Stanbic Bank

STANBIC BANK BOTSWANA LIMITED
RISK AND CAPITAL MANAGEMENT REPORT

PILLAR 3 DISCLOSURE

31 DECEMBER 2023

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 section of the directive. Sections 12.1 and 12.2 of the Basel II guidelines are as per 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 and Approach

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 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 Bank of Botswana "(BoB), (Central Bank)" 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 as has the biggest single network of banking services in Africa.

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

Regulatory Capital Requirements

3.1 Capital Requirements

The Internal Capital Adequacy Assessment Process (ICAAP) ensures that the bank maintains sufficient capital levels for purposes of regulatory compliance and adherence to the Board approved risk appetite. For a bank to be considered well capitalised, it is expected to maintain a minimum capital ratio of 4.5% for Common Equity Tier 1 (CET 1), 7.5% for Tier 1 and 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 I (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 2023, is as shown below:

Table 1: Basel II Common Equity Tier 1 Disclosure Template

	Common Equity Tier I: Instruments and reserves	**P000's**
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus.	390,177
2	Retained earnings	1,452,513
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	1,842,690
	Common Equity Tier 1: regulatory adjustments	
7	Prudential valuation adjustments	-
8	Goodwill (net of related tax liability)	-
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 wedge 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 net assets	-
16	Investments in own shares (if not already netted off paid-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 of 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 investment 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 financial	-
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	-
29	Common Equity Tier I capital (CET1 CAPITAL)	1,842,690
	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 to 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 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 to insufficient Tier II to cover deductions	-
43	Total regulatory adjustments to Additional Tier 1	-
44	Additional Tier 1 Capital (ATI)	-
45	Tier 1 (T1=CET 1 CAPITAL + AT1)	1,842,690
	Tier II capital : instruments and provisions	
46	Directly issued qualifying Tier II instruments plus related stock surplus	515,720
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	169,389
51	Tier II capital before regulatory adjustments	685,110
	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	-
57	Total regulatory adjustments to Tier II capital	-
58	Tier II capital (T2)	1,169,039
59	Total capital (TC = T1 + T2)	3,011,729
60	Total risk-weighted assets	15,115,808
	Capital ratios and buffers	
61	Common Equity Tier I (as a percentage of risk weighted assets)	12.19%
62	Tier I (as a percentage of risk weighted assets)	12.19%
63	Total capital (as a percentage of risk weighted assets)	19.92%
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 assets)	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 captial 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 provisions 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)	-

Capital Adequacy

Through 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.

3.2 Risk Weighted Assets (RWA)

The risk weighted assets represent an aggregated measure of different risk factors affecting the evaluation of the financial products and transactions in the bank. The aggregation considers credit, operational and market risks. The amount of the risk weighted assets from both the operational and market risks are determined by multiplying the respective capital requirement by a risk weighted factor of 6.7, the result of which is added to the credit risk weighted assets in order to determine the total risk weighted assets of the bank.

According to the Basel II directive, the RWA comprise of Credit, Operational and Market risks. The RWA breakdown is as shown below:

