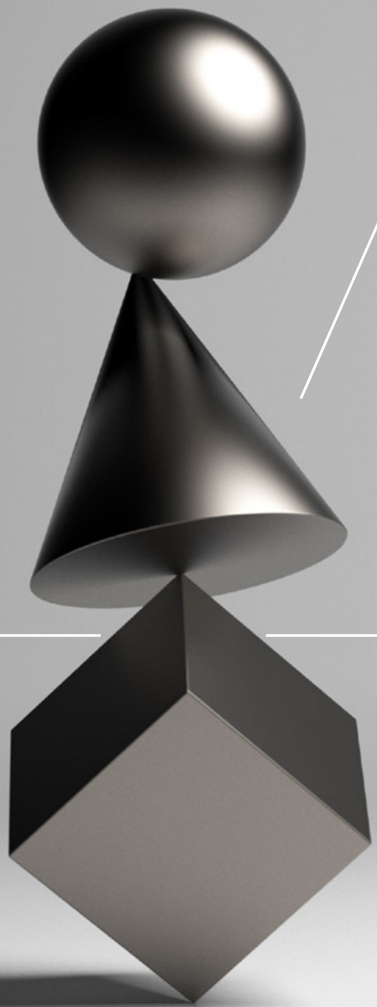
Risk and Capital Management Report

PILLAR 3 DISCLOSURE

Stanbic Bank Botswana Limited



31 December 2021

TABLE OF **CONTENTS**

1 Background and Scope

1.1 Background

Bank of Botswana (BoB) Basel II guidelines introduced three reinforcing pillars namely, the minimum capital requirement (Pillar 1), Supervisory Review Process (SRP) (Pillar 2) and the Market Discipline (Pillar 3). The Pillar 3, Market Discipline guidelines and requirements are summarised in the section 12 of the directive.

Sections 12.1 and 12.2 of the BoB Basel II guidelines are as below:

> The primary purpose of Pillar 3 is to supplement the minimum capital requirements (Pillar 1) and SRP (Pillar 2) by introducing a set of disclosure requirements, which will allow market participants to influence the level of capital, risk assessment processes, capital adequacy and remuneration practices of a bank.
>
> Improved transparency, underpinned by high quality and timely market disclosures will enhance market discipline, efficiency and confidence. The key objective is, therefore, to provide a market driven incentive for a bank to conduct business in a safe and sound manner. A bank is therefore, responsible, beyond the disclosure requirements set out in this directive, for conveying adequate information regarding its actual risk profile and how risks relate to capital.

1.2 Scope of application

This document covers disclosure requirements for the capital structure and capital adequacy, risk management processes and remuneration practices adopted by Stanbic Bank Botswana Limited (SBBL); “the Bank”.

The capital section elaborates the capital composition of the Bank in relation to the Risk Weighted Assets (RWA), the composition of the RWA between Credit, Operational and Market risks. Further the section will cover a summary discussion of the Bank’s approach to assessing the adequacy of its capital to support the current and future activities.

The risk management section, outlines the strategies and processes adopted by the Bank in identifying and managing key risks. Furthermore, the composition and structure of the risk management is highlighted.

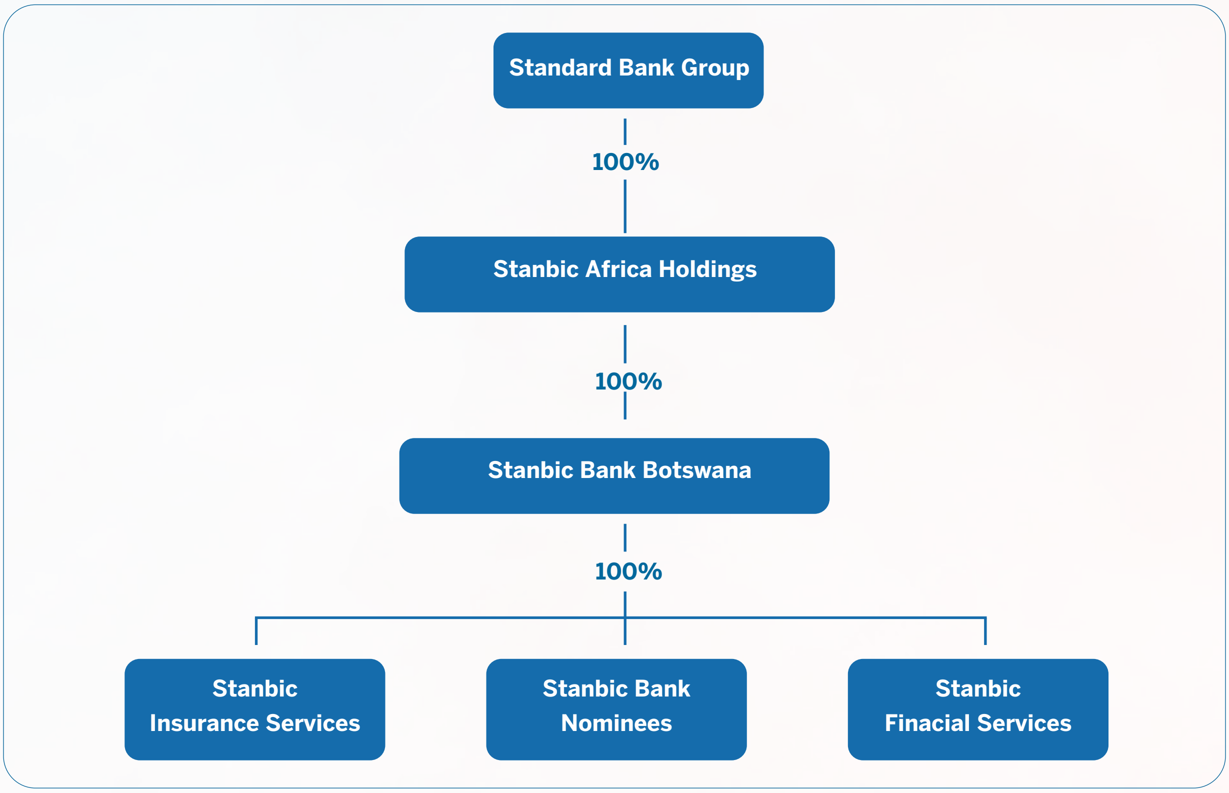
The last section of this document provides information on the qualitative and quantitative remuneration practices adopted by the Bank.

2 Corporate structure

SBBL is a public company incorporated under the Companies Act of Botswana under company registration number BW000732198. The Bank is one of Botswana's leading commercial banks and is licensed by the BoB accordingly. SBBL is a wholly owned subsidiary of Stanbic Africa Holdings Limited (SAHL) which in turn is a wholly owned subsidiary of the Standard Bank Group Limited (SBG), a public company listed on the Johannesburg Stock Exchange (JSE). SBG traces its roots back to 1862 and is Africa's largest financial institution by assets and also has the biggest single network of banking services in Africa.

The subsidiaries of SBBL are Stanbic Insurance Services (Proprietary) Limited (SIS), Stanbic Nominees (Proprietary) Limited (Stanbic Nominees) and Stanbic Financial Services (Proprietary) Limited (SFS).

Figure 1: **Corporate structure**



3 Regulatory Capital Requirements

3.1 Capital Structure

The Internal Capital Adequacy Assessment Process (ICAAP) ensures that the Bank maintains sufficient capital levels for the purposes of regulatory compliance and adherence to the Board's risk appetite. For a bank to be considered well capitalised, it is expected to maintain the minimum capital ratio of 4.5% for Common Equity Tier 1 (CET 1), 7.5% for Tier 1 and total Capital Adequacy Ratio (CAR) of 12.5%. The SBBL Board of directors have approved an internal buffer over the regulatory requirements (CET 1, Tier 1, CAR and core capital).

