021 P '000	2022 P '000	2021 Restated P '000	01 January 2021 P '000
Assets							
Cash and balances at central banks	14,28	491,618	738,290	975,991	488,740	735,412	973,484
Derivative financial instruments	14,15	770	1,041	8,917	770	1,041	8,917
Loans and advances to banks	14,16	45,078	85,125	535	45,078	85,125	536
Loans and advances to customers	14,16	7,775,324	7,715,967	8,115,680	7,775,324	7,715,967	8,115,680
Investment securities	14	2,444,488	2,623,673	2,113,719	2,444,488	2,623,673	2,113,719
Other assets	19	40,175	67,188	27,090	16,206	68,548	27,060
Due from related parties	14	5,266,269	3,972,565	2,500,937	5,266,269	3,972,565	2,500,936
Current tax assets	11	-	69	-	-	69	-
Prepayments and accrued income	36	166,408	148,623	132,800	166,408	148,623	132,801
Investments in subsidiary undertakings	32	-	-	-	30	30	30
Goodwill and intangible assets	17	63,150	49,005	38,781	63,150	49,005	38,781
Property, plant and equipment	18	101,599	96,488	112,720	101,599	96,488	112,720
Deferred tax assets	11	30,126	38,935	37,534	27,977	35,870	37,534
Total assets		16,425,005	15,536,969	14,064,704	16,396,039	15,532,416	14,062,198
Liabilities							
Deposits by banks	14	860,239	417,655	331,945	860,239	417,655	331,945
Customer accounts	14	13,024,890	12,618,006	11,849,610	13,024,890	12,618,006	11,849,610
Derivative financial instruments	14,15	469	4,611	3,739	469	4,611	3,739
Debt securities in issue	14,20	323,566	323,566	-	323,566	323,566	-
Other liabilities	21	139,986	402,192	214,580	169,775	441,009	242,188
Due to related parties	14	377,750	235,686	104,526	377,750	235,686	104,528
Current tax liabilities	11	20,634	787	8,097	18,749	7,440	7,440
Accruals and deferred income	37	129,366	95,257	78,262	129,366	95,257	78,262
Subordinated liabilities	14,25	389,000	389,000	389,000	389,000	389,000	389,000
Provisions for liabilities and charges	22	2,445	1,728	24,958	2,445	1,729	24,958
Total liabilities		15,268,345	14,488,488	13,004,717	15,296,249	14,526,519	13,031,670
Equity							
Stated capital	26	179,273	179,273	179,273	179,273	179,273	179,273
Retained earnings and other reserves		549,174	440,995	452,501	492,304	398,411	423,042
Total parent company shareholders' equity		728,447	620,268	631,774	671,577	577,684	602,315
Capital contribution	26	428,213	428,213	428,213	428,213	428,213	428,213
Total equity excluding non-controlling interests		1,156,660	1,048,481	1,059,987	1,099,790	1,005,897	1,030,528
Total equity		1,156,660	1,048,481	1,059,987	1,099,790	1,005,897	1,030,528
Total equity and liabilities		16,425,005	15,536,969	14,064,704	16,396,039	15,532,416	14,062,198

The notes on pages 54 to 203 form an integral part of these financial statements. 2021 Numbers restated as per Note 34.

Statement of changes in equity
for the year ended 31 December 2022

Group	Stated Capital	Revaluation reserve	Statutory credit risk reserve	Treasury share reserve	Fair value reserve	Retained earnings	Parent company shareholder equity	Capital Contribution	Total
	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000	P'000
As at 01 January 2021	179,2732	5,696	19,152	(31,566)	(7,978)	447,197	631,774	428,213	1,059,987
Profit for the period	-	-	-	-	-	60,311	60,311	-	60,311
Other comprehensive income	-	3,701	-	-	2,147	-	5,848	-	5,848
Distributions to holders of subordinated capital securities	-	-	-	-	-	(30,300)	(30,300)	-	(30,300)
Dividends to equity holders of ordinary shares	12	-	-	-	-	(47,365)	(47,365)	-	(47,365)
As at 31 December 2021	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	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

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 14 to 158 form an integral part of these financial statements.

Company

As at 01 January 2021	179,273	25,696	19,152	-	(7,978)	386,172	602,315	428,213	1,030,528
Profit for the period	-	-	-	-	-	47,557	47,557	-	47,557
Other comprehensive income	-	3,701	-	-	2,147	-	5,848	-	5,848
Distributions to holders of subordinated capital securities	-	-	-	-	-	(30,300)	(30,300)	-	(30,300)
Dividends to equity holders of ordinary shares	12	-	-	-	-	(47,736)	(47,736)	-	(47,736)
As at 31 December 2021	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	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

Note 26 includes a description of each reserve.

The notes on pages 54 to 203 form an integral part of these financial statements.

Cashflow statements
as at 31 December 2022

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Cash flows from operating activities				
Profit for the year	201,826	60,311	189,525	47,557
Adjustments for:				
Interest income	4 (919,289)	(743,824)	(919,289)	(743,824)
Interest expense	5 336,140	299,013	336,140	299,013
Taxation	11 51,252	16,656	50,419	13,426
Depreciation	8 28,477	30,575	28,477	30,575
Amortisation on intangibles	8 12,185	10,852	12,185	10,852
Net impairment loss on loans and advances		1,255	1,255	25,694
Unrealised foreign exchange (gains)/losses		(20,034)	(20,034)	1,469
Modification gains		(1,878)	(1,422)	-
Movement in provisions		-	(23,158)	(23,158)
Profit on sale of asset		(1,062)	(1,062)	-
Movements before changes in working capital		(311,127)	(323,805)	(338,396)
Change in derivative financial instruments assets	14,15	20,305	7,876	20,305
Change in investment securities	14	182,059	(507,807)	182,059
Change in loans and advances to customers	14,16	(58,734)	374,019	(59,190)
Change in other assets	19	27,013	(40,098)	52,342
Change in prepayments and accrued income	36	(21)	(15,823)	(21)
Change in deposits from other banks	14,16	442,584	85,710	442,584
Change in Customer accounts	14	406,884	745,167	406,884
Change in other liabilities	21	(279,901)	199,553	(294,760)
Change in derivative financial instruments liabilities	14,15	(4,142)	872	(4,142)
Change in due to related parties	14	142,064	131,160	142,064
Change in accruals and deferred income	37	(19,740)	38,184	(19,740)
Change in provisions for liabilities and charges	22	717	-	716
Taxation paid	11	547,960	696,401	545,296
Interest received		(26,395)	(24,475)	(23,730)
Interest paid		901,525	736,591	901,525
Net cash flows from operating activities		1,186,953	1,143,430	1,186,954
Cash flows from investing activities				
Acquisition of property and equipment	18	(1,766)	(11,549)	(1,766)
Acquisition of intangibles	17	(26,330)	(21,076)	(26,330)
Proceeds from sale of property equipment		3,500	-	3,500
Net cash used in investing activities		(24,596)	(32,625)	(24,596)
Cash flows from financing activities				
Cash raised from issue of debt securities	14,20	-	323,566	-
Interest paid on subordinated liabilities	28	(23,604)	(21,189)	(23,604)
Interest paid on debt securities	28	(22,550)	(11,005)	(22,550)
Lease liability capital payments	21	(18,778)	(18,491)	(18,778)
Lease liability interest payments	21	(2,232)	(1,819)	(2,232)
Dividends paid	12	(60,311)	(47,365)	(60,311)
Distribution payment to holders of subordinated capital securities		(30,300)	(30,300)	(30,300)
Net cash (used in)/from financing activities		(157,775)	193,397	(157,775)
Increase in cash and cash equivalents		1,004,582	1,304,202	1,004,583
Cash and cash equivalents at 1 January		4,795,980	3,477,462	4,793,102
Net foreign exchange differences		2,403	14,316	2,403
Cash and cash equivalents as 31 December	29	5,802,965	4,795,980	5,800,088

Refer to Note 29 for breakdown of Cash and cash equivalents, Statement has been re-presented in line with reclassifications disclosed in Note 34

Notes to the financial statements

Section	Note
Basis of preparation	1 Accounting policies
Performance/return	2 Segmental information
	3 Financial Risk Management & Capital Review
	4 Net interest income
	5 Net fees and commission
	6 Net trading income
	7 Other operating income
	8 Operating expenses
	9 Credit impairment
	10 Goodwill, property, plant and equipment and other impairment
	11 Taxation
	12 Dividends
	13 Earnings per ordinary share
Assets and liabilities held at fair value	14 Financial instruments
	15 Derivative financial instruments
Financial instruments held at amortised cost	16 Loans and advances to banks and customers
Other assets and investments	17 Goodwill and intangible assets
	18 Property, plant and equipment
	19 Other assets
Funding, accruals, provisions, contingent liabilities and legal proceedings	20 Debt securities in issue
	21 Other liabilities
	22 Provisions for liabilities and charges
	23 Contingent liabilities and commitments
	24 Legal and regulatory matters
Capital instruments, equity and reserves	25 Subordinated liabilities
	26 Share capital, other equity instruments and reserves
Employee benefits	27 Retirement benefit obligations
Cash flow statement	28 Cash flow statement
	29 Cash and cash equivalents
Other disclosure matters	30 Related party transactions
	31 Post balance sheet events
	32 Auditor's remuneration
	33 Subsidiaries and other structured entities
	34 Reclassification of balances
	35 Fiduciary activities
	36 Prepayments and accrued income
	37 Accruals and deferred income

Notes to the financial statements for the year ended 31 December 2022

1. Accounting policies

Reporting entity

Standard Chartered Bank Botswana Limited (“Bank”) was incorporated in Botswana as a Bank with limited liability under the Botswana Companies Act and is licensed to operate as a commercial Bank under Section 6 of the Banking Act, 1995 (Chapter 46:04). The Company’s registered address is Standard Chartered Bank Botswana Limited, Standard House, Plot 1124-30 Queens Road, Main Mall, Gaborone, Botswana. The Company is listed on the Botswana Stock Exchange (BSE Code: STANCHART). The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its controlled entities (together referred to as the “Group”). The Company has four subsidiaries, namely Standard Chartered Bank Insurance Agency (Proprietary) Limited, Standard Chartered Investment Services (Proprietary) Limited, Standard Chartered Botswana Nominees (Proprietary) Limited and Standard Chartered Botswana Educational Trust. Standard Chartered Bank PLC, incorporated in United Kingdom is the ultimate parent. These financial statements represent the Group’s and Bank’s statutory financial statements.

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 30 March 2023.

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 Bank’s separate financial statements unless otherwise specified.

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

Investment in subsidiaries

Investment in subsidiaries are held at cost less impairment.

Transactions eliminated on consolidation

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

Notes to the financial statements for the year ended 31 December 2022 cont.

1. Accounting policies (cont.)

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, estimate sand assumptions that affect the application of the Group’s accounting policies of the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision of estimates are recognised prospectively.

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

- Credit impairment (note 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 2022 which have been disclosed within these notes. The accounting standards had no significant impact on the financials statements of the Group.

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.

Loans and advances

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

Notes to the financial statements for the year ended 31 December 2022 cont.

1. Accounting policies (cont.)

Financial instruments continued

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.

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.

Notes to the financial statements for the year ended 31 December 2022 cont.

1. Accounting policies (cont.)

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.

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

Notes to the financial statements for the year ended 31 December 2022 cont.

1. Accounting policies (cont.)

Financial instruments continued

Financial liabilities designated at fair value through profit or loss

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

Modified financial instruments

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

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

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

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

Derecognition of financial instruments

Financial assets

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

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

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

Financial liabilities

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

Notes to the financial statements for the year ended 31 December 2022 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

Notes to the financial statements for the year ended 31 December 2022 cont.

1. Accounting policies (cont.)

Financial instruments continued

Credit impairment

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

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

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

Expected credit losses

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

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

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

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

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

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:

	2022 Base forecast	2023 Base forecast	2024 Base forecast
GDP growth (real % Average)	6.7	3.9	3.3
CPI (% annual average)	8	12.28	2.41
Prime lending rate(%)	6.75	6.75	6.25
USD –BWP	11.86	11.62	11.34

Notes to the financial statements for the year ended 31 December 2022 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

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

Recognition

12 months expected credit losses (Stage 1)

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

Notes to the financial statements for the year ended 31 December 2022 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.

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 2022 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 2022 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 2022 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 2022 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 2022 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 2022, there were no material PMA related ECLs on the book (2021: 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 2022 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) is likely to keep its policy rate at 2.65% throughout 2023. Policy rate is forecasted to 2.65% for 2023 and then cut by 50bps to 2.15% 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, depreciation of Pula against major currencies, upcoming general elections and reduced household income.

Notes to the financial statements for the year ended 31 December 2022 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 -0.11% 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				
	2022	2023	2024	2025	2026	2027	2023	2024	2025	2026	2027
Real GDP (%)	6.70	3.90	3.30	2.90	2.30	2.20	(0.11)	3.07	2.82	2.29	2.13
Inflation/CPI (%)	12.40	12.28	2.41	2.41	3.85	4.91	14.08	4.63	3.30	4.79	5.02
Monetary Policy Rate	2.65	2.65	2.15	2.15	2.15	2.15	5.78	3.52	2.22	2.22	2.22
FX rate BWP: USD (End year)	12.70	11.44	11.23	10.67	10.81	11.03	14.42	11.64	10.90	10.88	11.19
FX rate BWP: USD (Average)	12.30	11.62	11.34	10.95	10.74	10.92	14.72	13.03	11.27	10.89	11.04
Exports USDm (change)	11.08	(0.88)	(1.61)	(3.51)	0.66	1.14	(24.51)	(17.14)	14.26	(13.10)	(13.10)
Imports USDm (change)	7.11	11.88	1.01	(1.08)	0.65	1.92	(16.10)	(12.93)	(3.00)	0.03	0.03
Household Income	8.25	12.98	7.50	7.57	8.95	9.84	1.76	7.13	8.50	9.21	11.30
Severity (1-in-x)		4	4	3	3	3	14	8	6	3	3

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 2022 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
Motor vehicles	3 years
Furniture, fixtures and fittings	7 - 10 years

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

Leasehold properties 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 2022 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	2023	2022	2021	2020
Discount rate (weighted average cost of capital) %	7.6	7.8	6.4	6.4
GDP growth rates %	3.9	6.7	4.7	(1.9)
Effective tax rate %	22	22	22	22

Notes to the financial statements for the year ended 31 December 2022 cont.

1. Accounting policies (cont.)

Intangible assets continued

The recoverable amount of the CGU, P372 million as at 31 December 2022 (2021: P1,172 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 P581 million (2021: P466 million). As a result of the analysis, there is headroom of P953 million (2021: P1,638 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 2022 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.

Significant accounting estimates and judgements on deferred tax

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

Taxation

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 2022 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 2022 have been applied with no material effect on the Group's financial statements.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 (effective 01 January 2022):

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

Amendments to IAS 37 Onerous Contracts—Cost of Fulfilling a Contract (effective 01 January 2022):

The amendment clarifies which costs an entity includes in assessing whether a contract will be loss-making. This assessment is made by considering unavoidable costs, which are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. Under the amendment, costs to fulfil a contract include incremental costs and the allocation of other costs that relate directly to fulfilling the contract.