Chart 1: Summary of Capital Ratios

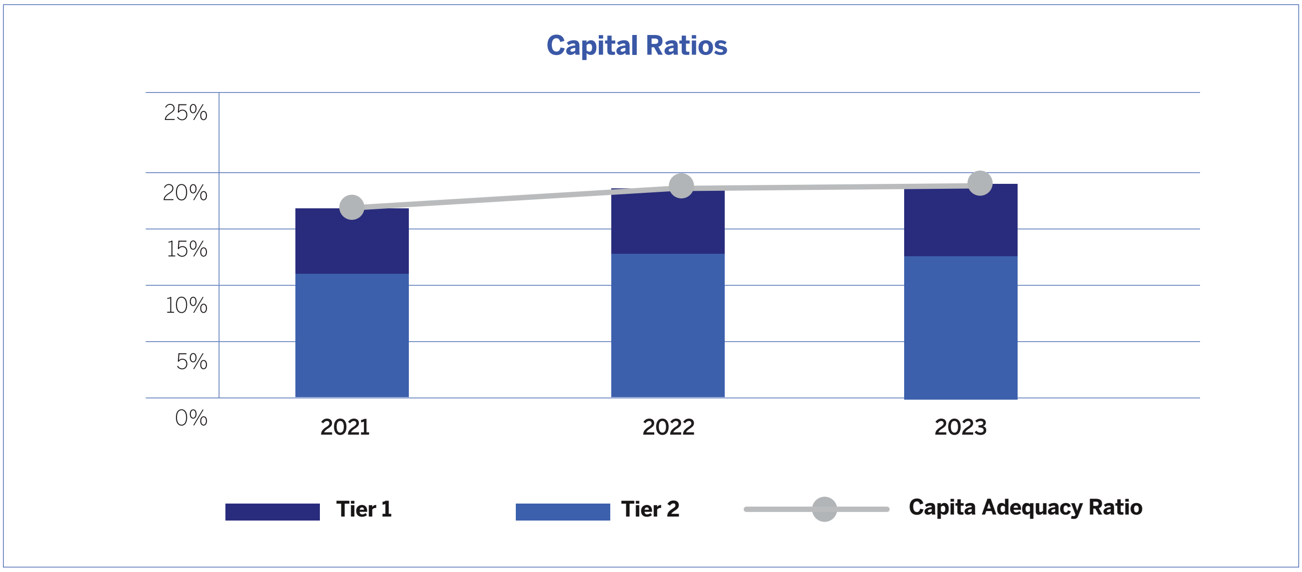


Table 2 : Composition of RWA as at 31 December 2023

Portfolio	Approach	P000's
Credit risk	Simple approach	13,551,159
Market risk	Standardised approach	157,337
Operational risk	Basic indicator approach	1,407,312
Total		**15,115,808**

3.2.1 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 3 : Summary of Credit RWA as at 31 December 2023

Credit risk	Exposure Amounts P000's	Specific provisions P000's	Credit Risk mitigation P000's	RWA P000's
Sovereign or Central bank	5,181,786	-	-	-
Public Sector entities	717,192	-	-	143,438
Exposure to banks	5,668,435	-	-	1,591,250
Corporates	5,368,663	-	-	5,368,663
Retail loans and Mortgages	7,954,459	266,254	9,870	5,469,458
Other assets	403,859	-	-	437,069
Off balance sheet exposures	2,579,326	-	248,226	541,280
Total Credit Risk RWA	**27,873,721**	**266,254**	**258,095**	**13,551,159**

3.2.2 Operational and Market Risk RWA

The RWA for both operational and market risks are determined by multiplying the respective capital charge requirements by a risk weighted factor of 6.7, the result of which is added to the risk- weighted assets for credit risk to come up with the total RWA for the bank.

Table 4 : Operational Risk

Year	Gross Income P000's	Aggregate Gross Income P000's	Risk Weight Factor P000's
Total Gross Income for Year 1	1,157,682	-	-
Total Gross Income for Year 2	1,411,666	-	-
Total Gross Income for Year 3	1,631,582	-	-
Aggregate Gross Income	-	4,200,930	-
Operational risk factor - denoted alpha (%)	-	15%	-
Aggregate Gross Income multiplied by α	-	630,140	-
No. of years with Positive Gross Income (n)	-	3	-
Operational Risk Capital Charge: BIA	-	210,047	-
Risk Weighted Factor	-	-	6.7
Operational Risk Weighed Assets	**-**	**-**	**1,407,312**

Table 5 : Market Risk

Markert Risk	Amount in P000's	Risk Weighted Factor	RWA in P000's
Foreign Exchange Risk			
General	23,458	6.7	157,169
Interest Rate Risk			
General Risk	25	6.7	168
Market Risk RWAs	**23,483**		**157,337**

3.3 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 identify any differences that might arise. The differences that exist between the two reconciliations are due to reclassifications of items under the regulatory reporting structure. Some of the adjusted items between the two reconciliations are on the assets, staff fair value financial assets designated at fair value and intangible assets.