Tier 1 (primary capital) represents permanent forms of capital such as common shares, share premium and retained earnings, and other accumulated comprehensive income.

Tier II (secondary capital) includes instruments issued by the Bank, general debt provisions and current unpublished profits.

The Bank's capital structure and position as at 31 December 2021, is as shown below:

Table 1: Basel III Common Equity Tier 1 Disclosure Template

	Common Equity Tier I: Instruments and reserves	**P 000**
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	390,177
2	Retained earnings	1,112,526
3	Accumulated other comprehensive income (and other reserves)	-
4	Directly issued capital subject to phase out from CET1 CAPITAL (only applicable to non-joint stock companies)	-
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1 CAPITAL)	-
6	**Common Equity Tier I capital before regulatory adjustments**	**1,502,703**
	Common Equity Tier 1: regulatory adjustments	
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	-

3 Regulatory Capital Requirements

3.1 Capital Structure (continued)

9	Other intangibles other than mortgage-servicing rights (Net of related tax liability)	-
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-
11	Cash-flow hedge reserve	-
12	Shortfall of provisions to expected losses	-
13	Securitisation gain on sale (as set out in paragraph 562 of Basel II framework)	-
14	Gains and losses due to changes in own credit risk on fair valued liabilities	-
15	Defined-benefit pension fund net assets	-
16	Investments in own shares (if not already netted off paid-in capital on reported balance sheet)	-
17	Reciprocal cross-holdings in common equity	-
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above 10% threshold)	-
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions (amount above 10% threshold)	-
20	Mortgage servicing rights (amount above 10% threshold)	-
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability)	-
22	Amount exceeding the 15% threshold	-
23	of which: significant investments in the common stock of financials	-
24	of which: mortgage servicing rights	-
25	of which: deferred tax assets arising from temporary differences	-
26	National specific regulatory adjustments	-
27	Regulatory adjustments applied to Common Equity Tier I due to insufficient Additional Tier I and Tier II to cover deductions	-
28	**Total regulatory adjustments to Common equity Tier I**	**27,000**
29	**Common Equity Tier I capital (CET1 CAPITAL)**	**1,475,703**
	Additional Tier 1 capital (CET 1 CAPITAL)	
30	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	-
31	of which: classified as equity under applicable accounting standards	-
32	of which : classified as liabilities under applicable accounting standards	-
33	Directly issued capital subject to phase out from additional Tier 1	-
34	Additional Tier 1 instruments (and CET 1 CAPITAL instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group ATI)	-
35	of which: instruments issued by subsidiaries subject phase out	-
	Additional Tier 1 capital (CET 1 CAPITAL)	
30	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	-

3 Regulatory Capital Requirements

3.1 Capital Structure (continued)

	Additional Tier 1 capital (CET 1 CAPITAL)	
31	of which: classified as equity under applicable accounting standards	-
32	of which : classified as liabilities under applicable accounting standards	-
33	Directly issued capital subject to phase out from additional Tier 1	-
34	Additional Tier 1 instruments (and CET 1 CAPITAL instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group ATI)	-
35	of which: instruments issued by subsidiaries subject phase out	-
36	Additional Tier 1 capital before regulatory adjustments	-
	Additional Tier 1 capital: regulatory adjustments	-
37	Investments in own Additional Tier I instruments	-
38	Reciprocal cross-holding in Additional Tier I instruments	-
39	Investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above 10%)	-
40	significant investment in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	-
41	National specific regulatory adjustment	-
42	Regulatory adjustment applied to Additional Tier I due it insufficient Tier II to cover deductions	-
	Transitional Adjustment Amount Added Back to CET1	-
43	**Total regulatory adjustments to Additional Tier 1**	-
44	**Additional Tier 1 Capital (ATI)**	-
45	**Tier 1 (T1=CET 1 CAPITAL + AT1)**	**1,475,703**
	Tier II capital : instruments and provisions	
46	Directly issued qualifying Tier II instruments plus related stock surplus	500,000
47	directly issued capital instruments subject to phase out from Tier II	-
48	Tier II instruments (and CET 1 CAPITAL and AT 1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier II)	-
49	of which: instruments issued by subsidiaries subject to phase out	-
50	Provisions	
51	**Tier II capital before regulatory adjustments**	**500,000**
	Tier II capital: regulatory adjustments	
52	Investments in own Tier II instruments	-
53	Reciprocal cross-holdings in Tier II instruments	-
54	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, net of eligible short positions, where the bank does not own more than 10% of the issued common share capital of the entity (amount above the 10% threshold).	-
55	Significant investments in the capital banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions).	-
56	National specific regulatory adjustments	-

3 Regulatory Capital Requirements

3.1 Capital Structure (continued)

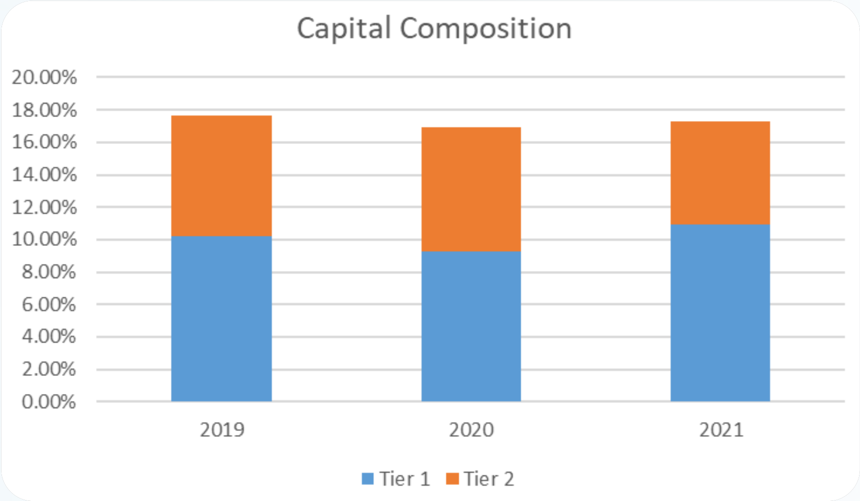
57	**Total regulatory adjustments to Tier II capital**	-
58	**Tier II capital (T2)**	860,570
59	**Total capital (TC = T1 + T2)**	2,336,273
60	**Total risk-weighted assets**	13,489,440
	Capital ratios and buffers	
61	Common Equity Tier I (as a percentage of risk weighted assets)	10.94%
62	Tier I (as a percentage of risk weighted assets)	10.94%
63	Total capital (as a percentage of risk weighted assets)	17.32%
64	Institution specific buffer requirement (minimum CET 1 CAPITAL requirement plus capital conservation buffer plus countercyclical buffer requirements plus G-SIB buffer requirement, expressed as a percentage of risk weighted assists)	N/A
65	of which: capital conservation buffer requirement	N/A
66	of which: bank specific countercyclical buffer requirement	N/A
67	of which: G-SIB buffer requirement	N/A
	Common Equity Tier 1 available to meet buffers (as a percentage of risk weighted assets)	
69	National Common Equity Tier I minimum ratio (if different from Basel III minimum)	4.50%
70	National Tier I minimum ratio (if different from Basel III minimum)	7.50%
71	National total capital minimum ratio (if different from Basel III minimum)	12,50%
	Amounts below the threshold for deduction (before risk-weighting)	
72	Non -significant investments in the capital of other financials	N/A
73	significant investments in the common stock financials	N/A
74	Mortgage servicing rights (net of related tax liability)	N/A
75	Deferred tax assets arising from temporary differences (net of related tax liability)	N/A
	Applicable caps on the inclusion of previsions in Tier II	
76	Provisions eligible for inclusion in Tier II in respect of exposures subject to standardised approach (prior to application of cap)	N/A
77	Cap on inclusion of provisions in Tier II under standardised approach	N/A
78	Provisions eligible for inclusion in Tier II in respect of exposures subject to internal ratings-based approach (prior to application of cap)	N/A
79	Cap for inclusion of provisions in Tier II under internal ratings-based approach	N/A
	Capital Instruments subject to phase -out arrangements (only applicable between 1 Jan 2015 and 1 Jan 2020)	
80	Current cap on CET 1 CAPITAL instruments subject to phase out arrangements	N/A
81	Amount excluded from CET 1 CAPITAL due to cap (excess over cap after redemption and maturities)	N/A
82	Current cap on AT1 instruments subject to phase out arrangements	N/A
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	N/A
84	current cap on T2 instruments subject to phase out arrangements	-
85	Amount excluded from T2 due to cap (excess over cap after redemption and maturities)	-