Conceptual Framework – Amendments to IFRS 3 (effective 01 January 2022)

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

AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities (effective 01 January 2022)

In May 2020, the International Accounting Standards Board (Board) issued an amendment to IFRS 9 Financial Instruments as part of Annual Improvements to IFRS Standards 2018–2020. The amendment to IFRS 9 clarifies the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

There are no other standards, interpretations and or amendments effective during 31 December 2022 which are expected to have a material impact on the financial statements.

Notes to the financial statements for the year ended 31 December 2022 cont.

1. Accounting policies (cont.)

A number of new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2022 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.

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.

Amendment to IAS 1, 'Presentation of Financial Statements' on Classification of Liabilities as Current or Non-current (effective 01 January 2024):

In January 2020, amendments to paragraphs 69 to 76 of IAS 1 Presentation of Financial Statements were issued to specify the requirements for classifying liabilities as current or non-current. The amendments are effective for annual periods beginning on or after 1 January 2024. The amendments clarify:

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

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.

Narrow scope amendments to IAS 1 'Presentation of Financial Statements', Practice statement 2 and 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 Board also 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 amendments are effective for annual periods beginning on or after 1 January 2023.

Notes to the financial statements for the year ended 31 December 2022 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 2022 cont.

2. Segmental information (cont.)

	Consumer, Private & Business Banking	Corporate, Commercial and Institutional Banking	Total
2022	P'000	P'000	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
Statement of financial Position			
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 2022 cont.

2. Segmental information (cont.)

	Consumer, Private & Business Banking	Corporate, Commercial and Institutional Banking	Total
2021	P'000	P'000	P'000
Profit or Loss			
Interest Income	640,751	103,073	743,824
Interest Expense	(288,564)	(10,449)	(299,013)
Net interest revenue calculated using the effective interest method	352,188	92,623	444,811
Net fee and commission income	182,955	39,302	222,257
Net trading income & other operating income	31,486	40,597	72,083
Net operating income	566,629	172,522	739,151
Operating expenses	(470,845)	(188,617)	(659,462)
Operating profit/(loss) before impairment losses and taxation	95,784	(16,095)	79,689
Credit impairment	(32,491)	29,769	(2,722)
Segment profit before taxation	63,293	13,674	76,967
Taxation			(16,656)
Profit for the year			60,311
Statement of financial Position			
Investment Securities	-	2,623,673	2,623,673
Loans and advances to customers	7,384,532	331,435	7,715,967
Other assets for reportable segments	165,091	5,032,238	5,197,329
Total assets for reportable segments	7,549,623	7,987,346	15,536,969
Deposits from non-Bank customers	4,244,967	8,373,039	12,618,006
Other liabilities for reportable segments	(91,065)	1,961,548	1,870,483
Total liabilities for reportable segments	4,153,902	10,334,587	14,488,489

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

Notes to the financial statements for the year ended 31 December 2022 cont.

3. Financial Risk Management and Capital Review

Risk Review

Risk update

Key highlights 2022

- 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 of the pandemic, 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 pandemic and ongoing volatility in the foreign exchange market

Our risk profile in 2022

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 Bank'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 2022 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
<ul style="list-style-type: none"> 12 month ECL Performing 	<ul style="list-style-type: none"> Lifetime expected credit loss Performing but has exhibited significant increase in Credit risk (SICR) 	<ul style="list-style-type: none"> Credit-impaired Non-performing

Notes to the financial statements
for the year ended 31 December 2022 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 Bank'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 2022 cont.

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

Title	Description	Supplementary Information
Assessment of credit-impaired financial assets	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Consumer Banking clients</p> <p>Corporate, Commercial & Institutional Banking and Private Banking clients</p>
Transfers between stages	<p>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.</p> <p>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).</p>	<p>Movement in loan exposures and expected credit losses</p>

Notes to the financial statements for the year ended 31 December 2022 cont.

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

Title	Description	Supplementary Information
Modified financial assets	<p>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.</p> <p>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.</p>	<p>Forbearance and other modified loans</p>
Governance and application of expert credit judgement in respect of expected credit losses	<p>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.</p> <p>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.</p> <p>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.</p>	<p>Group Credit Model Assessment Committee</p> <p>IFRS 9 Impairment Committee</p>

Notes to the financial statements for the year ended 31 December 2022 cont.

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

Maximum exposure to Credit risk

The table below presents the Bank'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	2022			2021		
	Maximum exposure P '000	Credit risk management		Maximum exposure P '000	Credit risk management	
Collateral P '000		Net Exposure P '000	Collateral P '000		Net exposure P '000	
On-balance sheet						
Cash and balances at central banks	491,618		491,618	738,290		738,290
Loans and advances to banks	45,078	-	45,078	85,125	-	85,125
Loans and advances to customers	7,775,324	5,879,106	1,896,218	7,715,967	4,159,809	3,556,158
Investment securities - Debt securities and other eligible bills	2,444,488		2,444,488	2,623,673		2,623,673
Derivative financial instruments	770	-	770	1,041	-	1,041
Accrued income	166,408		166,408	148,623		148,623
Due from related parties	5,266,269		5,266,269	3,972,565		3,972,565
Other assets	40,175		40,175	67,189		67,189
Total balance sheet	16,230,130	5,879,106	10,351,024	15,352,473	4,159,809	11,192,664
Off-balance sheet						
Undrawn Commitments	5,876,459	17,668	5,858,791	8,562,995	-	8,562,995
Financial Guarantees and other equivalents	236,252	595	235,657	401,809	-	401,809
Total off-balance sheet	6,112,711	18,263	6,094,448	8,964,804	-	8,964,804
Total	22,342,841	5,897,369	16,445,472	24,317,277	4,159,809	20,157,468

The prior year numbers have been restated to provide more information to the users. Refer to Note 34 for more details

Notes to the financial statements for the year ended 31 December 2022 cont.

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

Company

	2022			2021		
	Maximum exposure P '000	Credit risk management		Maximum exposure P '000	Credit risk management	
Collateral P '000		Net Exposure P '000	Collateral P '000		Net exposure P '000	
On-balance sheet						
Cash and balances at central banks	488,740	-	488,740	735,412		735,412
Loans and advances to banks	45,078	-	45,078	85,125	-	85,125
Loans and advances to customers	7,775,324	5,879,106	1,896,218	7,715,967	4,159,809	3,556,158
Investment securities - Debt securities and other eligible bills	2,444,488	-	2,444,488	2,623,673		2,623,673
Derivative financial instruments	770	-	770	1,041	-	1,041
Accrued income	166,408	-	166,408	148,623		148,623
Due from related parties	5,266,269	-	5,266,269	3,972,565		3,972,565
Other assets	16,206	-	16,206	68,548		68,548
Total balance sheet	16,203,283	5,879,106	10,324,177	15,350,954	4,159,809	11,191,145
Off-balance sheet						
Undrawn Commitments	5,876,459	17,668	5,858,791	8,562,995	-	8,562,995
Financial Guarantees and other equivalents	236,252	595	235,657	401,809	-	401,809
Total off-balance sheet	6,112,711	18,263	6,094,448	8,964,804	-	8,964,804
Total	22,315,994	5,897,369	16,418,625	24,315,758	4,159,809	20,155,949

The prior year numbers have been restated to provide more information to the users. Refer to Note 34 for more details

Notes to the financial statements for the year ended 31 December 2022 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

	2022											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance ¹ P '000	Total credit impairment P '000	Net carrying value P '000	Gross balance P '000	Total credit impairment P '000	Net carrying value P '000	Gross balance P '000	Total credit impairment P '000	Net carrying value P '000	Gross balance P '000	Total credit impairment P '000	Net carrying value P '000
Cash and balances at central banks	491,618	-	491,618	-	-	-	-	-	-	491,618	-	491,618
Loans and advances to banks (amortised cost)	45,083	(5)	45,078	-	-	-	-	-	-	45,083	(5)	45,078
Due from related parties	5,266,269	-	5,266,269	-	-	-	-	-	-	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)	85,862	159,552	(107,666)	51,886	8,010,982	(235,658)	7,775,324
Derivative financial instruments	770	-	770	-	-	-	-	-	-	770	-	770
Debt securities and other eligible bills	2,445,408	(920)	2,444,488	-	-	-	-	-	-	2,445,408	(920)	2,444,488
FVOCI ²	2,445,408	(920)	2,444,488	-	-	-	-	-	-	2,445,408	(920)	2,444,488
Accrued income (amortised cost)	166,408	-	166,408	-	-	-	-	-	-	166,408	-	166,408
Other assets	40,175	-	40,175	-	-	-	-	-	-	40,175	-	40,175
Undrawn commitments ³	5,827,179	(766)	-	49,280	(105)	-	-	-	-	5,876,459	(871)	-
Financial guarantees, trade credits and irrevocable letter of credits ³	226,890	(76)	-	5,952	(432)	-	3,410	-	-	236,252	(508)	-
Total	22,263,962	(118,353)	16,092,382	152,500	(11,943)	85,862	162,962	(107,666)	51,886	22,579,424	(237,962)	16,230,130

- Gross Carrying for off balance sheet refers to notional values
- 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
- 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 2022 cont.

Notes to the financial statements
for the year ended 31 December 2022 cont.

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

Analysis of financial instrument by stage (continued)

	2021											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance ¹	Total credit impairment	Net carrying value	Gross balance	Total credit impairment	Net carrying value	Gross balance	Total credit impairment	Net carrying value	Gross balance	Total credit impairment	Net carrying value
P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	
Cash and balances at central banks	738,290	-	738,290	-	-	-	-	-	-	738,290	-	738,290
Loans and advances to banks (amortised cost)	85,128	(3)	85,125	-	-	-	-	-	-	85,128	(3)	85,125
Due from related parties	3,972,565	-	3,972,565	-	-	-	-	-	-	3,972,565	-	3,972,565
Loans and advances to customers (amortised cost)	7,460,174	(74,218)	7,385,956	275,865	(14,191)	261,674	214,330	(145,993)	68,337	7,950,369	(234,402)	7,715,967
Derivative financial instruments	1,041	-	1,041	-	-	-	-	-	-	1,041	-	1,041
Debt securities and other eligible bills	2,623,673	-	2,623,673	-	-	-	-	-	-	2,623,673	-	2,623,673
FVOCI ²	2,623,673	-	2,623,673	-	-	-	-	-	-	2,623,673	-	2,623,673
Accrued income (amortised cost)	148,623	-	148,623	-	-	-	-	-	-	148,623	-	148,623
Other assets	67,188	-	67,188	-	-	-	-	-	-	67,188	-	67,188
Undrawn commitments ³	8,545,022	(405)	-	17,973	(1,117)	-	-	-	-	8,562,995	(1,522)	-
Financial guarantees, trade credits and irrevocable letter of credits ³	386,685	-	-	15,124	-	-	-	-	-	401,809	-	-
Total	24,028,389	(74,626)	15,022,461	308,962	(15,308)	293,654	214,330	(145,993)	68,337	24,551,681	(235,927)	15,384,452

- Gross Carrying for off balance sheet refers to notional values
- 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
- 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.
- The prior year numbers have been restated to provide more information to the users. Refer to Note 34 for more detail

Notes to the financial statements
for the year ended 31 December 2022 cont.

Notes to the financial statements
for the year ended 31 December 2022 cont.

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

Company

	2022											
	Stage 1			Stage 2			Stage 3			Total		
	Gross balance ¹ P '000	Total credit impairment P '000	Net carrying value P '000	Gross balance P '000	Total credit impairment P '000	Net carrying value P '000	Gross balance P '000	Total credit impairment P '000	Net carrying value P '000	Gross balance P '000	Total credit impairment P '000	Net carrying value P '000
Cash and balances at central banks	488,740	-	488,740	-	-	-	-	-	-	488,740	-	488,740
Loans and advances to banks (amortised cost)	45,083	(5)	45,078	-	-	-	-	-	-	45,083	(5)	45,078
Due from related parties	5,266,269	-	5,266,269	-	-	-	-	-	-	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)	85,862	159,552	(107,666)	51,886	8,010,982	(235,658)	7,775,324
Derivative financial instruments	770	-	770	-	-	-	-	-	-	770	-	770
Debt securities and other eligible bills	2,445,408	(920)	2,444,488	-	-	-	-	-	-	2,445,408	(920)	2,444,488
FVOCI ²	2,445,408	(920)	2,444,488	-	-	-	-	-	-	2,445,408	(920)	2,444,488
Accrued income (amortised cost)	166,408	-	166,408	-	-	-	-	-	-	166,408	-	166,408
Other assets	16,206	-	16,206	-	-	-	-	-	-	16,206	-	16,206
Undrawn commitments ³	5,827,179	(766)	-	49,280	(105)	-	-	-	-	5,876,459	(871)	-
Financial guarantees, trade credits and irrevocable letter of credits ³	226,890	(76)	-	5,952	(432)	-	3,410	-	-	236,252	(508)	-
Total	22,237,115	(118,353)	16,065,535	152,500	(11,943)	85,862	162,962	(107,666)	51,886	22,552,577	(237,962)	16,203,283

- Gross Carrying for off balance sheet refers to notional values
- 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
- 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.
- The prior year numbers have been restated to provide more information to the users. Refer to Note 34 for more details

Notes to the financial statements
for the year ended 31 December 2022 cont.

Notes to the financial statements for the year ended 31 December 2022 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)
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 P294 million compared with 31 December 2021 and represent an increase of 4 per cent. Stage 1 gross balances represent 99.7 per cent of loans and advances to customers (2021: 96.7 per cent). The stage 1 coverage ratio remained at 4 per cent compared with 31 December 2021.

Stage 2:

Stage 2 loans and advances to customers decreased by P178 million compared with 31 December 2021. The proportion of stage 2 loans also reduced to 1.2 per cent from 0.3 per cent per cent due to changes in exposures.

Consumer, Private & Business Banking stage 2 loans saw a decrease of P20 million, mainly driven by repayment in mortgage and unsecured products.

Stage 3:

Stage 3 loans and advances to customers decreased by 26 per cent to P160 million compared with 31 December 2021 of P214 million.

Notes to the financial statements for the year ended 31 December 2022 cont.

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

In Corporate, Commercial & Institutional Banking, gross stage 3 loans decreased by P59 million compared with 31 December 2021.

In Consumer, Private & Business Banking, stage 3 loans remained stable at 0.7 per cent of the portfolio.

Loans and advances by client segment

	2022					
	Customers			Customer Total P '000	Undrawn commitments P '000	Financial Guarantees P '000
	Banks P '000	Corporate, Commercial & Institutional Banking P '000	Consumer, Private & Business Banking P '000			
Amortised cost						
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 balance¹	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%	8%	1%	2%	0%	0%
- Strong	0%	1%	1%	1%	1%	0%
- Satisfactory	0%	10%	0%	10%	0%	0%
Stage 2	0%	5%	17%	12%	0%	7%
- Strong	0%	0%	17%	17%	0%	0%
- Satisfactory	0%	0%	0%	0%	1%	2%
- Higher risk	0%	5%	0%	5%	0%	8%
Stage 3, credit-impaired financial assets (S3)	0%	82%	39%	67%	0%	0%
Cover ratio	0%	19%	1%	3%	0%	0%
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 2022 cont.