3.3.1 Balance Sheet Reconciliations

Table 6 : Accounting vs regulatory balance sheets as 31 December 2023

	Balance Sheet as in Published Financial Statements	Under Regulatory Scope of Consolidation
	As at Period End 31 December 2023	As at Period End 31 December 2023
Assets	**P000's**	**P000's**
Cash balances at central banks	1,466,490	1,466,490
Items in the course of collection from banks	-	-
Trading portfolio assets	3,212	-
Financial assets designated at fair value	3,805,364	3,808,548
Derivatives initial instruments	1,377	1,377
Loans and advances to banks	5,992,398	5,668,435
Loans and advances to customers	13,331,554	13,354,233
Reverse repurchase agreement and other secured lending	-	-
Available for sale financial investments	-	-
Current and deferred tax asset	67,555	68,173
Prepayments, accrued income and other assets	133,977	180,383
Investments in associations and Joint venture	-	-
Goodwill and intangible assets	102,921	102,922
Property, Plant and equipment	142,752	142,752
Total Assets	**25,047,600**	**24,793,313**
Liabilities		
Deposits from banks	1,060,094	805,154
Items in the course of collections due to other banks	-	-
Customer accounts	20,140,427	20,125,090
Repurchase agreement and other secure Lending	-	-
Trading portfolio liabilities	3,412	3,412
Financial liabilities designated at fair value	-	-
Derivatives financial instruments	-	-
Debt securities in issue	1,016,440	1,031,778
Accrual ,deferred tax liabilities	-	-
Subordinated liabilities	-	-
Provisions	500,609	501,258
Retirement benefit liabilities	-	-
Total Liabilities	**22,720,983**	**22,463,693**
Shareholder's Equity		
Paid -in share capital	390,177	390,177
Retained earnings	1,452,513	1,452,513
Accumulated other comprehensive income	483,929	483,929
Total Shareholder's Equity	**2,326,620**	**2,326,620**

Table 7: Extract of Basel II Common disclosure template

	Balance Sheet as in Published Financial Statements As at Period End 31 December 2023	Under Regulatory Scope of Consolidation As at Period End 31 December 2023	Ref.
Assets	**P000's**	**P000's**	
Cash balances at central banks	1,466,490	1,466,490	
Items in the course of collection from banks	-	-	
Trading portfolio assets	3,212	-	
Financial assets designated at fair value	3,805,364	3,808,548	
Derivatives financial instruments	1,377	1,377	
Loans and advances to banks	5,992,398	5,668,435	
Loans and advances to customers	13,331,554	13,354,233	
Reverse purchase agreement and other secured lending	-	-	
Available for sale financial investments	-	-	
Current and deffered tax asset	67,555	68,173	
Prepayments, accrued income and other assets	133,977	180,383	
Investments in associations and Joint venture	-	-	
Goodwill and intangibles assets	102,921	102,922	
of which goodwill	-	-	a
of which other intangibles (Excluding MSRs)	-	-	b
Property ,Plant and equipment	142,752	142,752	c
Total Assets	**25,047,600**	**24,793,313**	
Liabilities			
Deposit's from banks	1,060,094	805,154	
Items in the course of collections due to other banks	-	-	
customer accounts	20,140,427	20,125,090	
Repurchase agreement and other secured lending	-	-	
Trading portfolio liabilities	3,412	3,412	
Financial liabilities designated at fair value		-	
Derivatives financial instruments		-	
Debt securities in issue	1,016,440	1,031,778	
current and deferred tax liabilities	-	-	
of which DTIs related to goodwill	-	-	d
of which DTIs related intangibles (excluding MSRs)	-	-	e
of Which DTLs related to MSRs	-	-	f
Subordinated liabilities	-	-	
Provisions	500,609	501,258	
Retirement benefit liabilities	-	-	
Total Liabilities	22,720,983	22,466,280	
Shareholder's 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	1,452,513	1,452,513	
Accumulated other comprehensive income	483,929	483,929	
Total Shareholder's Equity	**2,326,620**	**2,326,620**	