3 Regulatory Capital Requirements... Cont

3.2 Capital Adequacy

Through the robust capital management and monitoring the Bank has remained well capitalised, maintaining the CAR well above the minimum regulatory requirement. The management of capital through the Treasury and Capital Management (TCM) unit forecasts the position regularly so that business is not surprised by the positions at month end. The capital planning, which forms part of the Bank's funding plan, looks at the budgeted balance sheet growth and determines feasibility looking at the capital position.

Table 3 : **Summary of Capital Ratios**



3.3 Risk Weighted Assets

The risk weighted assets represent an aggregated measure of different risk factors affecting the evaluation of financial products and transactions in the Bank. The aggregation considers credit, operational and market risks.

According to the Basel II directive, the RWA comprise of Credit, Operational and Market risks.

The RWA breakdown is as shown below:

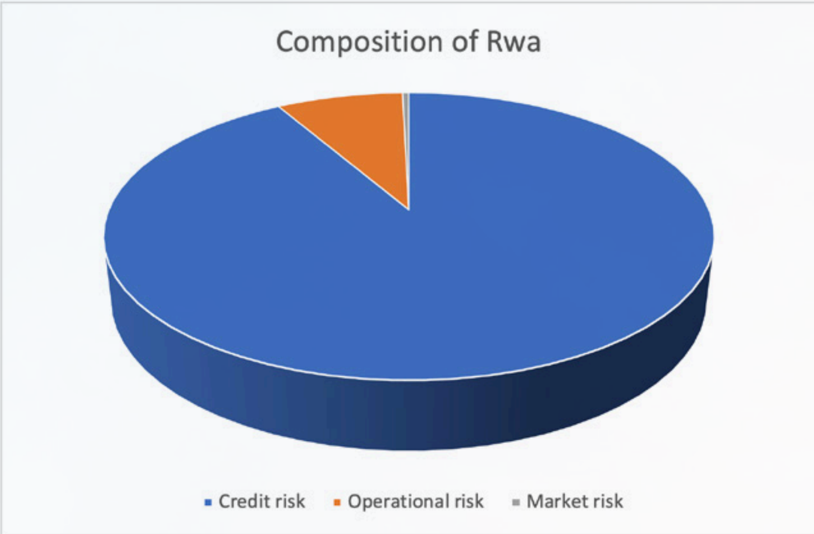
Table 4: **Composition of RWA as at December 2021**

Risk class	Methodology	P' 000
Credit risk	Simple Approach	12,355,655
Operational risk	Basic indicator	1,078,836
Market risk	Standardised Measurement Method	54,950
Total		**13,489,440**

3 Regulatory Capital Requirements

3.3 Risk Weighted Assets

Figure 2: **Composition of RWA**



3.3.1 Credit RWA

According to the Basel II directive, the risk weights for credit risk is determined by multiplying the credit exposures by the appropriate risk weights, dependent on the counterparty's risk rating as applicable.

Table 5: **Summary of Credit RWA as at 31 December 2021**

Credit risk in P' 000	Exposure amounts	Specific provisions	Credit Risk mitigation	RWA P' 000
Sovereign or Central bank	2,364,893	-	-	-
Public Sector entities	642,790	-	-	128,558
Exposure to banks	4,694,555	-	-	1,603,527
Corporates	2,395,723	-	-	2,395,723
Retail loans and Mortgates	10,500,530	305,673	10,021	7,237,346
Other assets	866,808	-	-	338,825
Off balance sheet exposures	2,401,284	-	747,938	651,676
Total Credit Risk RWA	**23,866,583**	**305,673**	**757,958**	**12,355,655**

3 Regulatory Capital Requirements

3.3.2 Operational and Market Risks RWA

Table 6: Summary of Operational and Market Risks RWA as at 31 December 2021

Total Capital Charge	Risk - weighted Factor		Total RWA P 000s
Market Risk	8,201	6.7	54,950
Operational Risk	161,020	6.7	1,078,836

3.4 Expanded Regulatory Balance Sheet

For the basis of consolidation for accounting purposes, the Bank's balance sheet and the regulatory reports need to be reconciled to identity any differences that might arise. The differences that exist between the two reconciliations are due to reclassifications of items under the regulatory reporting. Some of the adjusted items between the two reconciliations are on the trading assets, staff fair value, financial assets designated at fair value and intangible assets.

3 Regulatory Capital Requirements

3.4.1 Balance sheets reconciliations

Table 7: Accounting vs regulatory balance sheets as 31 December 2021

	Balance Sheet as in Published Financial Statements	Under Regulatory Scope of Consolidation
Risk class	As at Period End 31 December 2021	As at Period End 31 December 2021
Assets		
	P 000s	**P 000s**
Cash balances at central banks	431,487	431,487
Items in the course of collection from Banks	-	-
Trading portfolio assets	421	-
Financial assets designated at fair value	2,329,503	2,329,925
Derivatives initial instruments	12,589	12,589
Loans and advances to banks	4,728,949	4,694,555
Loans and advances to customers	13,056,221	13,354,043
Reverse repurchase agreement and other secure Lending	219,967	219,969
Available for sale financial investments	-	-
Current and deferred tax asset	64,947	676,384
Prepayments, accrued income and other assets	73,764	81,658
Investments in associations and Joint venture	-	-
Goodwill and intangible assets	147,715	120,716
Property ,Plant and equipment's	152,719	152,719
Total Assets	**21,218,282**	**21,465,299**
Liabilities		
Deposit from banks	1,126,827	1,126,827
Items in the course of collections due to other banks	-	-
Customer accounts	17,037,301	17,027,462
Repurchase agreement and other secure Lending	-	-
Trading portfolio liabilities	-	-
Financial liabilities designated at fair value	-	-
Derivatives financial instruments	12,629	12,629
Debt securities in issue	958,720	968,559
Accrual ,deferred tax liabilities	-	4,614
Subordinated liabilities	-	-
Provisions	373,723	643,367
Retirement benefit liabilities	-	-
Total Liabilities	**19,509,200**	**19,783,458**
Shareholders 'Equity		
Paid -in share capital	390,177	390,176
Retained earnings	1,112,766	1,085,526
Accumulated other comprehensive income	206,139	206,139
Total Shareholders equity	**1,709,082**	**1,681,841**