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

2021						
Customers						
	Banks	Corporate, Commercial & Institutional Banking ³	Consumer, Private & Business Banking ³	Customer Total	Undrawn commitments	Financial Guarantees
	P '000	P '000	P '000	P '000	P '000	P '000
Amortised cost						
Stage 1	85,128	21,806	7,438,368	7,460,174	8,545,022	386,685
- Strong	35,103	-	7,438,368	7,438,368	8,445,672	306,855
- Satisfactory	50,025	21,806	-	21,806	99,350	79,830
Stage 2	-	200,606	75,259	275,865	17,973	15,124
- Strong	-	55,239	75,259	130,498	(74,468)	1,777
- Satisfactory	-	104,246	-	104,246	10,286	3,169
- Higher risk	-	41,121	-	41,121	82,155	10,178
Of which (stage 2):						
- Less than 30 days past due	-	148,475	-	148,475	-	-
- More than 30 days past due	-	52,131	-	52,131	-	-
Stage 3, credit-impaired financial assets	-	165,467	48,863	214,330	-	-
Gross balance	85,128	387,879	7,562,490	7,950,369	8,562,995	401,809
Stage 1	(3)	(194)	(74,024)	(74,218)	(405)	-
- Strong	-	-	(74,024)	(74,024)	(315)	-
- Satisfactory	(3)	(194)	-	(194)	(90)	-
Stage 2	-	(6,898)	(7,293)	(14,191)	(1,117)	-
- Strong	-	(318)	(47,293)	(47,611)	(813)	-
- Satisfactory	-	(2,618)	40,000	37,382	(120)	-
- Higher risk	-	(3,962)	-	(3,962)	(184)	-
Stage 3, credit-impaired financial assets	-	(137,362)	(8,631)	(145,993)	-	-
Total credit impairment	(3)	(144,454)	(89,948)	(234,402)	(1,522)	-
Net carrying value	85,125	243,425	7,472,542	7,715,967	-	-
Stage 1	0.0%	0.9%	1.0%	1.0%	0.0%	0.0%
- Strong	0.0%	0.0%	1.0%	1.0%	0.0%	0.0%
- Satisfactory	0.0%	0.3%	0.0%	0.3%	0.1%	0.0%
Stage 2	0.0%	3.4%	9.7%	5.1%	6.2%	0.0%
- Strong	0.0%	0.6%	62.8%	36.5%	(1.1)%	0.0%
- Satisfactory	0.0%	2.5%	0.0%	(35.9)%	1.2%	0.0%
- Higher risk	0.0%	9.6%	0.0%	9.6%	0.2%	0.0%
Stage 3, credit-impaired financial assets (S3)	0.0%	83.0%	17.7%	68.1%	0.0%	0.0%
Cover ratio	0.0%	37.2%	1.2%	2.9%	0.0%	0.0%
Net carrying value (incl FVTPL)	85,125	243,425	7,472,542	7,715,967	-	-

The prior year numbers have been restated to provide more information to the users. Refer to Note 34 for more details

Notes to the financial statements for the year ended 31 December 2022 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							
			2022							
			Gross			Credit impairment				
	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)

The prior year numbers have been restated inline with to provide more information to the users. Refer to note 34.

Notes to the financial statements for the year ended 31 December 2022 cont.

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

Group and Company

Credit grade	Regulatory 1 year PD range (%)	S&P external ratings equivalent	2021 (Restated)							
			Gross				Credit impairment			
			Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Strong			-	55,238	-	55,238	-	3,139	-	3,139
4B-5B	0.111 - 0.425	BBB+ to BBB-/BB+	-	55,238	-	55,238	-	3,139	-	3,139
Satisfactory			21,806	104,247	-	126,053	(69)	(2,618)	-	(2,687)
6A-7B	0.426 - 1.350	BB+/BB to BB-	15,386	37,983	-	53,369	(15)	(1,034)	-	(1,049)
8A-9B	1.351 - 4.000	BB-/B+ to B+/B	6,420	60,699	-	67,119	(54)	(741)	-	(795)
10A-11C	4.001 - 15.75	B to B-/CCC	-	5,565	-	5,565	-	(843)	-	(843)
Higher risk			-	41,121	-	41,121	-	(7,544)	-	(7,544)
12	15.751 - 99.999	CCC/C	-	41,121	-	41,121	-	(7,544)	-	(7,544)
Defaulted			-	-	165,467	165,467	-	-	(137,362)	(137,362)
13-14	100	Defaulted	-	-	165,467	165,467	-	-	(137,362)	(137,362)
Total			21,806	200,606	165,467	387,879	(194)	(6,898)	(137,362)	(144,454)

The prior year numbers have been restated inline with to provide more information to the users. Refer to note 34.

Group and Company

Credit grade	Consumer, Private & Business Banking							
	2022							
	Gross				Credit impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Strong	7,238,910	55,160	-	7,294,070	(77,732)	(9,147)	-	(86,879)
Secured	1,169,122	25,329	-	1,194,451	(17,820)	(94)	-	(17,914)
Unsecured	6,069,788	29,831	-	6,099,619	(59,912)	(9,053)	-	(68,965)
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	55,160	53,222	7,347,292	(77,732)	(9,147)	(20,969)	(107,848)

Notes to the financial statements for the year ended 31 December 2022 cont.

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

Credit grade	2021							
	Gross				Credit impairment			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Strong	7,438,368	75,259	-	7,513,627	(74,024)	(7,293)	-	(81,317)
Secured	1,246,928	63,433	-	1,310,361	(17,930)	(3,049)	-	(20,979)
Unsecured	6,191,440	11,826	-	6,203,266	(56,094)	(4,244)	-	(60,338)
Defaulted	-	-	48,863	48,863	-	-	(8,631)	(8,631)
Secured	-	-	22,648	22,648	-	-	(4,064)	(4,064)
Unsecured	-	-	26,215	26,215	-	-	(4,567)	(4,567)
Total	7,438,368	75,259	48,863	7,562,490	(74,024)	(7,293)	(8,631)	(89,948)

The prior year numbers have been restated inline with to provide more information to the users. Refer to note 34.

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 2022 cont.

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

Group and Company (All segments)

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance	Total credit impairment	Net	Gross balance	Total credit impairment	Net	Gross balance	Total credit impairment	Net	Gross balance	Total credit impairment	Net
	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Amortised cost and FVOCI												
As at 01 January 2021	16,371,178	(26,743)	16,344,435	736,151	(61,447)	674,704	217,808	(106,859)	110,949	17,325,137	(195,049)	17,130,088
Transfers to stage 1	291,092	(79,536)	211,556	(291,092)	79,536	(211,556)	-	-	-	-	-	-
Transfers to stage 2	(396,246)	8,233	(388,013)	417,370	(16,173)	401,197	(21,124)	7,940	(13,184)	-	-	-
Transfers to stage 3	-	-	-	(99,492)	40,289	(59,203)	99,492	(40,289)	59,203	-	-	-
Net change in exposures	7,753,389	(22,614)	7,730,775	(466,195)	532	(465,663)	(123,158)	217,954	94,796	7,164,036	195,872	7,359,908
Net remeasurement from stage changes	-	672	672	-	(1,033)	(1,033)	-	-	-	-	(361)	(361)
Changes in risk parameters	-	21,813	21,813	-	(30,478)	(30,478)	-	(189,568)	(189,568)	-	(198,233)	(198,233)
Write-offs	-	-	-	-	-	-	(6,622)	6,413	(209)	(6,622)	6,413	(209)
Interest due but unpaid	-	-	-	-	-	-	(2,413)	2,413	-	(2,413)	2,413	-
Exchange translation differences and other movements	8,375	23,549	31,924	12,220	(26,534)	(14,314)	50,347	(43,997)	6,350	70,942	(46,982)	23,960
As at 31 December 2021	24,027,788	(74,626)	23,953,162	308,962	(15,308)	293,654	214,330	(145,993)	68,337	24,551,080	(235,927)	24,315,153
Income statement ECL (charge)/release	-	(129)	-	-	(30,979)	-	-	28,386	-	-	(2,722)	-
Recoveries of amounts previously written off	-	-	-	-	-	-	-	-	-	-	-	-
Total credit impairment (charge)/release	-	(129)	-	-	(30,979)	-	-	28,386	-	-	(2,722)	-

Prior year numbers have been restated to give more information to the users.

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance	Total credit impairment	Net	Gross balance	Total credit impairment	Net	Gross balance	Total credit impairment	Net	Gross balance	Total credit impairment	Net
	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Amortised cost and FVOCI												
As at 01 January 2022	19,100,682	(74,626)	19,026,056	308,962	(15,308)	293,654	214,330	(145,993)	68,337	19,623,974	(235,927)	19,388,047
Transfers to stage 1	266,152	(44,081)	222,071	(266,152)	44,081	(222,071)	-	-	-	-	-	-
Transfers to stage 2	(1,033,806)	78,823	(954,983)	1,033,806	(78,823)	954,983	-	-	-	-	-	-
Transfers to stage 3	-	-	-	(104,871)	47,986	(56,885)	104,871	(47,986)	56,885	-	-	-
Net change in exposures	(1,374,819)	(21,126)	(1,395,945)	(819,966)	606	(819,360)	(105,907)	162,779	56,872	(2,300,692)	142,259	(2,158,433)
Net remeasurement from stage changes	-	698	698	-	(626)	(626)	-	-	-	-	72	72
Changes in risk parameters	-	(5,439)	(5,439)	-	(60,488)	(60,488)	-	(119,391)	(119,391)	-	(185,318)	(185,318)
Write-offs	-	-	-	-	-	-	(50,549)	50,549	-	(50,549)	50,549	-
Interest due but unpaid	-	-	-	-	-	-	(28,976)	28,976	-	(28,976)	28,976	-
Exchange translation differences and other movements	96,643	(51,682)	44,961	721	50,629	51,350	29,193	(36,600)	(7,407)	126,557	(37,653)	88,904
As at 31 December 2022²	17,054,852	(117,433)	16,937,419	152,500	(11,943)	140,557	162,962	(107,666)	55,296	17,370,314	(237,042)	17,133,272
Income statement ECL (charge)/release	-	(25,867)	-	-	(60,508)	-	-	43,388	-	-	(42,987)	-
Recoveries of amounts previously written off	-	-	-	-	-	-	-	-	-	-	-	-
Total credit impairment (charge)/release	-	(25,867)	-	-	(60,508)	-	-	43,388	-	-	(42,987)	-

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 2022 cont.

Notes to the financial statements for the year ended 31 December 2022 cont.

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

Of which – movement of debt securities and other eligible bills

	Stage 1			Stage 2			Stage 3			Total		
	Gross balance	Total credit impairment	Net	Gross balance	Total credit impairment	Net	Gross balance	Total credit impairment	Net	Gross balance	Total credit impairment	Net ³
Amortised cost and FVOCI	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
As at 01 January 2021	2,113,719	(167)	2,113,552	-	-	-	-	-	-	2,113,719	(167)	2,113,552
Net change in exposures	488,158	(648)	487,510	-	-	-	-	-	-	488,158	(648)	487,510
Changes in risk parameters	-	414	414	-	-	-	-	-	-	-	414	414
Exchange translation differences and other movements	21,796	401	22,197	-	-	-	-	-	-	21,796	401	22,197
As at 31 December 2021	2,623,673	-	2,623,673	-	-	-	-	-	-	2,623,673	-	2,623,673
Income statement ECL (charge)/release		(234)			-			-		(234)		
Total credit impairment (charge)/release		(234)			-			-		(234)		
As at 01 January 2022	2,623,673	-	2,623,673	-	-	-	-	-	-	2,623,673	-	2,623,673
Net change in exposures	(172,654)	(7,009)	(179,663)	-	-	-	-	-	-	(172,654)	(7,009)	(179,663)
Changes in risk parameters	-	6,559	6,559	-	-	-	-	-	-	-	6,559	6,559
Exchange translation differences and other movements	(5,611)	(470)	(6,081)	-	-	-	-	-	-	(5,611)	(470)	(6,081)
As at 31 December 2022	2,445,408	(920)	2,444,488	-	-	-	-	-	-	2,445,408	(920)	2,444,488
Income statement ECL (charge)/release		(450)			-			-		(450)		
Total credit impairment (charge)/release		(450)			-			-		(450)		

Problem credit management and provisioning

Credit-impaired (stage 3) loans and advances by client segment

Gross stage 3 loans for the Bank is P162 million (2021: P 214 million). The reduction in loans was primarily driven by Corporate, Commercial & Institutional Banking debt sales.

Gross stage 3 loans in Consumer, Private & Business Banking remained broadly stable at P53 million.

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 remained relatively flat at 82%.

Consumer, Private & Business Banking cover ratio is 39 per cent (2021: 18 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 2022 cont.

Notes to the financial statements for the year ended 31 December 2022 cont.

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

Group and Company

	2022			2021		
	Corporate, Commercial & Institutional Banking P '000	Consumer, Private & Business Banking P '000	Total P '000	Corporate, Commercial & Institutional Banking P '000	Consumer, Private & Business Banking P '000	Total P '000
Amortised cost						
Gross credit-impaired	106,330	53,222	159,552	165,467	48,863	214,330
Credit impairment provisions	(86,697)	(20,969)	(107,666)	(137,362)	(8,631)	(145,993)
Net credit-impaired	19,633	32,253	51,886	28,105	40,232	68,337
Cover ratio	82%	39%	67%	83%	18%	68%
Collateral (P '000)	19,633	28,448	48,081	159,325	42,804	202,129
Cover ratio (after collateral)	100%	93%	98%	100%	100%	100%

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 2022 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 dropped to P20 million (2021: P215 million) due to a drop in Mortgages and Secured wealth products.

Stage 2 collateral increased by P940 thousand, 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 2022 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

	2022								
	Net amount outstanding			Collateral			Net exposure		
	Total	Stage 2 financial assets	Credit-impaired financial assets (\$3)	Total	Stage 2 financial assets	Credit-impaired financial assets (\$3)	Total	Stage 2 financial assets	Credit-impaired financial assets (\$3)
Amortised cost	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Corporate, Commercial & Institutional Banking	476,398	39,849	19,633	20,325	940	19,633	456,073	38,909	-
Consumer, Private & Business Banking	7,161,178	46,013	32,253	1,134,122	20,846	28,448	6,027,056	25,167	3,805
Total	7,637,576	85,862	51,886	1,154,447	21,786	48,081	6,483,129	64,076	3,805

Notes to the financial statements for the year ended 31 December 2022 cont.

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

	2021								
	Net amount outstanding			Collateral			Net exposure		
	Total	Stage 2 financial assets	Credit-impaired financial assets (\$3)	Total	Stage 2 financial assets	Credit-impaired financial assets (\$3)	Total	Stage 2 financial assets	Credit-impaired financial assets (\$3)
Amortised cost	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Corporate, Commercial & Institutional Banking	328,550	193,708	28,105	215,909	-	159,325	112,641	193,708	(131,220)
Consumer, Private & Business Banking	7,472,542	67,966	40,232	3,943,180	26,918	42,804	3,529,362	41,048	(2,572)
Total	7,801,092	261,674	68,337	4,159,089	26,918	202,129	3,642,003	234,756	(133,792)

The Bank obtained court judgement to foreclose property held as security worth P8m (2021: P24m).

The quality of collateral held in 2022 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 P65m (2021: P21m)

There are no financial 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 Bank'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 P60 million to P8.010 billion as compared to 31 December 2021.

Stage 1 loans increased by P255 million to P7.754 billion. Of the P7.754 billion, P315 million were corporate loans, mainly due to new lending Financing, Insurance and non-Banking sector. Consumer, Private & Business Banking decreased mainly from the mortgage book and personal loans and other unsecured products.