Table 8: Common Equity Tier I capital: instruments and reserves

	Common equity Tier 1: Instrument 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	1,298,039	
3	Accumulated other comprehensive income (and other reserves)	154,474	
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 regulatory adjustments**	**1,842,690**	
7	Prudential valuation adjustments	-	
8	Goodwill (net of related tax liability)	-	a-d

Table 9: Main Features Template

The bank currently has BWP 516 million in subordinated debt, issued locally and listed on the Botswana Stock Exchange (BSE).

1	Issuer	Stanbic Bank Botswana Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier or private placement)	ZQ 6621812 ZQ 6621895 BW 0000 3300 BW 00003292 BW 0000 3326 BW 00003318
3	Governing law(s) of the instrument	Botswana law
	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, P88m P110m, P105.7m
9	Par value of instrument	P212m, P88m P110m, P105.7m
10	Accounting classification	Borrowings (Amortised cost)
11	Original date of issuance	28-11-2019 04-07-2022 29-07-2022
12	Perpetual or dated	Dated
13	Original maturity	28-11-2029 04-07-2032 29-07-2027
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 Coupons/dividends	None
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	Non-convertible
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

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, the bank is mindful of achieving this objective in line with the interests of all stakeholders.

Further, effective risk management should provide complete, timely, accurate and relevant information to enhance senior management decision making ability 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 Finance and Value Management Officer with involvement from the business segments 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 (SMA) 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).

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.

Risk Management Processes (continued)

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 for 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 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 2023. The various management risk 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.

4.1 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 Personal and Private Banking (PPB) and Commercial Banking (BCB) and Corporate and Investment Banking (CIB) report directly to CRMC and indirectly to the Board Credit Committee.

The purpose of CRMC is to establish and define the principles under which the country is prepared to assume credit risk and the overall framework for the consistent and unified governance, identification, measurement, management and reporting of credit risk. The committee recommends approval of all counterparties 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 Board Credit Committee is the principal board committee responsible for the oversight of credit risk, with CRMC having oversight and 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 enough 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 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 represent 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 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 principles.

The model used for SDP is based on IFRS 9 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 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 Standard 9 (IFRS 9). The IFRS 9 establishes principles for the financial reporting of financial instruments and sets out of 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 is now recognised whereas prior to IFRS 9 adoption no impairments were held for these instruments.

4. Risk Management Processes (Continued)

Table 10: Total Credit Exposure at fair value as at 31 December 2023

Exposures	Gross Carrying Amount	Stage 1 (0-29 Days)	Stage 2 (30-89 Days)	Stage 3 (NPL 90+ Days)	Security	Provisions for NPL	Provisions for PL	Interest in Suspense (IIS)	Net Carrying Amount	Gross Specific impairment Coverage	Non Performing Loans %
Mortgage loans	2,628,775	2,119,869	193,341	315,565	164,968	140,604	46,934	15,212	2,426	49.38%	12.00%
Vehicle and asset finance	1,130,997	1,010,262	68,060	52,676	17,624	33,117	36,193	2,865	1,059	68.31%	4.66%
Card debtors	44,402	31,547	11,114	1,741	-	1,741	3,089	-	40	99.99%	3.92%
Other loans and advances	**3,804,174**	**3,161,678**	**272,515**	**369,982**	**182,592**	**175,462**	**86,216**	**18,077**	**3,525**	**52.31%**	**9.73%**
Personal unsecured lending	5,779,552	5,553,271	152,565	73,716	-	71,810	93,638	1,249	5,614	99.11%	1.28%
Business and other lending	870,357	752,061	56,986	61,310	37,423	18,981	15,261	13,759	836	53.40%	7.04%
Gross carrying value of loans and advances	**10,454,084**	**9,467,010**	**482,066**	**505,008**	**220,015**	**266,253**	**195,115**	**33,085**	**9,992 716**	**59.27%**	**4.83%**
Corporate and Investment Banking	4,553,781	4,251,511	302,270	-	-	-	19,950	-	4,534	0.00%	0.00%
Gross loans and Advences	**15,007,865**	**13,718,521**	**784,336**	**505,008**	**220,015**	**266,253**	**215,065**	**33,085**	**9,997,249**	**59.27%**	**3.36%**