3 Regulatory Capital Requirements

3.4.2 Expanded Regulatory Balance Sheet

Table 8: **Expanded Balance Sheet as at 31 December 2021**

	Balance Sheet as in Published Financial Statements	Under Regulatory Scope of Consolidation	Reference
Risk class	As at Period End 31 December 2021	As at Period End 31 December 2021	
Assets	**P 000**	**P 000**	
Cash balances at central banks	431,487	431,487	
Items in the course of collection from banks			
Trading portfolio assets	421	-	
Financial assets designated at fair value	2,329,503	2,329,925	
Derivatives financial instruments	12,589	12,589	
Loans and advances to banks	4,728,949	4,694,555	
Loans and advances to customers	13,056,384	13,354,043	
Reverse repurchase agreement and other secure Lending	219,967	219,969	
Available for sale financial investments			
Current and differed tax asset	64,683	67,638	
Prepayments, accrued income and other assets	73,865	81,658	
Investments in associations and Joint venture	-		
Goodwill and intangibles assets			
of which good will	147,715	120,716	a
of which other intangibles (Excluding MSRs)			b
Property ,Plant and equipment	152,719	152,719	c
Total Assets	**21,218,282**	**21,465,299**	
Liabilities			
Deposit from banks	1,126,827	1,126,827	
Items in the course of collections due to other banks			
customer accounts	17,037,301	17,027,462	
Repurchase agreement and other secure Lending			
Trading portfolio liabilities			
Financial liabilities designated at fair value		0	
Derivatives financial instruments	12,629	12,629	
Debt securities in issue			
current and deferred tax liabilities	-	4,614	
of which DTls related to goodwill	-	-	d
of which DTls related intangibles (excluding MSRs)			e
of Which DTLs related to MSRs		-	f
Subordinated liabilities	958,720	968,559	
Provisions	373,723	643,367	
Retirement benefit liabilities			
Total Liabilities	**19,509,200**	**19,783,458**	

3 Regulatory Capital Requirements

3.4.2 Expanded Regulatory Balance Sheet (Continued)

Shareholders 'Equity			
Paid -in share capital	390,177	390,177	
of which amount eligible for CET1 CAPITAL			h
of which amount eligible for AT1		-	I
Retained earnings	1,112,766	1,085,526	
Accumulated other comprehensive income	206,139	206,139	
Total Shareholders equity	**1,709,082**	**1,681,842**	

Table 9: **Extract of Basel III Common disclosure template (with added column)**

	Common Equity Tier I: Instruments and reserves		
		Component of Regulatory capital reported by bank	**Source based on reference number/ letters of the balance sheet under the regulatory scope of consolidation from step 2**
1	Directly issued qualifying common share (and equivalent for non-stock companies capital plus related stock surplus.	390,177	**h**
2	Retained earnings	1,152,395	
3	Accumulated other comprehensive income (and other reserves)	139,270	
4	Directly issued Capital subject to phase out from CET1 CAPITAL (only applicable to non -joint stock companies)		
5	Common Share capital issued by subsidiaries and held by third parties (amount) allowed in the group CET1 CAPITAL)		
6	**Common equity Tier I capital before**	**1,681,842**	
7	Prudential valuation adjustments	27,000	
8	Goodwill (net of related tax liability)	-	**a-d**

The bank currently has BWP 500 million in subordinated debt, issued locally and listed on the Botswana Stock Exchange (BSE).

3 Regulatory Capital Requirements

Table 10: Main features template

	Issuer	Stanbic Bank Botswana Limited
1	Unique identifier (e.g. CUSIP,ISIN or Bloomberg identifier for private placement)	ZQ 662 1812 ZQ 662 1895 AO 073 3169 AO 0717758
2	Governing law(s) of the instrument	Botswana law
3	Regulatory treatment	Basel II
4	Transitional Basel III rules	Tier II
5	Post-transitional Basel III rules	Tier II
6	Eligible at solo/group/group and solo	Solo
7	Instrument type (types to be specified by each jurisdiction)	Subordinated Debt
8	Amount recognised in regulatory capital (Currency in mil as of most recent reporting date)	P212m P140m P60m P88m
9	Par value of instrument	P212m P140m P60m P88m
10	Accounting classification	Borrowings (Amortised cost)
11	Original date of issuance	15-06-2017 28-11-2019
12	Perpetual or dated	Dated
13	Original maturity	15-06-2027 28-11-2029
14	Issuer caller subject to prior supervisory approval	
15	Optional call date ,contingent call dates and redemption amount	After a minimum of 5yrs
16	Subsequent call dates if applicable	None
	coupons/dividends	
17	Fixed or floating	Floating and Fixed
18	Coupon rate and related index	Bank and prime rate
19	Existence of a dividend stopper	None
20	Fully discretionary, partially discretionary or mandatory	Fully discretionary
21	Existence of step up or other incentive to redeem	None
22	Non cumulative or cumulative	Non cumulative
23	Convertible or non-convertible	No
24	If convertible ,conversion trigger(s)	Not applicable
25	If convertible ,conversion rate	Not applicable
26	If convertible ,fully or Partially	Not applicable
27	If convertible ,mandatory or optional conversion	Not applicable
28	If convertible ,specify instrument type convertible into	Not applicable
29	If convertible ,specify issuer of instrument it converts into	Not applicable
30	If write down feature	Not applicable
31	If write down, write-down trigger(s)	Not applicable
32	If write down, full or partial	Not applicable
33	If write down, permanent or temporary	Not applicable
34	If write down, description of write-up mechanism	Not applicable
35	Positioning subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Not applicable
36	Non-compliant transitioned features	Not applicable
37	If yes, specify non-compliant features	Not applicable

4 Risk Management Processes

Effective risk management is fundamental to the business activities of SBBL. While the Bank remains committed to increasing shareholder value by developing and growing the business within the approved risk appetite, it is mindful of achieving this objective in line with the interests of all stakeholders.

Further, the effective risk management should provide complete, timely, accurate and relevant information to enhance senior management decision to:

- calculate risk adjusted performance measures;
- manage volatility in earnings;
- minimise financial distress; and
- help appraise new business initiatives on a comparable basis.

Governance standards have been established as key components of good governance and business practice in the Bank. The standards form an integral part of the control infrastructure and represents a high-level description of the expectations and requirements of the Board in respect to risk appetite, risk reporting and key areas of control activity within the Bank.

Identification of material risks is a process overseen by the Head Risk and Chief Financial Officer with involvement from the business units and corporate functions.

Based on the above mentioned criteria, the following primary risk types are considered by the Bank to be material: -

Credit risk (including counterparty credit risk)

Credit risk regulatory capital is determined by The Standardised Approach (TSA) as per the BoB regulations.

For both regulatory and internal credit risk capital measurement, the calculation of the capital requirement is affected by the level of specific provisions for credit losses (relating to non-performing loans) that the Bank has taken. Specific provisions are taken in accordance with regulations and consider expected recoveries and the timing of such recoveries.

Market risk

Market risk regulatory capital is determined by Standardised Measurement Approach (SMM) as per the BoB regulations. Additionally, market risk is measured and stress-tested within the Bank using a few established risk measurement techniques such as Value at Risk (VaR).

4 Risk Management Processes

Interest Rate Risk in the Banking Book (IRRBB)

The Bank manages its exposure to changes in interest rates on its banking book assets and liabilities (loans and deposits) by ensuring that an interest rate shock for both the local and foreign currency books – as prescribed by the Asset and Liability Committee (ALCO) – does not result in adverse annualised net interest income change.

Liquidity risk

An extensive set of liquidity risk metrics are in place. Due to the robustness of the measurement and monitoring approaches, the level of unencumbered liquid assets, and the necessary requirement for timeous management action, the Bank does not hold capital for liquidity risk.

Operational risk

The Bank uses the Basic Indicator Approach (BIA) to calculate operational risk regulatory capital as per the BoB regulations. For internal measurement purposes, since operational risk regulatory capital is less risk sensitive, regulatory capital is further adjusted considering historical loss experience, the level of management oversight, the status of implementation/use of the operational risk management framework and operational risk events.

Legal risk

The Bank has an in-house Legal function whose main role is to provide legal advisory services to all business/corporate functions within the Bank on all transactions/activities that are carried out in the Bank and implementing and maintaining a comprehensive legal risk management system. Furthermore, the in-house Legal function ensures that all legal risks pertaining to new products and services developed and/or implemented by the various units within the Bank are identified and adequately mitigated and/or managed. Supported by historical data on legal exposures and litigation outcomes, the Bank considers its legal risk management framework to be adequate; therefore, the existing capital buffers are enough to accommodate the risk.