Notes to the financial statements
for the year ended 31 December 2022 cont.

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

Group and Company

2022	Stage 1			Stage 2		Stage 3				Total		
	Gross balance	Total credit impairment	Net carrying amount	Gross balance	Total credit impairment	Net carrying amount	Gross balance	Total credit impairment	Net carrying amount	Gross balance	Total credit impairment	Net carrying amount
Amortised cost	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Industry:												
Energy	36,862	(3,536)	33,326	-	-	-	1,882	(359)	1,523	38,744	(3,895)	34,849
Manufacturing	34,749	(3,325)	31,424	-	-	-	8,053	(5,606)	2,447	42,802	(8,931)	33,871
Financing, insurance and non-banking	315,000	(29,203)	285,797	40,571	(2,166)	38,405	-	-	-	355,571	(31,369)	324,202
Transport, telecom and utilities	2,401	(90)	2,311	-	-	-	4,059	(2,803)	1,256	6,460	(2,893)	3,567
Food and household products	8,562	(706)	7,856	-	-	-	25,832	(16,712)	9,120	34,394	(17,418)	16,976
Commercial real estate	-	-	-	524	(73)	451	28,175	(28,084)	91	28,699	(28,157)	542
Mining and quarrying	1,075	(108)	967	-	-	-	35	-	35	1,110	(108)	1,002
Consumer durables	-	-	-	-	-	-	26	-	26	26	-	26
Construction	20,000	(1,850)	18,150	-	-	-	27,513	(25,795)	1,718	47,513	(27,645)	19,868
Government	86,199	(32)	86,167	-	-	-	-	-	-	86,199	(32)	86,167
Other	10,403	(4)	10,399	1,012	(19)	993	10,756	(7,338)	3,418	22,171	(7,361)	14,810
Retail Products:												
Mortgage	1,141,304	(14,814)	1,126,490	22,627	(37)	22,590	29,444	(6,792)	22,652	1,193,375	(21,643)	1,171,732
Credit Cards	113,938	(1,147)	112,791	5,775	(52)	5,723	1,170	(21)	1,149	120,883	(1,220)	119,663
Personal loans and other unsecured lending	5,955,852	(58,765)	5,897,087	24,056	(9,001)	15,055	10,394	(6,427)	3,967	5,990,302	(74,193)	5,916,109
Auto	17,460	(18)	17,442	110	-	110	321	-	321	17,891	(18)	17,873
Secured wealth products	10,357	(2,988)	7,369	1,975	(57)	1,918	-	-	-	12,332	(3,045)	9,287
Other	-	-	-	617	-	617	11,892	(7,729)	4,163	12,509	(7,729)	4,780
Net carrying value (customers)	7,754,162	(116,586)	7,637,576	97,267	(11,405)	85,862	159,552	(107,666)	51,886	8,010,981	(235,657)	7,775,324

Notes to the financial statements
for the year ended 31 December 2022 cont.

Notes to the financial statements
for the year ended 31 December 2022 cont.

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

Group and Company

2021	Stage 1		Stage 2		Stage 3				Total			
	Gross balance	Total credit impairment	Net carrying amount	Gross balance	Total credit impairment	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	P '000	P '000	P '000	P '000	P '000
Amortised cost												
Industry:												
Energy	284	(19)	265	38,839	(3,126)	35,713	6,573	(5,768)	805	45,696	(8,913)	36,783
Manufacturing	-	-	-	-	-	-	7,755	(5,123)	2,632	7,755	(5,123)	2,632
Financing, insurance and non-banking	3,108	(69)	3,039	134,279	(478)	133,801	9,553	(25,003)	(15,450)	107,136	17,255	121,390
Transport, telecom and utilities	-	-	-	333	(18)	315	4,535	(1,677)	2,858	4,868	(1,695)	3,173
Food and household products	16,455	(105)	16,350	18,949	(499)	18,450	46,043	(30,169)	15,874	81,447	(33,773)	50,674
Commercial real estate	1,321	(1)	1,320	6,871	(2,258)	4,613	-	-	-	8,192	(2,259)	5,933
Mining and quarrying	638	-	638	-	-	-	25	(3)	22	663	(3)	660
Consumer durables	-	-	-	-	-	-	23	(2)	21	23	(2)	21
Construction	-	-	-	-	-	-	69,536	(60,737)	8,799	69,536	(60,737)	8,799
Other	-	-	-	1,335	(519)	816	21,424	(8,880)	12,544	22,759	(9,399)	13,360
Retail Products:												
Mortgage	1,228,241	(12,922)	1,215,319	32,988	(4,563)	28,425	33,104	(1,481)	31,623	1,294,333	(24,967)	1,275,367
Credit Cards	107,931	(1,106)	106,825	3,532	(36)	3,496	1,362	(949)	413	112,825	(2,091)	110,734
Personal loans and other unsecured lending	6,068,423	(59,959)	6,008,464	36,874	(2,692)	34,182	11,359	(6,164)	5,195	6,156,461	(102,619)	6,047,841
Auto	18,914	(19)	18,895	720	(1)	719	-	-	-	19,634	(20)	19,614
Secured wealth products	14,859	(18)	14,841	1,145	(1)	1,144	2,446	-	2,446	18,450	(19)	18,431
Other	-	-	-	-	-	-	592	(37)	555	592	(37)	555
Net carrying value (customers)	7,460,174	(74,218)	7,385,956	275,865	(14,191)	261,674	214,330	(145,993)	68,337	7,950,369	(234,402)	7,715,967

Notes to the financial statements
for the year ended 31 December 2022 cont.

Notes to the financial statements for the year ended 31 December 2022 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 decreased by P179 million to P2,444 billion. Of the total increase, 100 per cent is in stage 1.

Group and Company

	2022			2021		
	Gross P '000	ECL P '000	Net P '000	Gross P '000	ECL P '000	Net P '000
Amortised cost and FVOCI						
Stage 1	2,445,408	(920)	2,444,488	2,623,673	-	2,623,673
BBB- to BBB+	2,445,408	(920)	2,444,488	2,623,673	-	2,623,673
Gross balance	2,445,408	(920)	2,444,488	2,623,673	-	2,623,673

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 2022 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 2022 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 2022 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 percent 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 2022 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 2022 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

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 2022 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 2022 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 2022 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 Bank'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 Bank'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 Bank'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 Bank'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 2022 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 accounts. 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 Bank's Advances-to-Deposit Ratio has decreased by 1.5 per cent to 59.7 per cent, driven by growth in customer deposits, most of which came from corporate customers.

Group/ Company

	2022 P '000	2021 P '000
Total loans and advances to customers	7,775,324	7,715,967
Total customer accounts	13,024,890	12,618,006
Advances-to-deposits ratio	59.7%	61.2%

Liquidity analysis of the Bank'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 2022 cont.

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

Group:

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	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
Assets									
Cash and balances at central banks	491,618	-	-	-	-	-	-	-	491,618
Derivative financial instruments	770	-	-	-	-	-	-	-	770
Loans and advances to banks	45,054	-	-	-	-	24	-	-	45,078
Loans and advances to customers	342,115	2,894	38,330	11,784	26,192	309,873	3,689,088	5,023,801	9,444,076
Due from related parties	5,266,269	-	-	-	-	-	-	-	5,266,269
Accrued income	154,805	-	-	-	-	-	-	-	154,805
Investment securities	224,906	895,615	787,971	144,999	-	-	371,967	19,030	2,444,488
Other assets	-	28,433	-	-	11,603	-	-	139	40,175
Total assets	6,525,537	926,942	826,301	156,783	37,795	309,897	4,061,055	5,042,970	17,887,279
Liabilities									
Deposits by banks	688,216	87,398	61,934	17,090	5,000	601	-	-	860,239
Customer accounts	4,506,611	1,115,268	598,274	661,062	261,178	5,053,879	1,029,407	-	13,225,679
Derivative financial instruments	446	-	23	-	-	-	-	-	469
Debt securities in issue	-	-	-	-	-	-	93,603	229,963	323,566
Other liabilities	24,442	65,679	-	-	-	-	-	-	90,121
Lease liabilities	696	1,895	6,205	2,780	6,797	15,607	19,697	-	53,677
Accruals and deferred income	121,736	-	-	-	-	-	-	-	121,736
Due to related parties	377,750	-	-	-	-	-	-	-	377,750
Subordinated liabilities	-	-	-	-	-	-	389,000	-	389,000
Total liabilities	5,719,897	1,270,239	666,437	680,932	272,975	5,070,087	1,531,707	229,963	15,442,237
Net liquidity gap	805,641	(343,297)	159,864	(524,150)	(235,180)	(4,760,191)	2,529,347	4,813,007	2,445,042

Notes to the financial statements
for the year ended 31 December 2022 cont.

Notes to the financial statements
for the year ended 31 December 2022 cont.

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

2021	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Assets									
Cash and balances at central banks	738,290	-	-	-	-	-	-	-	738,290
Derivative financial instruments	1,041	-	-	-	-	-	-	-	1,041
Loans and advances to banks	85,100	-	-	-	-	25	-	-	85,125
Loans and advances to customers	880,564	124,698	-	-	107,391	-	3,864,015	3,727,821	8,704,490
Due from related parties	3,972,565	-	-	-	-	-	-	-	3,972,565
Accrued income	137,041	-	-	-	-	-	-	-	137,041
Investment securities	356,273	860,000	450,000	100,000	100,000	443,900	223,500	90,000	2,623,673
Other assets	67,189	-	-	-	-	-	-	-	67,189
Total assets	6,238,063	984,698	450,000	100,000	207,391	443,925	4,087,515	3,817,821	16,329,414
Liabilities									
Deposits by banks	417,655	-	-	-	-	-	-	-	417,655
Customer accounts	9,609,528	1,298,268	855,548	-	1,340,765	-	377,624	-	13,481,734
Derivative financial instruments	4,611	-	-	-	-	-	-	-	4,611
Debt securities in issue	-	-	-	-	-	-	93,603	229,963	323,566
Other debt securities in issue	-	-	-	-	-	-	-	-	-
Due to related parties	235,566	-	-	-	-	-	-	-	235,566
Accruals and deferred income	84,396	-	-	-	-	-	-	-	84,396
Other liabilities	308,504	144	21,458	8,180	3,344	3,487	7,776	9,180	362,073
Lease liabilities	676	1,842	6,034	2,703	6,609	15,175	19,152	-	52,191
Subordinated liabilities	-	-	-	-	-	-	389,000	-	389,000
Total liabilities	10,660,937	1,300,254	883,040	10,883	1,350,718	18,662	887,155	239,143	15,350,792
Net liquidity gap	(4,422,874)	(315,557)	(433,040)	89,117	(1,143,327)	425,263	3,200,361	3,578,678	978,622

The prior year numbers have been re-presented to provide more information to the users. Refer to Note 34 for more details. Lease liability has been separated from other liabilities.

Notes to the financial statements
for the year ended 31 December 2022 cont.

Notes to the financial statements
for the year ended 31 December 2022 cont.

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

Company:

2022	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Assets									
Cash and balances at central banks	488,740	-	-	-	-	-	-	-	488,740
Derivative financial instruments	770	-	-	-	-	-	-	-	770
Loans and advances to banks	45,054	-	-	-	-	24	-	-	45,078
Loans and advances to customers	342,115	2,894	38,330	11,784	26,192	309,873	3,689,088	5,023,801	9,444,076
Due from related parties	5,266,269	-	-	-	-	-	-	-	5,266,269
Accrued income	154,805	-	-	-	-	-	-	-	154,805
Investment securities	224,906	895,615	787,971	144,999	-	-	371,967	19,030	2,444,488
Other assets	-	4,603	-	-	11,603	-	-	139	16,345
Total assets	6,522,659	903,112	826,301	156,783	37,795	309,897	4,061,055	5,042,970	17,860,571
Liabilities									
Deposits by banks	688,216	87,398	61,934	17,090	5,000	601	-	-	860,239
Customer accounts	4,506,611	1,115,268	598,274	661,062	261,178	5,053,879	1,029,407	-	13,225,679
Derivative financial instruments	446	-	23	-	-	-	-	-	469
Debt securities in issue	-	-	-	-	-	-	93,603	229,963	323,566
Accruals and deferred income	121,736	-	-	-	-	-	-	-	121,736
Other liabilities	25,042	65,079	-	-	-	-	-	-	90,121
Lease liabilities	696	1,895	6,205	2,780	6,797	15,607	19,697	-	53,677
Due to related parties	377,750	-	-	-	-	-	-	-	377,750
Subordinated liabilities	-	-	-	-	-	-	389,000	-	389,000
Total liabilities	5,720,497	1,269,639	666,437	680,932	272,975	5,070,087	1,531,707	229,963	15,442,237
Net liquidity gap	802,163	(366,527)	159,864	(524,150)	(235,180)	(4,760,191)	2,529,347	4,813,007	2,418,334

Notes to the financial statements
for the year ended 31 December 2022 cont.

Notes to the financial statements
for the year ended 31 December 2022 cont.

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

2021	One month or less	Between one month and three months	Between three months and six months	Between six months and nine months	Between nine months and one year	Between one year and two years	Between two years and five years	More than five years and undated	Total
	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000	P '000
Assets									
Cash and balances at central banks	735,412	-	-	-	-	-	-	-	735,412
Derivative financial instruments	1,041	-	-	-	-	-	-	-	1,041
Loans and advances to banks	85,100	-	-	-	-	25	-	-	85,125
Loans and advances to customers	880,564	124,698	-	-	107,391	-	3,864,015	3,727,821	8,704,490
Due from related parties	3,972,565	-	-	-	-	-	-	-	3,972,565
Accrued income	137,041	-	-	-	-	-	-	-	137,041
Investment securities	356,273	860,000	450,000	100,000	100,000	443,900	223,500	90,000	2,623,673
Other assets	68,548	-	-	-	-	-	-	-	68,548
Total assets	6,236,544	984,698	450,000	100,000	207,391	443,925	4,087,515	3,817,821	16,327,895
Liabilities									
Deposits by banks	417,655	-	-	-	-	-	-	-	417,655
Customer accounts	9,609,528	1,298,268	855,548	-	1,340,765	-	377,624	-	13,481,734
Derivative financial instruments	4,611	-	-	-	-	-	-	-	4,611
Debt securities in issue	-	-	-	-	-	-	93,603	229,963	323,566
Due to related parties	235,566	-	-	-	-	-	-	-	235,566
Accruals and deferred income	84,396	-	-	-	-	-	-	-	84,396
Other liabilities	347,321	144	21,458	8,180	3,344	3,487	7,776	9,180	400,890
Lease liabilities	676	1,842	6,034	2,703	6,609	15,175	19,152	-	52,191
Subordinated liabilities	-	-	-	-	-	-	389,000	-	389,000
Total liabilities	10,699,754	1,300,254	883,040	10,883	1,350,718	18,662	887,155	239,143	15,389,609
Net liquidity gap	(4,463,210)	(315,557)	(433,040)	89,117	(1,143,327)	425,263	3,200,361	3,578,678	938,286

The prior year numbers have been re-presented to provide more information to the users. Refer to Note 34 for more details. Lease liability has been separated from other liabilities.

Notes to the financial statements
for the year ended 31 December 2022 cont.

Notes to the financial statements for the year ended 31 December 2022 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 2022 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
2022				
Foreign currency risk	25	120	856	0
Interest rate risk	1,477	1,215	1,907	123
Overall	1,502	1,335	2,763	123
2021				
Foreign currency risk	50	91	172	9
Interest rate risk	1,561	993	2,474	275
Overall	1,611	1,084	2,646	284

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 2022 cont.