Table 11: Geographical distribution of loans and advances to customers - 31 December 2023

	Amount in P000's	Percentage Concentration
Central	5,755,832	38.35%
Ngami	458,365	3.05%
North	1,053,199	7.02%
South	7,740,469	51.58%
Total	**15,007,865**	**100%**

Table 12: Distribution of exposures to customers by industry - 31 December 2023

Industry Sectors Exposures	Exposure amount in P000's	Concentration
Agriculture	245,028	1.63%
Construction	84,528	0.56%
Electricity	7,727	0.05%
Finance, real estate and other business services	4,168,200	27.77%
Individuals	8,384,596	55.87%
Manufacturing	12,142	0.08%
Mining	130,387	0.87%
Transport	651,555	4.34%
Wholesale	1,323,702	8.82%
Other services		0.00%
Total	**15,007,865**	**100%**

4. Risk Management Processes (continued)

The table below sets out an analysis of credit risk by maturity as at 31 December 2023.

Table 13: Residual Contractual maturity of credit exposures - 31 December 2023

Loans and Advances Maturity	Amount outstanding in P000's
Undated	1,198,170
On Demand	576,408
>0 to 6 months	656,043
>6 months to 12 months	339,068
>1 to 2 years	582,489
>2 to 3 years	979,360
>3 to 5 years	4,221,926
>5 to 7 years	3,482,186
>7 to 10 years	1,371,053
Over 10 years	1,601,162
Total	**15,007,865**

Table 14: Aging of loans and advances past due but not specifically impaired - 31 December 2023

Exposures	Performing (Early arrears)			
	1-29 days	30-59 days	60-89 days	Total
Personal & Business Banking	**296,873**	**41,721**	**12,503**	**351,098**
Mortgage lending & Commercial Property Loans	178,001	30,956	6,652	215,610
VAF (PPB)	117,452	9,282	5,243	131,977
Card debtors (PPB)	1,420	1,483	608	3,510
Other Loans and Advances	-	-	-	-
Personal Unsecured Lending	**144,073**	**26,863**	**17,307**	**188,243**
Overdrafts (PPB)	-	-	-	-
Term Loans (PPB)	120,552	23,402	16,033	159,987
Business Term Loans and Overdrafts	23,521	3,461	1,274	28,256
Total	**440,946**	**68,584**	**29,810**	**539,341**

Table 15: Reconciliation of changes for impaired loans and advances and charge -offs during the period December 2023.

Reconciliation of Charges in allowance for impairments	P000's
Opening Balance (Dec 22)	432,952
Impairments Losses during the year	140,256
Written off accounts during the year	(100,467)
Closing Balance	**472,741**

Table 16: Off Balance sheet - 31 December 2023

Off Balance Sheet items	Balance in P000's
Performance Related Guarantees	970,146
Unutilised limits	1,519,405
Letters Of Credit	15,775
Total	**2,579,326**

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 the 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.

Physical Collateral

The bank ensures that physical collateral possess 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:

- **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 inconvertible.
- **Direct: -** the obligation must represent a direct claim on the protection provider.
- **Irrevocable: -** there are no determinants that the protection provider can amend.
- **Unconditional: -** obligation of the protection provider to pay immediately when conditions as set in the commitment regarding the thirdparty 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 related 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 including the underwriting of such products.