Compliance risk

The Bank has adopted the Compliance Risk Management Framework based on compliance risk management plans in which all statutory and regulatory requirements that impact on the Bank's business; the control mechanisms that exists to ensure that the Bank complies with the requirements. The responsible department and personnel responsible for ensuring that the Bank complies with each specific statutory or regulatory requirement and the compliance targets and deadlines are identified and documented. Although the Board has the ultimate responsibility for the management of compliance risks, this approach ensures that officers at each and every level of the Bank are aware of their responsibilities in managing compliance risks and take responsibility and accountability of all compliance risks that fall within their functional areas. The Bank has adopted zero tolerance for statutory and regulatory breaches and proactively manages compliance, therefore no capital is held for compliance risk.

Business risk

The Bank's management have a clear understanding of the value drivers that impact on profitability. The Bank does not specifically provide capital for business risk because it is contained within the capital buffer determined by the Bank's comprehensive stress testing. It is also minimal as loss history is negligible.

The risk management processes have continued to prove effective throughout 2021. The various risk management committees have remained closely involved in key risk management initiatives, which have focused particularly on preserving appropriate levels of liquidity and capital, and effectively managing the risk portfolios. Responsibility and accountability for risk management resides at all levels within the Bank.

4 Risk Management Processes

4.1 Credit Risk

Credit risk is the Bank's most material risk and is managed in accordance with the Bank's comprehensive risk management control framework. The Credit Standard sets out the principles under which the Bank is prepared to assume credit risk. Responsibility for credit risk resides with the Bank's business units, supported by the Bank's Credit Risk function and with oversight, as with other risks, by the Bank's risk committees and ultimately the Board.

The principal executive management committee responsible for overseeing credit risk is the Credit Risk Management Committee (CRMC). The credit committees for the segments Consumer and High Net Worth (CHNW), Business and Commercial Clients (B&CC) and Corporate and Investment Banking (CIB) report directly to CRMC and indirectly to the Board Credit Committee (BCC).

CRMC is responsible for making decisions on credit risk. The CRMC recommends the approval of all counterparty large exposures and insider lending transactions to the extent required by BoB regulations. All such approval requests are made to the Bank's Board of directors.

The BCC is the principal board committee responsible for the oversight of credit risk, with CRMC having oversight responsibility for reviewing credit impairment adequacy.

Impairment policy

The Bank writes off a loan/security balance when the credit risk unit determines that the loans/securities are uncollectable. This is determined after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower 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, charge-off decisions generally are based on product specific past due status.

Impaired loans and securities

Impaired loans and advances are loans and advances for which the Bank has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more.

Past due but not impaired loans

Loans and advances where the counterparty have failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is unlikely but could occur if the adverse conditions persist.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category for six months.

Allowances for impairment

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loan loss allowance established for banks of homogenous assets in respect to losses that

4 Risk Management Processes

have been incurred but have not been identified on loans subject to individual assessment for impairment.

Provision for Non - Performing Loans – Specific Debt Provision (SDP)

The model used for calculating the credit impairments for Non-Performing Loans is based on time value of money principles. The impairments raised are in accordance with the requirements of IFRS 9. The model used for SDP is based on IFRS Principles which define an impairment loss in respect of a loan as:

- the difference between the carrying amount of a loan and the present value of the estimated future cash flows discounted at the contractual rate of interest (original effective interest rate).

• The carrying value of the loan is the outstanding exposure on the date of the assessment/default.
• The future cash flows must be estimated, and take the collateral, if any, into account.
• The contractual rate of interest should exclude any penalty rates but, including the base rate plus the client specific margin on the facility.

- Total IFRS provision comprises the specific loss and Time Value of Money Loss

Provision for Performing Loans – General Debt Provision (GDP)

General debt provision is based on International Financial Reporting Standards 9 Financial instruments (IFRS 9). The IFRS 9 establishes principles for the financial reporting of financial instruments and sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9's expected credit loss (ECL) requirements contain the following key requirements:

• An ECL allowance is required to be recognised on financial assets that are measured either on an amortised cost basis or fair value through other comprehensive income (OCI) basis, as well as lease receivables, loan commitments and financial guarantee contracts.

• IFRS 9 requires impairments to be recognised on an expected loss basis.

• In addition, financial assets must be assessed for significant increase in credit risk (SIICR) compared to when the loans were first originated, prior to the loan reaching 30 days past due arrear status.

• IFRS 9 requires forward looking information to be considered when calculating ECL.

• For off-balance sheet loan commitments and financial guarantees, ECL must now be recognised whereas previously no impairments were held for these instruments.

4 Risk Management Processes

4.1 Credit Risk (continued)

Table 11: Total Credit Exposures at fair value as at 31 December 2021

	Gross Carrying Amount	Stage 1 (0-29 Days)	Stage 2 (30-59 Days)	Stage 3 (NPL)	Security	Provisions for NPL	Provisions for PL	Net Carrying Amount	Gross Specific Impairment Coverage	Non Performing Loans %
Personal & Business Banking										
Mortgage loans	2,213,512	2,005,730	34,445	173,337	90,125	55,601	46,225	2,111,685	32%	8%
Vehicle and asset finance	970,139	907,597	14,502	48,040	15,903	30,839	55,058	884,241	64%	5%
Card debt-ors	45,411	39,828	2,790	2,793	2,128	1,618	6,747	37,046	58%	6%
Other loans and advances	**3,229,062**	**2,953,155**	**51,737**	**224,170**	**108,156**	**88,058**	**108,031**	**3,032,973**	**39%**	**7%**
Personal unsecured lending	6,598,119.00	6,478,879	19,808	99,432	36,288	87,544	127,788	6,382,787	88%	2%
Business and other lending	951,582	766,503	12,230	172,849	26,816	125,432	13,012	813,138	73%	18%
Gross carrying value of loans and advances	**10,778,763**	**10,198,537**	**83,775**	**496,451**	**171,260**	**301,034**	**248,830**	**10,228,898**	**61%**	**5%**
Corporate and Investment Banking	4,222,544	4,222,544	-	-	-	-	21,485	4,201,059	0%	0%
Gross Loans and Advances	**15,001,307**	**14,421,081**	**83,775**	**496,451**	**171,260**	**301,034**	**270,315**	**14,429,957**	**61%**	**3%**

Table 12: Geographical distribution of loans and advances to customers – 31 December 2021

	Amount in P 000s	Percentage Concentration
Central	1,212,454	8%
Ngami	494,665	3%
North	1,089,866	7%
South	12,204,321	81%
	15,001,307	**100%**

4 Risk Management Processes

Table 13: Distribution of exposures to customers by industry – 31 December 2021

Industry Sectors Exposures	Exposure amount P 000s	Concentration
Agriculture	314,551	2.1%
Construction	136,210	0.9%
Electricity	266,032	1.8%
Finance, real estate and other business services	4,904,383	32.7%
Individuals	8,765,612	58.4%
Manufacturing	12,795	0.1%
Mining	86,108	0.6%
Transport	15,360	0.1%
Wholesale	500,256	3.3%
Other services	-	0.0%
Total	**15,001,307**	**100.0%**

The table below sets out an analysis of credit risk by maturity as at 31 December 2021. Residual maturity of credit exposures is based on contractual dates.