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

Group - 31 December 2022	Zero rate	Floating rate	Fixed Rate instruments					Total
			0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years	
			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

Group - 31 December 2021	Zero rate	Floating rate	Fixed Rate instruments					Total
			0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years	
			P'000	P'000	P'000	P'000	P'000	
Total Assets	1,376,580	7,728,389	3,857,000	1,609,000	206,000	760,000	-	15,536,969
Total Liabilities	(598,969)	(9,542,000)	(1,020,000)	(2,757,000)	(1,232,000)	(337,000)	(50,000)	(15,536,969)
Net Mismatch	777,611	(1,813,611)	2,837,000	(1,148,000)	(1,026,000)	423,000	(50,000)	-

Interest sensitivity gap- Floating rate bucket

Impact of decrease in interest rates

50 basis points		9,068
100 basis points		18,136

Notes to the financial statements
for the year ended 31 December 2022 cont.

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

Company - 31 December 2022

2022	Zero rate	Floating rate	Fixed Rate instruments					Total
			0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years	
			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

Company - 31 December 2022

2021	Zero rate	Floating rate	Fixed Rate instruments					Total
			0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years	
			P'000	P'000	P'000	P'000	P'000	
Total Assets	1,365,153	7,728,389	3,857,000	1,609,000	206,000	760,000	-	15,525,542
Total Liabilities	(587,542)	(9,542,000)	(1,020,000)	(2,757,000)	(1,232,000)	(337,000)	(50,000)	(15,525,542)
Net Mismatch	777,611	(1,813,611)	2,837,000	(1,148,000)	(1,026,000)	423,000	(50,000)	-

Interest sensitivity gap- Floating rate bucket

Impact of decrease in interest rates

50 basis points		9,068
100 basis points		18,136

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

Notes to the financial statements for the year ended 31 December 2022 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 PV01 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")

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)

2021	0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years
Marketable Securities	356,000	1,310,000	200,000	668,000	90,000
Sensitivity (PV01_1bps change in interest rate)	(4)	(32)	(48)	(125)	(11)

Company

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)

2021	0-1 month	1-6 months	6-12 months	1 to 5 years	Over 5 years
Marketable Securities	356,000	1,310,000	200,000	668,000	90,000
Sensitivity (PV01_1bps change in interest rate)	(4)	(32)	(48)	(125)	(11)

Notes to the financial statements for the year ended 31 December 2022 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 Bank's books (e.g. in the form of loans, deposits and cross border investments).

The Group's Financial Markets division is responsible for:

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

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

The table below sets out principal structural foreign exchange exposures of the Group for only major currencies at 31 December 2022 and 2021.

Group and Company	2022			2021		
	Assets / (liabilities) P'000	Sensitivity*		Assets / (liabilities) P'000	Sensitivity*	
		1%	5%		1%	5%
American Dollar	1,284	(12.84)	(64.18)	711	(7.11)	(35.56)
British Pound	268	(2.68)	(13.38)	326	(3.26)	(16.28)
Euro	1	(0.01)	(0.05)	282	(2.82)	(14.08)
South African Rand	873	(8.73)	(43.63)	2	(0.02)	(0.09)

* 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 2022 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 2022, recorded impact from operational losses for the year is higher than 2021.

The Bank's profile of operational loss events in 2022 and 2021 is summarised in the table below. It shows the percentage distribution of gross operational losses by Basel business line.

Group and Company

Distribution of Operational Losses by Basel business line	% Loss	
	2022	2021
Agency services	0.0%	1.2%
Commercial Banking	5.6%	18.4%
Corporate Items	43.2%	23.8%
Payment and Settlements	35.8%	16.1%
Retail Banking	10.1%	29.9%
Retail Brokerage	0.0%	0.2%
Trading and Sales	5.4%	10.2%

The Bank'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.

Distribution of Operational Losses by Basel event type	% Loss	
	2022	2021
Business disruption and system failures	3.4%	2.0%
Client's products and business practices	1.1%	5.8%
Damage to physical assets	0.0%	0.1%
Employment practices and workplace safety	0.0%	0.5%
Execution delivery and process management	79.7%	70.3%
External fraud	9.0%	20.7%
Internal fraud	6.7%	0.6%

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 2022 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 Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence to sustain the future development of the business. There were no breaches to this requirement in the current or previous year, as the Bank maintained its CAR above 15%. The Bank has developed Capital risk appetite which defines the capital tolerance levels both minimum (floor) and maximum (ceiling) which is monitored and tracked on a monthly basis through various governance forums. The Bank's regulatory capital is analysed in two parts:

- Tier I capital, which includes stated capital, additional Tier 1 capital (AT1), retained earnings, accumulated other comprehensive income and other disclosed reserves, common shares issued by consolidated subsidiaries of 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.

	2022	2021
CET1 capital	5.6%	7.5%
Tier 1 capital	10.4%	12.4%
Capital adequacy ratio	17.0%	16.5%
Risk-weighted assets (RWA) P '000	8,429,266	8,014,325

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 2022 cont.

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

Capital review continued	2022 P '000	2021 P '000
CET1 capital instruments and reserves		
Stated capital	179,273	179,273
Other revenue reserves	543,043	429,843
Capital contribution	28,213	28,213
Statutory credit risk reserve	19,152	19,152
Less regulatory adjustments	(63,150)	(59,623)
CET1 capital	706,531	596,858
Additional Tier 1 Capital (AT1)	400,000	400,000
Tier 1 capital	1,106,531	996,858
Non-specific impairment	95,434	88,409
*Subordinated debt	233,400	233,400
Tier 2 capital	328,834	321,809
Total	1,435,365	1,318,667
Credit	7,634,730	7,263,789
Market	29,456	26,057
Operational	758,749	724,479
Total risk-weighted assets	8,422,935	8,014,325
Capital adequacy ratio	17.0%	16.5%

During the year, dividends amounting to P60 million were declared and paid (2021: P48million).

A distribution of P30.3million was paid to holders of subordinated undated AT1 capital securities during the year (2021: 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.

The note includes Group capital analysis in line with the Bank of Botswana clarification that the reported numbers should be based on Group numbers effective from 2021. In the prior year, Group and Company capital numbers were reported due to transition.

Notes to the financial statements for the year ended 31 December 2022 cont.

4. Net interest income

Accounting policy

Interest

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

Interest income and expense presented in profit or loss include:

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

Interest in suspense

If there are any recoveries on stage 3 loans, any contractual interest earned while the asset was in stage 3 is recognised in the credit impairment line. No stage 3 assets cured during the year where interest was previously suspended (2021: Nil).

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Loans and advances to banks	2,189	1,557	2,189	1,557
Due from related parties	77,427	8,684	77,427	8,684
Loans and advances to customers	756,875	673,193	756,875	673,193
Debt securities	35,413	27,527	35,413	27,527
Other eligible bills	47,385	32,863	47,385	32,863
Interest income	919,289	743,824	919,289	743,824
Of which: financial instruments held at fair value through other comprehensive income	82,798	60,390	82,798	60,390
Deposits by banks	26,045	30,106	26,045	30,106
Due to related parties	22,770	23,419	22,770	23,419
Customer accounts	261,490	222,481	261,490	222,480
Subordinated liabilities	23,603	21,189	23,603	21,189
Interest expense on IFRS 16 lease liabilities	2,232	1,818	2,232	1,819
Interest expense	336,140	299,013	336,140	299,013
Net interest income	583,149	444,811	583,149	444,811

Notes to the financial statements for the year ended 31 December 2022 cont.

4. Net interest income (cont.)

Changes in presentation were done for prior period splitting investment securities previously reported as P 60,390 into Debt securities of P 27,527 and Other eligible bills of P 32,863. In the previous year the above was disclosed split as Note 5 and 6. This is in line with the balance sheet reclassification as per Note 34.

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 2022 cont.

5. Net fees and commission (cont.)

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Fees and commissions income	270,953	249,380	247,137	220,522
Of which:				
Financial instruments that are not fair valued through profit or loss	187,379	159,998	187,379	159,998
Trust and other fiduciary activities	14,710	10,170	14,710	10,170
Others	68,864	79,212	45,048	50,354
Fees and commissions expense	(34,766)	(27,123)	(34,766)	(27,123)
Of which:				
Financial instruments that are not fair valued through profit or loss	(1)	-	(1)	-
Others	(34,765)	(27,123)	(34,765)	(27,123)
Net fees and commission	236,187	222,257	212,371	193,399

Notes to the financial statements
for the year ended 31 December 2022 cont.

5. Net fees and commission (cont.)

Group	2022 P '000	2021 P '000
Transaction Banking	29,537	19,042
Fiduciary Activities	15,558	11,854
Financial Markets	13,520	7,232
Corporate Finance	11,837	742
Lending and Portfolio Management	65	83
Retail Products	176,620	181,569
Insurance brokerage	23,816	28,858
Fees and commission	270,953	249,380
Commission expenses		
Transaction banking	(112)	(76)
Card expenses	(27,571)	(20,921)
Sales commission	(7,083)	(6,126)
Total	(34,766)	(27,123)
Net fees and commission	236,187	222,257

Company	2022 P '000	2021 P '000
Transaction Banking	29,537	19,042
Fiduciary Activities	2,038	11,854
Financial Markets	13,012	7,233
Corporate Finance	(2)	743
Lending and Portfolio Management	4,925	83
Retail Products	197,627	181,564
Fees and commission	247,137	220,519
Commission expenses		
Transaction banking	(112)	(76)
Card expenses	(27,571)	(20,921)
Sales commission	(7,083)	(6,126)
Total	(34,766)	(27,123)
Net fees and commission	212,371	193,396

Notes to the financial statements
for the year ended 31 December 2022 cont.

6. Net trading income

Accounting policy

Net trading income comprises foreign currency gains and losses 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	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Net trading income	81,727	72,083	81,727	72,083
Gains on instruments held for trading	81,727	72,083	81,727	72,083

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	
	2022 P '000	2021 P '000	2022 P '000	2021 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 2022 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	
	2022 P'000	2021 P'000	2022 P'000	2021 P'000
Staff costs				
Salaries and wages	197,489	210,443	197,489	210,443
Contributions to defined contribution pension plan	17,516	18,497	17,516	18,497
Other staff costs	7,801	7,372	7,802	7,372
Restructuring	11,704	23,017	11,700	23,017
Total staff costs	234,510	259,329	234,507	259,329
General administrative expenses				
Audit fees	2,272	2,077	2,272	2,077
Consultancy costs	7,709	5,889	7,709	5,889
Directors Fees	1,479	300	1,362	300
Repairs and maintenance	14,394	13,843	14,394	13,843
Communication costs	14,948	20,381	14,948	20,381
Group recharges	189,593	210,890	189,593	210,890
Advertising and sponsorship	13,320	7,866	13,320	7,866
Technical support	7,868	8,137	7,868	8,137
Printing and stationery	2,412	2,579	2,412	2,579
Security	16,660	22,153	16,660	22,153
Irrecoverable VAT and WHT on group recharges	36,226	39,001	36,226	39,001
Other expenses*	23,911	23,233	12,893	10,359
Total general administrative expenses	330,792	356,349	319,657	343,475

* 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 2022 cont.

8. Operating expenses (cont.)

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Staff costs	234,510	259,329	234,507	259,329
Premises and equipment expenses:				
Rental of premises	912	2,356	912	2,356
	912	2,356	912	2,356
General administrative expenses:				
Other general administrative expenses	330,792	356,349	319,657	343,475
	330,792	356,349	319,657	343,475
Depreciation and amortisation:				
Property, plant and equipment:				
Premises	17,156	18,472	17,156	18,472
Equipment	11,321	12,104	11,321	12,104
	28,477	30,576	28,477	30,576
Intangibles:				
Software	12,185	10,852	12,185	10,852
	40,662	41,428	40,662	41,428
Total operating expenses	606,876	659,462	595,738	646,588

Prior year had been reported split into Note 10, 11, 19 and 20

Notes to the financial statements for the year ended 31 December 2022 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	
	2022 P'000	2021 P'000	2022 P'000	2021 P'000
Expected credit loss on financial assets				
Expected credit losses	75,758	50,900	75,758	50,900
Recoveries	(32,771)	(48,178)	(32,771)	(48,178)
Credit impairment	42,987	2,722	42,987	2,722

Notes to the financial statements for the year ended 31 December 2022 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 2022 cont.

11. Taxation (cont.)

The prior year numbers have been re-represented to provide more information to the users, the below notes had previously been reported as Note 12, 25 and 26.

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Taxation:				
Profit before tax	253,078	76,967	239,944	60,983
Taxation at Statutory rate (22%)	55,677	16,933	52,788	13,416
Non-deductible	348	994	323	994
Non-taxable	(100)	-	-	-
Prior year deferred tax adjustments	-	(38)	-	(38)
Prior year current tax adjustments	(4,673)	(1,233)	(2,692)	(945)
	51,252	16,656	50,419	13,427
Tax Rate reconciliation				
Tax rate	22.0%	22.0%	22.0%	22.0%
Non-deductible	0.1%	1.3%	0.1%	1.6%
Non-taxable	0.0%	0.0%	0.0%	0.0%
Prior year deferred tax adjustments	0.0%	0.0%	0.0%	-0.1%
Prior year current tax adjustments	-1.8%	-1.6%	-1.1%	-1.5%
Effective Tax Rate	20.3%	21.6%	21.0%	22.0%

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 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	45,476	18,330	40,196	14,358
Adjustments in respect of prior years	(6,614)	(1,233)	(2,590)	(946)
	38,862	17,097	37,606	13,412
Deferred tax:				
Origination/reversal of temporary differences	10,553	(441)	10,553	14
Adjustments in respect of prior years	1,837	-	2,260	-
	12,390	(441)	12,813	14
Tax on profits on ordinary activities	51,252	16,656	50,419	13,426
Effective tax rate	20.3%	21.6%	21.0%	22.0%

Notes to the financial statements
for the year ended 31 December 2022 cont.

11. Taxation (cont.)

The following table provides analysis of taxation charge in the year:

	Group and Company					
	2022			2021		
	Current tax P '000	Deferred tax P '000	Total P '000	Current tax P '000	Deferred tax P '000	Total P '000
Tax recognised in other comprehensive income						
Items that may be reclassified subsequently to income statement	-	1,338	1,338	-	(606)	(606)
Debt instruments at fair value through other comprehensive income	-	1,338	1,338	-	(606)	(606)
Items that will not be reclassified to income statement:						
Revaluation of property	-	-	-	-	(1,044)	(1,044)
Total tax credit/(charge) recognised in equity	-	1,338	1,338	-	(1,650)	(1,650)

Current tax: The following are the movements in current tax during the year:

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Current tax comprises:				
Current tax assets	69	-	69	-
Current tax liabilities	(787)	(8,096)	-	(7,440)
Net current tax opening balance	(718)	(8,096)	69	(7,440)
Movements in income statement				
Taxes paid	26,395	24,475	23,730	20,922
Other movements	(835)	1,233	(2,352)	945
Net current tax balance as at 31 December	(20,634)	(718)	(18,749)	69
Current tax assets	-	69	-	69
Current tax liabilities	(20,634)	(787)	(18,749)	-
Total	(20,634)	(718)	(18,749)	69

Notes to the financial statements
for the year ended 31 December 2022 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 2022	Exchange & other adjustments	(Charge)/ credit to profit	(Charge)/ credit to equity	At 31 December 2022
	P '000	P '000	P '000	P '000	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 (P13,388).

* Impairment provision relates to day one impact on implementation of IFRS 9.

	At 01 January 2021	Exchange & other adjustments	(Charge)/ credit to profit	(Charge)/ credit to equity	At 31 December 2021
	P '000	P '000	P '000	P '000	P '000
Deferred tax comprises:					
Accelerated tax depreciation	(1,796)	-	(2,056)	-	(3,852)
Impairment provisions on loans and advances	16,801	-	-	-	16,801
Fair value through other comprehensive income	2,250	-	-	(606)	1,644
Premises revaluation	(5,455)	-	-	(1,044)	(6,499)
Retirement benefit obligations	5,095	-	(2,976)	-	2,119
Share-based payments	33	-	7	-	40
Other temporary differences	23,216	-	5,466	-	28,682
Net deferred tax assets	40,144	-	441	(1,650)	38,935

Other temporary differences are made up of mainly Cross border recharges (P14,375).

Notes to the financial statements
for the year ended 31 December 2022 cont.

11. Taxation (cont.)

	Company				
	At 01 January 2022	Exchange & other adjustments	(Charge)/ credit to profit	(Charge)/ credit to equity	At 31 December 2022
	P '000	P '000	P '000	P '000	P '000
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 (P13,388).

* Impairment provision relates to day one impact on implementation of IFRS 9.

	At 01 January 2021	Exchange & other adjustments	(Charge)/ credit to profit	(Charge)/ credit to equity	At 31 December 2021
	P '000	P '000	P '000	P '000	P '000
Deferred tax comprises:					
Accelerated tax depreciation	(1,796)	-	(2,056)	-	(3,852)
*Impairment provisions on loans and advances	16,801	-	-	-	16,801
Fair value through other comprehensive income	2,250	-	-	(606)	1,644
Premises revaluation	(5,455)	-	-	(1,044)	(6,499)
Retirement benefit obligations	5,095	-	(2,976)	-	2,119
Share-based payments	33	-	7	-	40
Other temporary differences	20,606	-	5,011	-	25,617
Net deferred tax assets	37,534	-	(14)	(1,650)	35,870

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 2022 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	
	2022 P'000	2021	2022 P'000	2021
Final dividend (Gross of WHT) declared and paid during the year	60,311	47,365	60,311	47,736
Dividend per share (thebe)	20.4	16.0	20.4	16.0

Information on this note has been included to provide additional information for the users.

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 2022 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.

	2022 P '000	2021 P '000
Profit for the period attributable to equity holders	201,826	60,311
Distributions to holders of subordinated capital securities	(30,300)	(30,300)
Profit for the period attributable to ordinary shareholders	171,526	30,011
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)	57.98	10.14

There were no dilutive potential shares during 2021 and 2022 and as such, diluted earnings per share is equal to basic earnings per share.

Restatement of earnings per share:

In the Group financial statements for the year ended 31 December 2021, basic and diluted earnings per share were erroneously calculated by including amounts distributed to holders of subordinated capital securities into profit for the period attributable to ordinary shareholders. As a consequence, the profits attributable to ordinary shareholders were overstated resulting in a higher earnings per share. The error has been corrected by restating the comparative profit attributable to ordinary shareholders by deducting P30.3 million distributed to holders of subordinated capital securities resulting in a drop in calculated earnings per share.

Impact of the restatement:

	Restated
Previously reported earnings per share 2021	20.39
Restated earnings per share 2021	10.14

The correction did not have any further impact on the profit or loss and OCI for the period or the Group's operating, investing and financing cash flows.

Notes to the financial statements for the year ended 31 December 2022 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 2022 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	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Corporate Lending • Financial Markets • Transaction Banking • Retail Lending • Treasury Markets (Loans and Borrowings) 	<ul style="list-style-type: none"> • Loans and advances
Hold to collect and sell	Business objective met through both hold to collect and by selling financial assets	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Treasury Markets 	<ul style="list-style-type: none"> • Debt securities
Fair value through profit or loss	All other business objectives, including trading and managing financial assets on a fair value basis	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Financial Markets • All other business lines 	<ul style="list-style-type: none"> • 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 2022 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 2022 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 2022 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 2022 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 2022 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						Total
		Trading	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	
		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 ¹	15	-	-	-	-	-	7,775,324	7,775,324
Investment securities								
Debt securities, alternative tier one and other eligible bills		-	-	-	2,444,488	2,444,488	-	2,444,488
Other assets	19	-	-	-	-	-	40,091	40,091
Due from related parties		-	-	-	-	-	5,266,269	5,266,269
Total at 31 December 2022		770	-	-	2,444,488	2,445,258	13,618,380	16,063,638

Assets	Notes	Assets at fair value						Total
		Trading	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	
		P '000	P '000	P '000	P '000	P '000	P '000	
Cash and balances at central banks		-	-	-	-	-	738,290	738,290
Derivative financial instruments	14	1,041	-	-	-	1,041	0	1,041
Loans and advances to banks	15	-	-	-	-	-	85,125	85,125
Loans and advances to customers	15	-	-	-	-	-	7,715,967	7,715,967
Investment securities								
Debt securities, alternative tier one and other eligible bills		-	-	-	2,623,673	2,623,673	-	2,623,673
Other assets	19	-	-	-	-	-	67,189	67,189
Due from related parties		-	-	-	-	-	3,972,565	3,972,565
Total at 31 December 2021		1,041	-	-	2,623,673	2,624,714	12,579,136	15,203,850

158 The prior year numbers have been restated to provide more information to the users. Refer to Note 34 for more details

Notes to the financial statements for the year ended 31 December 2022 cont.

14. Financial instruments (cont.)

Liabilities	Notes	Liabilities at fair value				Total
		Trading	Designated at fair value through profit or loss	Total financial liabilities at fair value	Amortised cost	
		P '000	P '000	P '000	P '000	
Derivative financial instruments	14	469	-	469	-	469
Deposits by banks		-	-	-	860,239	860,239
Customer accounts		-	-	-	13,024,890	13,024,890
Debt securities in issue	20	-	-	-	323,566	323,566
Other liabilities	21	-	-	-	139,986	139,986
Subordinated liabilities	24	-	-	-	389,000	389,000
Due to related parties		-	-	-	377,750	377,750
Total at 31 December 2022		469	-	469	15,115,431	15,115,900

Liabilities	Notes	Liabilities at fair value				Total
		Trading	Designated at fair value through profit or loss	Total financial liabilities at fair value	Amortised cost	
		P '000	P '000	P '000	P '000	
Derivative financial instruments	14	4,611	-	4,611	-	4,611
Deposits by banks		-	-	-	417,655	417,655
Customer accounts		-	-	-	12,618,006	12,618,006
Debt securities in issue	20	-	-	-	323,566	323,566
Other liabilities	21	-	-	-	402,192	402,192
Subordinated liabilities	24	-	-	-	389,000	389,000
Due to related parties		-	-	-	235,686	235,686
Total at 31 December 2021		4,611	-	4,611	14,386,105	14,390,716

Notes to the financial statements
for the year ended 31 December 2022 cont.

14. Financial instruments (cont.)

Company

Assets	Notes	Assets at fair value						Total
		Trading	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	
		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
Investment securities								-
Debt securities, alternative tier one and other eligible bills		-	-	-	2,444,488	2,444,488	-	2,444,488
Other assets	19	-	-	-	-	-	16,206	16,206
Due from related parties		-	-	-	-	-	5,266,269	5,266,269
Total at 31 December 2022		770	-	-	2,444,488	2,445,258	13,591,617	16,036,875

Assets	Notes	Assets at fair value						Total
		Trading	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	
		P '000	P '000	P '000	P '000	P '000	P '000	
Cash and balances at central banks		-	-	-	-	-	735,412	735,412
Derivative financial instruments	14	1,041	-	-	-	1,041	-	1,041
Loans and advances to banks	15	-	-	-	-	-	85,125	85,125
Loans and advances to customers	15	-	-	-	-	-	7,715,967	7,715,967
Investment securities								
Debt securities, alternative tier one and other eligible bills		-	-	-	2,623,673	2,623,673	-	2,623,673
Other assets	19	-	-	-	-	-	68,548	68,548
Due from related parties		-	-	-	-	-	3,972,565	3,972,565
Total at 31 December 2021		1,041	-	-	2,623,673	2,624,714	12,577,617	15,202,331

Notes to the financial statements
for the year ended 31 December 2022 cont.

14. Financial instruments (cont.)

Liabilities	Notes	Liabilities at fair value				
		Trading	Designated at fair value through profit or loss	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 accounts		-	-	-	13,024,890	13,024,890
Debt securities in issue	20	-	-	-	323,566	323,566
Other liabilities	21	-	-	-	169,775	169,775
Subordinated liabilities	24	-	-	-	389,000	389,000
Due to related parties		-	-	-	377,750	377,750
Total at 31 December 2022		469	-	469	15,145,220	15,145,689

Liabilities	Notes	Liabilities at fair value				
		Trading	Designated at fair value through profit or loss	Total financial liabilities at fair value	Amortised cost	Total
		P '000	P '000	P '000	P '000	P '000
Derivative financial instruments	14	4,611	-	4,611	-	4,611
Deposits by banks		-	-	-	417,655	417,655
Customer accounts		-	-	-	12,618,006	12,618,006
Debt securities in issue	20	-	-	-	323,566	323,566
Other liabilities	21	-	-	-	441,009	441,009
Subordinated liabilities	24	-	-	-	389,000	389,000
Due to related parties		-	-	-	235,686	235,686
Total at 31 December 2021		4,611	-	4,611	14,424,922	14,429,533

The prior year numbers have been restated to provide more information to the users. Refer to Note 34 for more details

Notes to the financial statements for the year ended 31 December 2022 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

Notes to the financial statements for the year ended 31 December 2022 cont.

14. Financial instruments (cont.)

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.

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.

Notes to the financial statements for the year ended 31 December 2022 cont.

14. Financial instruments (cont.)

- 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.
- 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 2022 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 where 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 proxied 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 2022 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 2022 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. The OCA at 31 December 2022 is a gain of P3 million (31 December 2021: P43 million loss).

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 2022 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

	Level 1 P '000	Level 2 P '000	Level 3 P '000	Total P '000
Assets				
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
Other Assets	-	-	-	-
Total financial instruments at 31 December 2022	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
Commodity	-	-	-	-
Total financial instruments at 31 December 2022	425	44	-	469

Level 2 fair values of investments have been generally derived using the market approach.

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 2022 cont.

14. Financial instruments (cont.)

	Level 1 P '000	Level 2 P '000	Level 3 P '000	Total P '000
Assets				
Financial instruments held at fair value through profit or loss				
Derivative financial instruments	-	-	1,041	1,041
Of which:				
Foreign exchange	-	-	1,041	1,041
Investment securities				
Debt securities and other eligible bills	-	2,623,673	-	2,623,673
Of which:				
Issued by Central Banks & Governments	-	2,623,673	-	2,623,673
Issued by financial institutions ^{1,2}	-	-	-	-
Total financial instruments at 31 December 2021	-	2,623,673	1,041	2,624,714
Liabilities				
Financial instruments held at fair value through profit or loss				
Derivative financial instruments	-	2,494	2,117	4,611
Of which:				
Foreign exchange	-	2,491	2,117	4,608
Interest rate	-	3	-	3
Commodity	-	-	-	-
Total financial instruments at 31 December 2021	-	2,494	2,117	4,611

Change in disclosure is in line with reclassification of balances as per Note 34.

Notes to the financial statements for the year ended 31 December 2022 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	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
		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
Other assets ¹	40,175	-	40,175	-	40,175
Due from subsidiary undertakings and other related parties	5,266,269	-	5,266,269	-	5,266,269
At 31 December 2022	13,618,464	-	5,843,140	7,775,324	13,618,464
Liabilities					
Deposits by banks	860,239	-	860,239	-	860,239
Customer accounts	13,024,890	-	13,024,890	-	13,024,890
Debt securities in issue	323,566	-	323,566	-	323,566
Subordinated liabilities	389,000	-	389,000	-	389,000
Other liabilities ¹	139,986	-	139,986	-	139,986
Due to parent companies, subsidiary undertakings & other related parties	377,750	-	377,750	-	377,750
At 31 December 2022	15,115,431	-	15,115,431	-	15,115,431

¹The 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 2022 cont.

14. Financial instruments (cont.)

	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
		P '000	P '000	P '000	
Assets					
Cash and balances at central banks ¹	738,290	-	738,290	-	738,290
Loans and advances to banks	85,125	-	85,125	-	85,125
Loans and advances to customers	7,715,967	-	-	7,715,967	7,715,967
Other assets ¹	67,188	-	67,188	-	67,188
Due from subsidiary undertakings and other related parties	3,972,565	-	3,972,565	-	3,972,565
At 31 December 2021	12,579,135	-	4,863,168	7,715,967	12,579,135
Liabilities					
Deposits by banks	417,655	-	417,655	-	417,655
Customer accounts	12,618,006	-	12,618,006	-	12,618,006
Debt securities in issue	323,566	-	323,566	-	323,566
Subordinated liabilities	389,000	-	389,000	-	389,000
Other liabilities ¹	441,009	-	441,009	-	441,009
Due to parent companies, subsidiary undertakings & other related parties	235,686	-	235,686	-	235,686
At 31 December 2021	14,424,922	-	14,424,922	-	14,424,922

¹The 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 2022 cont.

14. Financial instruments (cont.)

Company

	Carrying value P '000	Fair value			Total P '000
		Level 1 P '000	Level 2 P '000	Level 3 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
Other assets ¹	16,206	-	16,206	-	16,206
Due from subsidiary undertakings and other related parties	5,266,269	-	5,266,269	-	5,266,269
At 31 December 2022	13,591,617	-	5,816,293	7,775,324	13,591,617
Liabilities					
Deposits by banks	860,239	-	860,239	-	860,239
Customer accounts	13,024,890	-	13,024,890	-	13,024,890
Debt securities in issue	323,566	-	323,566	-	323,566
Subordinated liabilities	389,000	-	389,000	-	389,000
Other liabilities ¹	169,775	-	169,775	-	169,775
Due to parent companies, subsidiary undertakings & other related parties	377,750	-	377,750	-	377,750
At 31 December 2022	15,145,220	-	15,145,220	-	15,145,220

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 2022 cont.

14. Financial instruments (cont.)

	Carrying value P '000	Fair value			Total P '000
		Level 1 P '000	Level 2 P '000	Level 3 P '000	
Assets					
Cash and balances at central banks	735,412	-	735,412	-	735,412
Loans and advances to banks	85,125	-	85,125	-	85,125
Loans and advances to customers	7,715,967	-	-	7,715,967	7,715,967
Other assets ¹	68,548	-	68,548	-	68,548
Due from subsidiary undertakings and other related parties	3,972,565	-	3,972,565	-	3,972,565
At 31 December 2021	12,577,617	-	4,861,650	7,715,967	12,577,617
Liabilities					
Deposits by banks	417,655	-	417,655	-	417,655
Customer accounts	12,618,006	-	12,618,006	-	12,618,006
Debt securities in issue	323,566	-	323,566	-	323,566
Subordinated liabilities	389,000	-	389,000	-	389,000
Other liabilities ¹	441,009	-	441,009	-	441,009
Due to parent companies, subsidiary undertakings & other related parties	235,686	-	235,686	-	235,686
At 31 December 2021	14,424,922	-	14,424,922	-	14,424,922

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 2022 cont.