Table 14: Residual Contractual maturity of credit exposures – 31 December 2021

Loans and Advances Maturity	Amount Outstanding P 000s
On Demand	2,350,763
>0 to 6 months	286,188
>6 months to 12 months	792,676
>1 to 2 years	627,786
>2 to 3 years	572,163
>3 to 5 years	3,596,103
>5 to 7 years	4,390,406
>7 to 10 years	1,008,418
Overs 10 years	1,376,804
Total	**15,001,307**

4 Risk Management Processes

4.1 Credit Risk (continued)

Table 15: Ageing of loans and advances past due but not specifically impaired – 31 December 2021

	Performing (Early arrears)			
	"1-29 days P 000s"	"30-59 days P 000s"	"60-89 days P 000s"	"Total P 000s"
Personal & Business Banking	**342,194**	**62,213**	**21,561**	**425,969**
Mortgage lending & CPL's	161,091	26,793	7,652	195,535
VAF (PBB)	59,746	10,111	4,391	74,248
Card debtors (PB & HNI)	2,038	1,778	1,012	4,828
Other Loans and Advances	119,320	23,531	8,507	151,358
Personal Unsecured Lending	**93,282**	**11,914**	**7,895**	**113,090**
Overdrafts (PB & HNI)	31	51	5	88
Term Loans (PB & HNI)	93,251	11,863	7,889	113,003
Business Term Loans and Overdrafts	26,038	11,617	612	106,210
Corporate & Investment Banking	**-**	**-**	**-**	**-**
Corporate loans	-	-	-	-
Commercial property finance	-	-	-	-
Total	**342,194**	**62,213**	**21,561**	**425,969**

Table 16: Reconciliation of changes for impaired loans and advances and charge-offs during the period

Reconciliation of Charges in allowance for impairments	P 000s
Opening Balance (1 January 2021)	440,610
Impairments Losses during the year	252,759
Written off accounts during the year	(122,019)
Closing Balance (31 December 2021)	571,350

Table 17: Off Balance sheet items – 31 December 2021

Off Balance Sheet	P 000s
Lending Related Guarantees	414,536
Performance Related Guarantees	758,512
Unutilised limits	805,887
Letters Of Credit	**72,891**
Total	2,051,826

4 Risk Management Processes

4.1.1 Credit Risk Mitigation

Valuation of collateral

The Bank uses the following minimum requirements to value collateral:

- All items proposed as collateral are valued using agreed valuation methodologies and/or evaluators with appropriate expertise, prior to accepting items as collateral.
- The assessors/evaluators of collateral must be independent of the business originators and providers of collateral.
- All collateral is marked to market and revalued at a frequency appropriate to that collateral, considering the value and nature of collateral, the ease and cost of valuation and the volatility of the collateral's value.
- All commercial and agricultural properties taken and recognised as collateral are appraised and valued by a bank-approved, registered valuer at the time of first application, and no later than every three years thereafter, for commercial properties, and every five years thereafter for agricultural properties, or more frequently at the discretion of the credit decision-making authority.
- Valuations of generic collateral for product classes (e.g. home loans, non-specialised VAF) are updated in accordance with product rules embodied in the Bank's Credit Policy document.

Monitoring of collateral

The Bank uses the following minimum requirements on monitoring of collateral;

- Controls are put in place to monitor the collateral and ensure appropriate action is taken whenever there are developments that may impact negatively on the value of collateral.
- Annual reviews of the performance of the collateral are carried out to ensure that collateral types are still relevant and terms for acceptance are still appropriate.
- Updates to changes in market and economic conditions are performed at pre-determined intervals.
- Updates to reflect new legislation and updated to existing legislations are performed on a regular basis.
- Collateral is realised as per the delegated authority after all efforts have been made to rehabilitate the customer.
- Collateral management unit maintains a systematically driven, shared diary to ensure that collateral credit events are timeously actioned.

Financial collateral

Where the collateral is not denominated in the same currency as the exposure, an adequate margin for currency fluctuations is set appropriate to the potential currency volatility. The maturity of any collateral is set equal to or greater than the repayment period of the underlying exposure, unless documentation and operational procedures are such that adequate rights and controls are in place to ensure the value of collateral remains in place throughout the tenure of the approved facility.

4 Risk Management Processes

4.1.1 Credit Risk Mitigation (continued)

Physical collateral

The Bank ensures that physical collateral possesses the following qualities:

- Must be capable of identification and must be documented.
- The location of any such assets must be known or, for movable assets such as vehicles, traceable within a reasonable period.
- Rights of access must be preserved.
- Any third-party used to control assets must be able to identify assets which provide collateral.
- Insurance must always be in place, covering all appropriate risks.

Types of guarantees and indemnities involved in Banks credit risk mitigation

The Bank ensures that guarantees and indemnities should have the following qualities:

The Bank ensures that guarantees and indemnities should have the following qualities:
- Explicit: – must be a documented obligation, explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and incontrovertible.
- Direct: – the obligation must represent a direct claim on the protection provider.
- Irrevocable: – there are no determinants that the protection provider is able to amend.
- Unconditional: – obligation of the protection provider to pay immediately when conditions as described in the commitment regarding the third-party obligation are met.
- Complete: – such commitments must cover the full principal of the guaranteed credit facility plus interest, fees and all other costs and must include all types of payments the underlying obligor is expected to make under the documentation governing the transaction.

Counterparty credit risk

Counterparty risk is the risk of loss to the Bank as a result of failure by the counterparty to meet its financial and/or contractual obligations to the Bank. It has three components:

- Primary credit risk which is the Exposure At Default (EAD) arising from lending and relating banking product activities, including the underwriting of such products;
- Pre-settlement credit risk which is the EAD arising from unsettled derivative transactions, arising from the default of the counterparty to the transaction and measured as the cost of replacing the transaction at the current market rates; and
- Issuer risk which is the EAD arising from traded credit and equity products, and includes the underwriting of such products.

4 Risk Management Processes

4.2 Market risk

The Bank defines market risk as the risk of a change in market value, actual or effective earnings or future cash flows of a portfolio of financial instruments, including commodities, caused by adverse moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these variables.

The market risk management framework applied in the Bank is according to the Market Risk Standard and Policy approved by the Board.

The market risk management unit is independent of trading operations and accountable to ALCO to monitor market risk exposures due to trading and banking activities. The Bank employs a suite of tools for the measurement of market risks such as VaR (Normal and Stress), Risk Factor Sensitivities (PV01s) and Issuer Risk exposures. Market Risks are managed within the set limits and triggers.

4.2.1 Capital Requirements for Market Risk

The Bank computes the market risk capital using the Standardised Measurement Method. A capital charge is computed for both the Foreign Exchange and Interest Rate Risk in the trading book and the sum is calibrated by a risk weighted factor of 6.7 to give the Market Risk RWAs. The Bank does not hold Commodity and Equity Positions that could pose additional market risk exposure.

- Foreign Exchange Risk-This part sets out the minimum capital requirement to cover the risk of holding or taking positions in foreign currencies.
- Interest Rate Risk-Interest rate sensitive instruments are affected by general interest rate movement (General Risk) and changes in factors related to a specific issuer (Specific Risk).

The market risk RWA as at 31st December 2021 is illustrated below

Table 18: **Market Risk RWA**

Risk	P000's	P000's	P000's
Foreign Exchange Risk			
General	20	6.7	133
Interest Rate Risk			
General Risk	8,182	6.7	54,817
Market Risk RWAs	8,201		54,950

Specific Risk is excluded as there were no corporate-issued debt instruments in the trading book as at the 31 December 2021.

4 Risk Management Processes

4.3 Operational risk

The Bank defines operational risk as the risk of loss incurred as a result of the inadequacy of, or a failure in, internal processes, people and/or systems or from external events. The function ensures that financial accounting treatments for operational risk losses are aligned with International Financial Reporting Standards (IFRS) as well as the legal and regulatory requirements.

Operational risk unit provides the minimum requirements to identify, assess, manage, monitor and report the material operational risks relevant to the Bank. This includes identifying, monitoring and analysing the external business environment, the internal business environment and the internal control factors as linked to material operational risk events.