14. Financial instruments (cont.)

Loans and advances to customers by client segment

	2022					
	Carrying value			Fair value		
	Stage 3	Stage 1 and stage 2	Total	Stage 3	Stage 1 and stage 2	Total
	P '000	P '000	P '000	P '000	P '000	P '000
Corporate, Commercial & Institutional Banking	19,633	516,247	535,880	19,633	516,247	535,880
Consumer, Private & Business Banking	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
	2021					
	Carrying value			Fair value		
	Stage 3	Stage 1 and stage 2	Total	Stage 3	Stage 1 and stage 2	Total
	P '000	P '000	P '000	P '000	P '000	P '000
Corporate, Commercial & Institutional Banking	28,105	215,320	243,425	28,105	215,320	243,425
Consumer, Private & Business Banking	40,232	7,432,310	7,472,542	40,232	7,432,310	7,472,542
At 31 December 2021	68,337	7,647,630	7,715,967	68,337	7,647,630	7,715,967

The staged analysis 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 2022 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					
	2022			2021		
	Notional principal amounts	Assets	Liabilities	Notional principal amounts	Assets	Liabilities
	P '000	P '000	P '000	P '000	P '000	P '000
Foreign exchange derivative contracts:						
Forward foreign exchange contracts	1,528,078	770	469	-	547	3,728
Currency swaps and options	-	-	-	1,918,316	494	880
	1,528,078	770	469	1,918,316	1,041	4,608
Interest rate derivative contracts:						
Forward rate agreements and options	-	-	-	-	-	3
Gross total derivatives	1,528,078	770	469	1,918,316	1,041	4,611
Offset	-	-	-	-	-	-
Net Total derivatives	1,528,078	770	469	1,918,316	1,041	4,611

The disclosure on derivatives has been added to take into account the reclassification of prior year balances from other assets. Refer to Note 34 for more details.

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).

Notes to the financial statements for the year ended 31 December 2022 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	
	2022 P '000	2021 P '000
Loans and advances to banks	45,083	85,128
Expected credit loss	(5)	(3)
	45,078	85,125
Loans and advances to customers	8,010,982	7,950,369
Expected credit loss	(235,658)	(234,402)
	7,775,324	7,715,967
Total loans and advances to banks and customers	7,820,402	7,801,092

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. The prior year numbers have been restated to provide more information to the users. Refer to Note 34 for more details

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 2022 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 2022 cont.

17. Goodwill and intangible assets (cont.)

	Group and Company							
	2022				2021			
	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	115,096	239,660	29,880	94,684	94,020	218,584
Exchange translation differences	-	-	-	-	-	-	-	-
Additions	-	-	26,330	26,330	-	-	21,076	21,076
Amounts written off	-	-	(627)	(627)	-	-	-	-
At 31 December	29,880	94,684	140,799	265,363	29,880	94,684	115,096	239,660
Provision for amortisation								
At 1 January	18,621	94,684	77,350	190,655	18,621	94,684	66,498	179,803
Amortisation	-	-	12,185	12,185	-	-	10,852	10,852
Amounts written off	-	-	(627)	(627)	-	-	-	-
At 31 December	18,621	94,684	88,908	202,213	18,621	94,684	77,350	190,655
Net book value	11,259	-	51,891	63,150	11,259	-	37,746	49,005

At 31 December 2022, accumulated goodwill impairment losses incurred from 1 January 2005 amounted to P 18 million (31 December 2021: P 18 million), of which P Nil was recognised in 2022 (31 December 2021: 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 2022 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 in Note 19.

	2022							
	Land and building	Lease hold	Equipment	Furniture & fixtures	Right-of-use assets			Total
					WIP	Buildings	ATMs	
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
Revaluation of property	-	-	-	-	-	-	-	-
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

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 171million (2021: BWP 93million) which are fully depreciated and still in use.

Notes to the financial statements for the year ended 31 December 2022 cont.

18. Property, plant and equipment (cont.)

	Group and Company							
	2021							
	Land and building P'000	Lease hold P'000	Equipment P'000	Furniture & fixtures P'000	WIP P'000	Right-of-use assets		Total P'000
Buildings P'000						ATMs P'000		
Cost or valuation								
At 1 January	44,311	16,503	97,328	23,260	10,958	69,213	8,443	270,016
Additions	-	-	7,272	4,277	-	-	-	11,549
Revaluation of property	4,745	-	-	-	-	-	-	4,745
Disposals	(4,091)	-	-	-	-	-	-	(4,091)
Transfers	-	-	2,954	-	(5,971)	3,017	-	-
As at 31 December	44,965	16,503	107,554	27,537	4,987	72,230	8,443	282,219
Accumulated Depreciation								
Accumulated at 1 January	(13,055)	(9,307)	(83,678)	(18,325)	-	(27,534)	(5,397)	(157,296)
Depreciation	(1,170)	(1,493)	(8,884)	(3,362)	-	(12,799)	(2,867)	(30,575)
Disposal	2,140	-	-	-	-	-	-	2,140
Accumulated at 31 December	(12,085)	(10,800)	(92,562)	(21,687)	-	(40,333)	(8,264)	(185,731)
Net book amount at 31 December	32,880	5,703	14,992	5,850	4,987	31,897	179	96,488

A revaluation of land and buildings was carried out in 2021. The carrying amount of the respective assets based on the cost model would have been P7 011 (2021: P7 714).

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 2022 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	<ul style="list-style-type: none"> Market yield of between 10 - 14% Prime rentals of office space between P80-130/sq.m 	<p>The estimated fair value would increase/(decrease) if:</p> <ul style="list-style-type: none"> 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.

Other assets include:	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Financial assets held at amortised cost (Note 13):				
Unsettled trades and other financial assets	40,091	67,165	16,122	68,524
	40,091	67,165	16,122	68,524
Non-financial assets:				
Other assets	84	23	84	24
	40,175	67,188	16,206	68,548

The prior year numbers have been restated to provide more information to the users. Refer to Note 34 for more details

Notes to the financial statements for the year ended 31 December 2022 cont.

20. Debt securities in issue

Accounting policy

Refer to Note 13 Financial instruments for the relevant accounting policy.

	Group and Company					
	2022			2021		
	Certificates of deposit	Other debt securities in issue	Total	Certificates of deposit	Other debt securities in issue	Total
	P '000	P '000	P '000	P '000	P '000	P '000
Debt securities in issue	-	323,566	323,566	-	323,566	323,566
Total debt securities in issue	-	323,566	323,566	-	323,566	323,566

In 2021, the Company issued a total of P 323,566 million senior notes for general business purposes of the Group as shown below:

Securities	P '000
P 93 603 million fixed of 6.5% rate senior notes due 2025	93,603
P229 963 million fixed and floating rate of 3.15% senior notes due 2028	229,963
Total Senior Notes issued	323,566

	Interest rate	Maturity	2022	2021
			P '000	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
- 3 Change in disclosure is in line with reclassification of balances as per Note 34.

Notes to the financial statements for the year ended 31 December 2022 cont.

21. Other liabilities

Accounting policy

Refer to Note 14 Financial instruments for the relevant accounting policy for financial liabilities and Note 18 Leased assets for the accounting policy for leases.

	Group		Company	
	2022	2021	2022	2021
	P '000	P '000	P '000	P '000
Financial liabilities held at amortised cost				
Property leases	49,866	35,992	49,866	35,992
Unsettled trades and other financial liabilities	92,209	365,809	123,017	404,626
	142,075	401,801	172,883	440,618
Non-financial liabilities				
Other liabilities	(2,089)	391	(3,108)	391
Total other liabilities	139,986	402,192	169,775	441,009

The prior year numbers have been restated to provide more information to the users. Refer to Note 34 for more details.

Group and Company

	2022	2021
	P '000	P '000
Lease liabilities		
Interest on lease payments	2,232	1,819
Expenses relating to property leases	912	2,356
Amounts recognised in statement of cashflows		
Lease liability payments	21,010	20,310
Interest	2,232	1,819
Principal	18,778	18,491
The Group's commitments under non-cancellable short-term leases expiring:		
Within 1 year	17,596	13,098
After 1 year but less than 5 years	36,081	32,174
After 5 years	-	6,919
Total undiscounted lease liabilities	53,677	52,191

Notes to the financial statements for the year ended 31 December 2022 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

	2022			2021		
	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	1,522	207	1,729	1,593	207	1,800
Exchange translation differences	3	-	3	14	-	14
Charge against profit	(146)	2,682	2,536	(85)	337	252
Provisions utilized	-	(1,823)	(1,823)	-	(337)	(337)
At 31 December	1,379	1,066	2,445	1,522	207	1,729

Provision for credit commitment comprises those undrawn contractually committed facilities where there is doubt as to the borrowers' ability to meet their repayment obligations. The prior year numbers have been re-presented to provide more information to the users. Refer to Note 34 for more details.

Notes to the financial statements for the year ended 31 December 2022 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.

Contingent liabilities and commitments	2022 P '000	2021 P '000
Financial guarantees and trade credits		
Financial guarantees, trade credits and irrevocable letters of credit	236,252	401,809
Expected credit loss (Note 3)	(508)	-
	235,744	401,809
Commitments		
Undrawn formal standby facilities, credit lines and other commitments to lend		
One year and over	5,213,597	8,562,995
Unconditionally cancellable	662,862	-
	5,876,459	8,562,995
Expected credit loss (Note 3)	(871)	(1,522)
	5,875,588	8,561,473
Total contingent liabilities and commitments	6,111,332	8,963,282

There were no capital commitments at 31 December 2022 (2021: 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. The contingent liabilities and commitment have been presented as a consolidated amount compared to prior year which also split amounts between Finance and Insurance P2,287,246, Construction P265,575, Manufacturing P42,290, Trade, restaurant and bars P5,810,437, Community, social and personal services P551,320 and Transport P7,835.

Notes to the financial statements for the year ended 31 December 2022 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 (Pty) Ltd "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 is 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	2022 P '000	2021 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

In the previous year the balance was disclosed as P712,566, P323,566 has been reclassified to Debt securities. Refer to Note 34 for more details

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 2022 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 2021	179,273	428,213
At 31 December 2021	179,273	428,213
At 31 December 2022	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 (2021: 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 2022, unissued shares totalled 101 619 389 (2021: 101 649 389).

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

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

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

Notes to the financial statements for the year ended 31 December 2022 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.

Capital contribution

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

Fair value reserve

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

Retained earnings

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

Treasury share reserve

The reserve for the company's treasury shares comprises the cost of the Bank's shares held by the Group. As at the reporting date, the Group held 0.84% of the Company's shares (2021: 0.84%) as treasury shares.

The disclosure has been added to provide more useful information to the users.

Notes to the financial statements for the year ended 31 December 2022 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:

	2022	2021
	P '000	P '000
Defined contribution plans	17,516	18,497
Charge against profit	17,516	18,497

The disclosure has been added to provide more useful information to the users

Notes to the financial statements for the year ended 31 December 2022 cont.

28. Cash flow statement

Adjustment for non-cash and other adjustments included within income statement

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Taxation	51,252	16,656	50,419	13,426
Depreciation	28,477	30,575	28,477	30,575
Amortisation on intangibles	12,185	10,852	12,185	10,852
Net impairment loss on loans and advances	1,255	25,694	1,255	25,694
Unrealised foreign exchange (gains)/losses	(20,034)	1,469	(20,034)	1,469
Profit on sale of asset	(1,062)	-	(1,062)	-

Disclosures

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Subordinated debt (including accrued interest):				
Opening balance	389,000	389,000	389,000	389,000
Interest paid – Cash flow item	(23,604)	(21,189)	(23,604)	(21,189)
Accrued Interest – Non-cash flow item	23,604	21,189	23,604	21,189
Closing balance	389,000	389,000	389,000	389,000

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Debt Security (including accrued interest):				
Opening balance	323,566	323,566	323,566	323,566
Interest paid – Cash flow item	(22,550)	(11,005)	(22,550)	(11,005)
Accrued Interest – Non-cash flow item	22,550	11,005	22,550	11,005
Closing balance	323,566	323,566	323,566	323,566

Notes to the financial statements for the year ended 31 December 2022 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 P215 million (2021: P245 million).

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Cash and balances at central banks	491,618	738,290	488,740	735,412
Loans and advances to banks	45,078	85,125	45,078	85,125
Amounts owed by and due to subsidiary undertakings	5,266,269	3,972,565	5,266,269	3,972,565
Total	5,802,965	4,795,980	5,800,087	4,793,102

Changes in presentation from prior year are in line with the reclassification per restatement Note 34

Notes to the financial statements for the year ended 31 December 2022 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

	2022 P '000	2021 P '000
Directors' fees - short term employee benefits	1,479	300
Directors and key management personnel compensation - short term employee benefits	24,030	23,391
Directors and key management personnel compensation - long term employment benefits	1,589	808
Directors' holding in Company shares (No. of shares)	483	483

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

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

	Assets		Liabilities	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Loans				
Auto, mortgages and personal	13,070	12,461	-	-
Deposits	-	-	258	2,164

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 2022 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	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Balances due from:				
Standard Chartered Bank PLC	204,875	110,663	204,875	110,663
Standard Chartered Bank New York	4,788,648	3,415,756	4,788,648	3,415,756
Standard Chartered Bank Johannesburg	25	140,470	25	140,470
Standard Chartered Bank Mauritius	114,066	235,797	114,066	235,797
Other group companies	158,655	69,879	158,655	69,879
Standard Chartered Insurance Agency	-	-	69,096	53,681
	5,266,269	3,972,565	5,335,365	4,026,246
Balances due to:				
Standard Chartered Bank PLC	564,699	589,385	564,699	589,385
Standard Chartered Bank New York	101,085	2,258	101,085	2,258
Standard Chartered Bank Johannesburg	28,892	6,795	28,892	6,795
Standard Chartered Hong Kong	51,240	-	51,240	-
Other group companies	20,834	26,248	20,834	25,906
Standard Chartered Botswana Education Trust	-	-	-	342
	766,750	624,686	766,750	624,686

Balances due to related companies are unsecured, carry variable interest rates, and are short term in nature. 2021 amounts have been reclassified in line with Note 34. 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 (2021: Nil).

ECL related to the amount of outstanding balances was P74m (2021: P80m)

Notes to the financial statements
for the year ended 31 December 2022 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 - 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	-	-
MESA Regional Office	-	-	-	-
SCB India	-	2	35,331	-
SCB Malaysia	-	-	2,192	-
SCB Germany	-	530	-	-
SCB China	-	-	406	-
SCB others	31	-	-	-
	77,427	22,770	174,944	65
Group and Company - 2021				
SCB UK Treasury	3,042	21,243	144,236	82
SCB Singapore DBU	-	6	21,646	-
SCB Japan	-	3	-	-
SCB Kenya	-	4	8,523	-
SCB New York	-	1,155	-	-
SCB Johannesburg	5,642	228	259	-
SCB Poland	-	-	320	-
SCB Hong Kong	-	5	5	-
MESA Regional Office	-	-	5,445	-
SCB India	-	1	27,699	-
SCB Malaysia	-	-	2,323	-
SCB Germany	-	774	-	-
SCB China	-	-	434	-
	8,684	23,419	210,890	82

194 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 2022 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 P202m (2021; P60m) 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.