It also ensures that the right principles, governance and validation controls are used when dealing with all operational risk data and confidentiality and integrity of information is achieved.

Operational risk management in the Bank is overseen by an independent operational risk unit.
The Bank employs a suite of tools for the measurement of operational risks and key among them being Incident Management, Risk Control Self-Assessments (RCSA) and Key Risk Indicators (KRIs).

a. Capital Requirements for Operational Risk
The Bank uses the Basic Indicator Approach (BIA) in the computation of the Operational Risk Capital. This approach uses the rolling Gross Income (interest and non-interest based excluding provisions) over the previous 36 months to the date of calculation.

The regulatory charge for operational risk is equal to 15% of the average of the previous three years Bank's positive annual income. The calculated regulatory charge is then multiplied by Risk Weighted Factor of 6.7 to give the Risk Weighted Assets.

The Operational risk unit ensures that the mapping of gross income and operational risk losses into the eight business lines is done consistently throughout the Bank, in accordance with the relevant regulatory and other requirements.

Table 18: **Operational Risk RWA as at 31 December 2021**

	P000's
Aggregate Gross Income	3,220,405
Operational Risk Factor- denoted alpha	15%
Aggregate Gross Income multiplied by alpha	483,061
No. of years with Positive Gross Income (n)	
Operational Risk Capital Charge : BIA	**161,020**
Risk Weighted Factor	6.7
Operational RWA	**1,078,836**

4 Risk Management Processes

4.4 Interest Rate Risk in the Banking Book (IRRBB)

IRRBB is the exposure of the Bank's financial condition to adverse movements in interest rates. This arises mainly due to a maturity mismatch/different repricing characteristics between the Bank's assets and liabilities. Changes in interest rates affect the Bank's earnings by altering the level of NII generated from interest rate sensitive assets, liabilities and off-balance sheet items. The economic value of the Bank is also affected when interest rates change, as the present value and timing of future cash flows change, impacting the underlying value of the Bank's assets, liabilities and off-balance sheet items.

The most important sources of interest rate risk are:

- Repricing risk: timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities.
- Yield curve risk: shifts in the yield curve that have an adverse impact on the Bank's income.
- Basis risk: imperfect correlation in the adjustment of rates earned and paid on different instruments with otherwise similar re-pricing characteristics.
- Optionality risk: options embedded in Bank asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract.
- Endowment risk: exposure arising from the net differential between interest rate insensitive assets such as non-earning assets and interest rate insensitive liabilities such as non-interest paying liabilities and equity. This is generally the largest contributor to IRRBB.

The TCM unit is responsible for measuring interest rate risk impacts in the banking book and for monitoring and reporting against risk appetite on a monthly basis to the Assets and Liabilities Committee (ALCO). IRRBB is managed in accordance with the SBBL IRRBB policy, which is governed by the market risk standard.

The benchmark for the banking book interest rate sensitivity is the cumulative 12-month NII impact of a rate shock as prescribed by ALCO. The parallel rate shocks are calibrated in local and foreign currency, taking into account both the current and historic interest rates in Botswana.

The most important sources of interest rate risk are re-pricing risk, yield curve risk, basis risk, optionality risk and endowment risk.

Table 19: Impact of parallel interest rate shock as at 31 December 2021

	BPS Change	NII Change
FCY NII	(-100)	(-2.47%)
	(-100)	(-2.42%)
LCY NII	(-200)	**(-15.08%)**
	200	**19.35%**

A static (constant) balance sheet is assumed for IRRBB NII sensitivity analysis whereby all maturing volume is replaced by new volume with similar characteristics. Behavioural liquidity profiling is used for both the profiling of existing volume for non-maturity deposits and the prepayment rates on relevant customer loans, which are predominantly variable rate in nature. Due to the static nature of the balance sheet analysis and the variable rate structure of the loans, the run-off profiles for these line items do not materially impact the NII sensitivity.

5 Remuneration Process

Standard Bank Group (SBG) "the Group" recognises that people are at the heart of our business. As a result, we recognise the need for highly skilled and experienced people to drive the growth of our business across Africa and strive to reward them commensurate to their performance and the returns they generate for our shareholders.

Standard Bank Group remuneration is governed by the Remuneration Committee (Remco) who are firmly committed to disclosing our reward policy, principles and structures to all relevant stakeholders, including our people, unions, regulators and shareholders, for them to assess our pay practices.

5.1 Remuneration Composition

Remco members have no business or other relationships that could materially interfere with their independent judgements. All Remco members are also members of key oversight committees to ensure the monitoring of risk trends across the Group. The Group chief executives attend meetings by invitation. Other members of executive management are invited to attend from time-to-time to assist the committee in fulfilling its mandate. As a matter of principle, no one is present when his or her remuneration is discussed.

The board, through the Board Human Capital Committee, approves Remco's proposals and, where necessary, submits proposals to shareholders for approval. In addition to input from other external advisers, certain specialist business units in the Group provide supporting information and documentation relating to matters considered to inform the Group's remuneration philosophy and policy.

- review and approve the remuneration policy and strategy in the Standard Bank Group's long-term interests
- review and approve general terms and mandates of subsidiary remuneration committees
- review and consider reports from subsidiary remuneration committees on changes in remuneration practices or philosophy.
- review and approve all proposals for incentive scheme design and modifications
- review incentive schemes to ensure continued alignment with shareholder interests and linkage of reward to performance over the long-term
- monitor compulsory employee benefits applicable at all levels and categories of employees in the group

5 Remuneration Process

5.2 Objectives guiding remuneration policy

Although the Group aims to remain competitive in remuneration in the global marketplace for skills, it is deliberate in ensuring the process upholds our values; thus fairness and the rewarding of teamwork whilst guarding against promoting a bonus-centric culture that distorts motivation and may encourage excessive and irresponsible risk taking. We therefore, measure and reward based on total reward, for value delivered and adjusts for risk assumed.

Key principles underpinning reward policy, structures and individual reward:

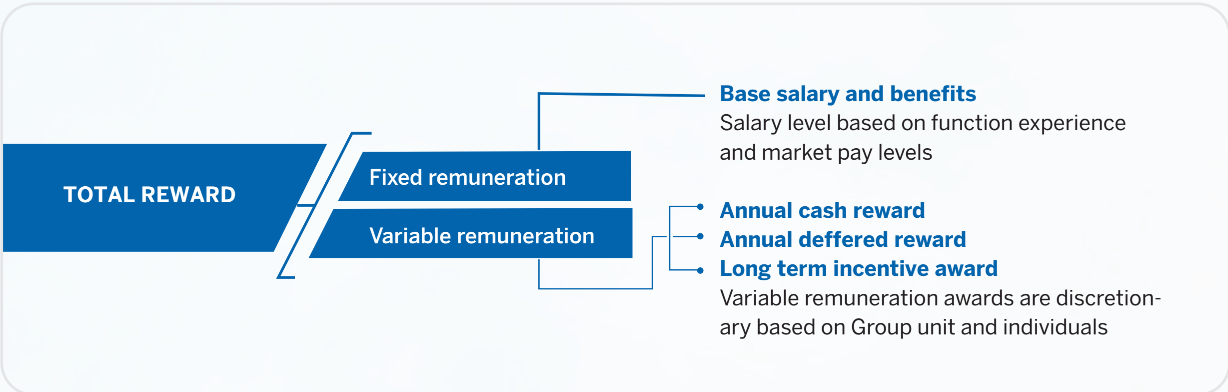
- we reward sustainable, long-term business results
- we do not unfairly discriminate against our people based on diversity or physical difference
- the reward focus is on total reward, being fixed and variable remuneration. We intend to be competitive in both elements, and annual incentives are not a function of a guaranteed package
- we create a balance between the fixed and variable elements of total reward. A deferral policy affects annual incentives above certain levels. Deferred amounts are indexed to the Group's share price and vesting is subject to specific conditions
- all elements of pay are influenced by market and internal pay comparisons
- individual performance appraisals identify talent at all levels in the business, enabling fair and competitive pay. Consequence management, including reward impact, forms part of the review of performance
- individual rewards are determined according to Group, business unit and individual performance
- we reward experience, performance relative to others doing similar work and performance against the market
- we differentiate individual reward in a transparent way and based on quantitative, qualitative and behavioural performance, as well as retention

  we ensure that key senior executives are significantly invested in the Group's share price and performance over time, to align to shareholder interests
- pay designs comply with all tax and regulatory requirements
- on-going oversight prevents irresponsible risk taking by individuals and we ensure that risk adjustment forms part of pay design.

5.3 Reward Philosophy

We at Standard Bank consider the total reward and strive for the appropriate mix between fixed and variable pay for all our people, depending on their roles. The diagram below shows the composition of our total reward.

Figure 3: **Remuneration Structure**



5 Remuneration Process

5.4 Fixed remuneration

The Bank takes local statutory and regulatory requirements into account in how we structure our fixed remuneration.

5.5 Variable Remuneration

We provide annual incentives to reward performance. This variable remuneration comprises of annual incentive awards, annual deferred awards and long-term incentive awards. All variable remuneration awards are discretionary. Incentive pools are made available for major business units and enabling functions.

5.6 Risk Management and Remuneration

- The Group actively manages its current and future risks in pursuit of its strategy. Remco ensures that employees, whose actions may have a material impact on the Group's current and future risk profile, are not rewarded for exposing the Group beyond its stated risk appetite.

- The Group Chief Risk Officer(CRO) formally reports twice a year to Remco on the application of the Group's risk, compliance and capital management (RCCM) framework across major business lines and on any significant breaches of RCCM policies or limits by individuals. These reports cover the Group's risk appetite and the current and future risk profile in relation to risk appetite, and provide a qualitative and quantitative measure that informs Remco's determination of the overall incentive pools for business units. The individual incentive awards of senior managers and executives are reviewed against these measurements and adjusted where required.

- The Group CRO is consulted when changes are made to the design of remuneration plans. The Group Financial Director also formally reports twice a year to Remco on risk-adjusted performance and remuneration. The report includes an analysis of group and business unit risk-adjusted metrics across a range of risk types and their relationships to incentive pools

6 Going concern assessment and the impact of COVID-19

COVID-19 pandemic continues to be a key factor in the Bank's risk management strategy since being declared a world health pandemic in March 2020. The COVID-19 virus remains a key theme when it comes to the world economy due to the consistent emergence of new waves and outbreaks, however, not by a similar magnitude experienced during the prior year. Management continues to monitor and estimate the impact of the pandemic on the current and future performance of the Bank. The in-house internal stress testing assessments also assist the Bank in assessing the health status of the Bank's balance sheet arising from the performance of the financial assets reported by the Bank. Management will continue to apply due diligence in their intuitive lending approach and work closely with valuers who appraise collateral especially for possible impact from the pandemic and prevailing conditions. The collections of payments from customers will be closely monitored so that necessary action is taken timeously to prevent any heightened financial loss to the Bank due to increase in credit risk. Management continues to execute business continuity measures in order to promote operational resilience.

However even with a dampened outlook on economic growth as a result of COVID-19, there is some positivity drawn from the public sector. Intermittent liquidity pressures expected to remain in the short-term due to optimised Government spending coupled with continued increase in Government bond auction activities. Government increased salaries at an average of 5% across board for employees and also introduced a new pay structure which is expected to boost liquidity in the market. The recently introduced monetary policy changes which include standing credit facility for banks is expected to address some of the occasional liquidity pressures. In addition to these financial additions, Government has also secured adequate vaccines to cover the majority of the population and reduce the severity of the impact.

The Bank does not anticipate any strict economic or movement restrictions that could drive an adverse impact on the business community. The Bank continues to be well capitalised and Management will proceed with caution and adopt diligent prioritisation of resources and optimised balance sheet initiatives which are linked to the Bank strategy and will subsequently allow the Bank to continue operating into the foreseeable future.

From the above assessment it has been concluded that, with both the qualitative and quantitative evaluations, the current uncertainties related to the COVID-19 pandemic do not result in a material doubt on the Bank's ability to continue as a going concern. Stanbic Bank Botswana Group and Company annual report 2021.

Post Balance Sheet events

On the 24th of February the world woke up to news of a military invasion of Ukraine by Russia and what was expected to be a short lived invasion. The invasion is now in its third month, resulting in loss of lives, a severe destruction of the infrastructure, as well as a worldwide economic impact that continues to disrupt business across multiple facets.

Stanbic Bank Botswana took cognisance of this event and has maintained a close eye on developments to ensure that any impact from these developments is promptly identified and a response implemented swiftly to avoid unexpected shocks to the operations of the Bank and its client transactions. To date assessments have been done across our portfolios to establish the extent to which the Bank may be exposed. The assessment covers clients we bank, clients we extend credit to as well as the platforms we use to interact with the global economy. Following sanctions imposed by developed countries we have done a comb-through our client base to assess the extent of the impact of these sanctions. No material impacts have been identified.

The conflict continues to disrupt the food supply chain as well as other commodities, and this has resulted in a surge in prices. From a supply chain lens, we have not identified any exposures in our portfolios that may be affected by this. We have however noted an direct impact to the consumers as a result of the price increases which continue to put pressure on inflation, making the cost of living expensive especially for households. This has resulted in the expected inflation outlook changing to an anticipated 10%, and this is well above the Bank of Botswana Monetary Policy target range of 3-6% and we expect the trend to endure in the medium term. In order to address the raising inflation, the Central Bank started monetary policy tightening in April 2022 with an increase in the Monetary Policy Rate (MoPR) by 51bps from 1.14% to 1.65%. Subject to the impact of the rate hikes, should the inflation not move back to within their objective range, the risk remains of further rate hikes in the short to the medium term.

An assessment of the impact on households affordability to service their facilities with the Bank has been done and ans no additional risk has emerged. The Bank will, at the next point of reviewing its forward looking assumptions, take into consideration this impact and adjust impairment provisioning accordingly. No information has surfaced from our assessments that warrants adjustments to the financial statements for the year ended 31 December 2021.

7 Conclusion

This disclosure document has been prepared in accordance with the requirements prescribed in the guidelines on market disclosures under the Basel II Framework and is intended to provide background information on the Bank's approach to risk management as related to maintaining and preserving the capital position of the Bank. It also provides detailed information about asset and capital calculations under Pillar 1.

In the event that a user of this disclosure document requires further explanation regarding the disclosures, application should be made in writing to the Head of Risk at gwerec@stanbic.com or the Acting Chief Finance Officer at phoir@stanbic.com.

8 List of abbreviations

ALCO	Asset and liability committee
BCc	Board Credit Committee
BCC	Board Credit Committee
B&CC	Business and Commercial Clients
BFSA	Banking and Financial Services Act
BIA	Basic Indicator Approach
CAR	Capital adequacy ratio
CHNW	Consumer and High Net Worth
CIB	Corporate and Investment Banking
CRMC	Credit Risk Management Committee
EAD	Exposure at default
IAS	International Accounting Standard
ICAAP	Internal Capital Adequacy Assessment Process
IRRBB	Interest rate risk in the banking book
MTM	Mark-to-market
NII	Net interest income
PBB	Personal and Business Banking
BoB	Bank of Botswana
TSA	The Standardised Approach
USD	United States Dollar
VaR	Value-at-Risk

Notes