	2022 P '000	2021 P '000
Audit of Standard Chartered Bank Botswana Ltd	2,272	2,077
Total audit fees	2,272	2,077

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 2022 cont.

33. Subsidiaries and other structured entities

As at 31 December 2022, 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) Ltd, Standard Chartered Bank Investment Services (Proprietary) Ltd, Standard Chartered Botswana Education Trust, Standard Chartered Botswana Nominees (Proprietary) Ltd 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) Ltd and Standard Chartered Botswana Nominees (Proprietary) Ltd are dormant companies. Standard Chartered Insurance Agency (Proprietary) Ltd operates as an insurance agent for the Group and is managed from the Group's head office. The Agency collects premiums from clients on behalf of a Broker for a commission.

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	
			2022	2021
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%

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.

	2022	2021
Investment in subsidiaries	P'000	P'000
As at 1 January	30	30
Additions	-	-
As at 31 December	30	30

The disclosure has been added to provide more useful information to the use

Notes to the financial statements for the year ended 31 December 2022 cont.

34. Reclassification of balances

During the current year Standard Chartered Bank Botswana in collaboration with Group underwent an exercise of standardisation of Financial Reporting ensuring a more informative disclosure. The benefit of the reclassification is that the financial statements give more useful information to the users and ensures comparability amongst the group entities. The results of this exercise resulted in a reclassification of balances to be shown as separate line items in line with IAS 1. The amounts reclassified are those that are significant in nature to be disclosed separately.

The impact of these reclassifications is material to the financial statements of the previous financial year and the financial position at the beginning of the preceding period. Accordingly, the Bank has corrected classification in the current financial year by restating the statement of financial position line items and including a third balance sheet as required by IAS1 - Presentation of Financial Statements. The impact on the financial statements are given below.

Loans and advances to banks and Due from related parties

Group:

Loans and advances have previously included balances Due from related parties. A reclassification has been made to disclose balances from subsidiary undertaking as a separate line item in the Bank's financial statements. Due from related parties represents balances with related banks. Loans and advances to banks previously reported P4,057,690 restated to P85,125 (01 January 2021: previously reported P2,501,471 to P536)

Due from related parties previously reported P0 restated to P3,972,565 (01 January 2021: previously reported P0 restated to P2,500,936).

Company:

Loans and advances to banks previously reported P4,057,690 restated to P85,125 (01 January 2021: previously reported P2,501,471 to P536)

Due from related parties previously reported P0 restated to P3,972,565 (01 January 2021: previously reported P0 restated to P2,500,936).

Other Assets, Prepayments and accrued income and Derivative financial instruments

Group:

Other assets have previously included Prepayments and accrued income and Derivative financial instruments. A reclassification was made to disclose Prepayments and accrued income and Derivative financial instruments as separate line items. Other assets have previously reported P216,852 restated to P67,188 (01 January 2021: Previously reported P168,809 restated to P27,090)

Prepayments and accrued income had previously reported P0 restated to P148,623 (01 January 2021: Previously reported P0 restated to P132,801)

Derivative financial instruments previously reported P0 restated to P1,041 (01 January 2021: Previously reported P0 restated to P8,917).

Company:

Other assets have previously reported P218,212 restated to P68,548 (01 January 2021: Previously reported P168,778 restated to P27,060)

Prepayments and accrued income had previously reported P0 restated to P148,623 (01 January 2021: Previously reported P0 restated to P132,801)

Derivative financial instruments previously reported P0 restated to P1,041 (01 January 2021: Previously reported P0 restated to P8,917).

Notes to the financial statements for the year ended 31 December 2022 cont.

34. Reclassification of balances (cont.)

Deposits from other banks and Due to related parties

Group:

Deposits from other banks have previously included balances Due to parent company, subsidiary undertakings & other related parties. A reclassification was done to disclose Due to parent companies, subsidiary undertaking & other related parties as a separate line item. Deposits from other banks previously reported P653,341 restated to P417,655. (01 January 2021: Previously reported P436,471 restated to P331,945)

Due to related parties previously reported P0 restated to P235,686 (01 January 2021: Previously reported P0 restated to P104,526).

Company:

Deposits from other banks previously reported P653,341 restated to P417,655. (01 January 2021: Previously reported P436,471 restated to P331,945)

Due to related parties previously reported P0 restated to P235,686 (01 January 2021: Previously reported P0 restated to P104,526).

Subordinated liabilities and Debt securities in issue

Group:

Subordinated liabilities previously included amounts qualifying as Debt Securities in issue. A reclassification was done to disclose Debt securities in issue as a separate line item. Senior & subordinated loans previously reported P712,566 restated to P389,000 (01 January 2021: No adjustment required)

Debt securities in issue previously reported P0 restated to P323,566 (01 January 2021: No adjustment). The related cash flow on interest paid of P11,005 has been restated on the cash flow statement from interest paid to Interest paid on debt securities under financing activities.

Company:

Debt securities in issue as a separate line item. Senior & subordinated loans previously reported P712,566 restated to P389,000 (01 January 2021: No adjustment required)

Debt securities in issue previously reported P0 restated to P323,566 (01 January 2021: No adjustment). The related cash flow on interest paid of P11,005 has been restated on the cash flow statement from interest paid to Interest paid on debt securities under financing activities.

Unsettled Treasury bills, Other liabilities, Provisions and Accruals and deferred income

Group:

Unsettled Treasury bills previously reported as a separate line item. The nature of the transaction was considered in line with balances in other suspense accounts and reclassified to Other liabilities. Unsettled Treasury bills previously reported P199,246 restated to P0. Other liabilities previously included balances relating to Derivative financial instruments, Provisions and Accruals and deferred income, the two have been reclassified to reporting in separate line items.

Derivative financial instruments previously reported P0 restated to P4,611 (01 January 2021: Previously reported P0 restated to P3,739)

Notes to the financial statements for the year ended 31 December 2022 cont.

34. Reclassification of balances (cont.)

Other liabilities previously reported P304,542 restated to P402,192 (01 January 2021: Previously reported P268,503 restated to P214,580). Provisions previously reported P0 restated to P1,729 (01 January 2021: Previously reported P23,158 restated to P24,958) and Accruals and deferred income reported P0 restated to P95,257 (01 January 2021: Previously reported P0 restated to P78,262).

Company:

Unsettled Treasury bills previously reported P199,246 restated to P0. Other liabilities previously included balances relating to Derivative financial instruments, Provisions and Accruals and deferred income, the two have been reclassified to reporting in separate line items.

Other liabilities previously reported P343,361 restated to P441,009 (01 January 2021: Previously reported P296,110 restated to P242,188). Provisions previously reported P0 restated to P1,728 (01 January 2021: Previously reported P23,158 restated to P24,958) and Accruals and deferred income reported P0 restated to P95,257 (01 January 2021: Previously reported P0 restated to P78,262).

Notes to the financial statements
for the year ended 31 December 2022 cont.

34. Reclassification of balances (cont.)

2021	Group			Company		
	As previously reported	Adjustment	As restated	As previously reported	Adjustment	As restated
Assets						
Derivative financial instruments	-	1,041	1,041	-	1,041	1,041
Loans and advances to banks	4,057,690	(3,972,565)	85,125	4,057,690	(3,972,565)	85,125
Other assets	216,852	(149,664)	67,188	218,212	(149,664)	68,548
Due from related parties	-	3,972,565	3,972,565	-	3,972,565	3,972,565
Prepayments and accrued income	-	148,623	148,623	-	148,623	148,623
Total assets	4,274,542	-	4,274,542	4,275,902	-	4,275,902
Liabilities						
Deposits from other banks	653,341	(235,686)	417,655	653,341	(235,686)	417,655
Derivative financial instruments	-	4,611	4,611	-	4,611	4,611
Unsettled Treasury bills	199,246	(199,246)	-	199,246	(199,246)	-
Debt securities in issue	-	323,566	323,566	-	323,566	323,566
Other liabilities	304,542	97,650	402,192	343,361	97,648	441,009
Due to related parties	-	235,686	235,686	-	235,686	235,686
Provisions	-	1,728	1,728	-	1,729	1,729
Accruals and deferred income	-	95,257	95,257	-	95,257	95,257
Senior & subordinated loans	712,566	(323,566)	389,000	712,566	(323,566)	389,000
Total liabilities	1,869,695	-	1,869,695	1,908,514	-	1,908,514

Notes to the financial statements
for the year ended 31 December 2022 cont.

34. Reclassification of balances (cont.)

1-Jan-21	Group			Company		
	As previously reported	Adjustment	As restated	As previously reported	Adjustment	As restated
Assets						
Derivative financial instruments	-	8,917	8,917	-	8,917	8,917
Loans and advances to banks	2,501,471	(2,500,936)	535	2,501,471	(2,500,936)	536
Other assets	168,809	(141,719)	27,090	168,778	(141,719)	27,060
Due from related parties	-	2,500,936	2,500,936	-	2,500,936	2,500,936
Prepayments and accrued income	-	132,801	132,801	-	132,801	132,801
Total assets	2,670,280	-	2,670,280	2,670,249	-	2,670,250
Liabilities						
Deposits by banks	436,471	(104,526)	331,945	436,472	(104,526)	331,945
Unsettled Treasury bills	29,878	(29,878)	-	29,878	(29,878)	-
Derivative financial instruments	-	3,739	3,739	-	3,739	3,739
Other liabilities	268,503	(53,923)	214,580	296,110	(53,923)	242,188
Due to related parties	-	104,526	104,526	-	104,526	104,526
Accruals and deferred income	-	78,262	78,262	-	78,262	78,262
Provisions for liabilities and charges	23,158	1,800	24,958	23,158	1,800	24,958
Total liabilities	758,010	-	758,010	785,618	-	785,618

Notes to the financial statements for the year ended 31 December 2022 cont.

35. 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 P1.4m (2021; P1.6m) was recognised under IFRS 9 at the current reporting date.

Based upon the level of fees currently charged taking into account maturity and interest rates together with any change in the credit worthiness of counterparties since origination, the Group has determined that the fair value of contingent liabilities and un-drawn loan commitments is not material.

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group. These instruments are held in trust on behalf of customers and are therefore not treated as assets of the Bank and accordingly, have not been included in these financial statements.

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Assets held in custody	31,128,450	26,252,920	31,128,450	26,252,920

36. Prepayments and accrued income

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Prepayments	11,603	11,582	11,603	11,582
Accrued interest receivable:				
Central Banks and Central Governments	8,672	7,679	8,672	7,679
Loans secured by mortgage on residential properties	12,793	11,961	12,793	11,961
Other loans, advances and bills held	133,340	117,401	133,340	117,401
Total Accrued interest receivable	154,805	137,041	154,805	137,041
Total	166,408	148,623	166,408	148,623

Prior year balances have been restated to give more information to users. Refer to Note 34 for detailed information

Notes to the financial statements for the year ended 31 December 2022 cont.

37. Accruals and deferred income

	Group		Company	
	2022 P '000	2021 P '000	2022 P '000	2021 P '000
Accrued interest payable	86,598	32,749	86,598	32,749
Holiday Pay accrual	7,630	10,861	7,630	10,861
Sundry accruals and deferred income	35,138	51,647	35,138	51,647
Total	129,366	95,257	129,366	95,257

Prior year balances have been restated to give more information to users. Refer to Note 34 for detailed information

Annual General Meeting Notice For the year ended at 31st December 2022

Notice is hereby given that the 48th Annual General Meeting of the members of Standard Chartered Bank Botswana Limited will be held on Wednesday 29th June 2023 at 1500 hours at Grand Aria Hotel and Conference Centre, Gaborone for the following purposes:

- To consider and adopt minutes of the meeting held on the 28th June 2022
- To receive, consider and adopt the Chairperson's report
- To receive, consider and adopt the Chief Executive Officer's report
- To receive, consider and approve the Annual Financial Statements for the year ended 31st December 2022, together with the Auditor's reports therein.
- To confirm and ratify the declaration of a final dividend of 68.22 thebe per ordinary share paid to the shareholders on the 17th May 2023.
- To re- elect as a Director Mpho Masupe who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers himself for re-election. Director 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.
- To re- elect as a Director Jerry Kweku Boi Bedu Addo who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers himself for re-election. Mr Bedu Addo's career has spanned public policy, international development, banking and finance. He has worked in the Ministry of Finance in the 1990s during Ghana's Structural Adjustments reforms and joined Standard Chartered in 2000. He held senior Corporates & 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 part Chairman of the Ghana Stock Exchange and is currently the chairman of the International Banks Association in South Africa and a board member of Bankers Association, South Africa.
- To confirm and ratify the appointment of Solomon Molebatsi Sekwakwa as an Independent Non-Executive Director effective 28th April 2022 and in accordance with Section 90 of the Companies' constitution. Mr Sekwakwa is an economist by qualification with vast experience and expertise in Finance, strategy development and planning. He served as a board member for various organisations such as Botswana Development Corporation, Debswana Diamond Mining Company and the 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 University of Botswana.
- To confirm and ratify the Directors remuneration report and the remuneration paid to the directors for the year ending 31st December 2022 and to authorise the Board to fix the Directors remuneration for the ensuing year.
- To confirm and ratify the remuneration of the auditors, Ernst & Young Botswana for the year ended 31st December 2022.
- 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.
- To receive and consider questions and or comments from the shareholders.

Notes:

Any member entitled to attend and vote, is entitled to appoint a proxy to attend and speak and, on a poll, vote in his/her stand. The person so appointed needs not be a member. The instrument appointing such a proxy should be forwarded to reach the Secretary, at Standard Chartered Bank Botswana Limited, Head Office, 5th Floor, Standard House, The Mall, P O Box 496, Gaborone, alternatively via e-mail at Luzibo.Benza@sc.com not less than 48 hours before the meeting.

A copy of the Annual Report is available for download at www.sc.com/bw.

By order of the Board



Luzibo Benza
Company Secretary (Ag)

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 29th June 2023 and at any adjournment of the meeting thereof as follows;

	Resolution	For	Against	Abstain
1.	To receive, consider and adopt the Chairperson's report.			
2.	To receive, consider and adopt the Chief Executive Officer's report.			
3.	To receive, consider and approve the Annual Financial Statements for the year ended 31 st December 2022, together with the Auditor's reports therein.			
4.	To confirm and ratify the declaration of a final dividend of 68.22 thebe per ordinary share paid to the shareholders on the 17 th May 2023.			
5.	To re- elect as a Director Mpho Masupe who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers himself for re-election			
6.	To re- elect as a Director Jerry Kweku Boi Bedu Addo who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers himself for re-election.			
7.	To confirm and ratify the appointment of Solomon Molebatsi Sekwakwa as an Independent Non-Executive Director effective 28 th April 2022			
8.	To confirm and ratify the Directors remuneration report and the remuneration paid to the directors for the year ending 31 st December 2022 and to authorise the Board to fix the Directors remuneration for the ensuing year.			
9.	To confirm and ratify the remuneration of the auditors, Ernst & Young Botswana for the year ended 31 st December 2022.			
10.	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 _____ 2023

Notes _____

- Any alteration of this form must be initialled by the signatory

This form of proxy should be completed and returned so as to reach the Secretary of the Company on the 5th floor, Standard House, The Mall, P O Box 496, Gaborone, alternatively via e-mail at Luzibo.Benza@sc.com no later than Monday 26th June 2023.