4.4 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 (PVO1s) and Issuer Risk exposures.

Market Risks are managed within the set limits and triggers.

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 2023 is illustrated below

Table 17: Market Risk RWA

Market Risk	Amount in P'000's	Risk Weighted Factor	RWA in P000's
Foreign Exchange Risk General	23,458	6.7	157,169
Interest Rate Risk General Risk	25	6.7	168
Market Risk RWAs	**23,483**		**157,337**

Specific Risk is excluded as there were no corporate-issued debt instruments in the trading book as at the 31 December 2023.

4.3 Non-Financial Risk

Non-Financial risks (NFR) are considered inherent in the operations of a business. They generally do not have a financial upside; they cannot always be measured in financial terms and can lead to severe reputational damage. NFR is defined as part of a broad term which is usually classified by way of exclusion, that is, any risks other than the traditional financial risks of market, credit, and liquidity. NFR includes operational risks.

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.

Non-Financial 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 Non-Financial 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 (RCA) 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 of 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 non-financial 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 2023

Operational Risk	P000's
Aggregate Gross Income	4,200,930
Operational Risk Factor-denoted alpha	15%
Aggregate Gross Income multiplied by alpha	630,140
No. of years with Positive Gross Income (n)	3
Operational Risk Capital Charge: BIA	210,047
Risk Weighted Factor	6.7
Operational RWA	**1,407,312**

4.4 Interest Rate Risk in the Banking Book (IRRBB)

IRRBB is the exposure of the bank's financial sensitivity to adverse movements in interest rates. This arises mainly due to a maturity mismatch/different repricing characteristic between the bank's assets and liabilities. Changes in interest rates affect a bank's earnings by altering the level of Net Interest Income generated from interest rate sensitive assets, liabilities, and off-balance sheet items. The economic value of a bank is also affected when interest rates change, as the present value and timing of future cash flows change, impacting the underlying value of a 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 repricing 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 later 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 Treasury and Capital Management (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, considering both the current and historic interest rates in Botswana.

Table 19: Impact of parallel interest rate shock as at 31 December 2023

	BPS change	NII Change
FCY NII	(100)	(8.92%)
	100	(0.92%)
LCY NII	(200)	(15.68%)
	200	10.76%

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

Standard Bank 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

Stanbic Bank Botswana Limited remuneration is governed by the Board Remuneration Committee (RemCo) to ensure that appropriate people and culture and remuneration policies are in place to enable the Bank to source and retain staff with adequate combination of capabilities and skills with a clear succession plan.

5.1 Remuneration Composition

Remuneration Committee is constituted as a committee of the Board in terms of the Constitution of the company and operates under delegated authority from the Board and consists of at least three non-executive directors appointed by the Board. The committee ultimately reports to the Board of Stanbic Bank Botswana Limited and Standard Bank Group The RemCo provide oversight on the formulation and implementation of effective and efficient people and culture and remuneration strategy and policies, to ensure that the strategy and policies are consistent with the Bank's culture objectives, overall strategy, long term business, risk appetite, performance, and control environment.

- While specialists can be co-opted into meetings, if necessary, the Chief Executive and Head, People and Culture shall attend meetings as standing invitees, unless otherwise deemed inappropriate by the committee. Members of executive management or any other employee shall attend meetings only when deemed necessary but shall not have a vote.

As an oversight committee, Remco is mandated to, among others:

- Approve the selection of the Chief Executive, key members of senior management and heads of control functions.
- Oversee the performance of the Chief Executive, key members of senior management and heads of control functions.
- Approve the remuneration of senior executives, including the Chief Executive, Head of Risk, Head of Compliance, and Head of Internal Audit
- Review and approve proposals for amendments to the organisational structure in conjunction with Standard Bank Group standards.
- Approve Talent Management plans and succession planning strategies.
- To set policy on the Bank's design and operation of remuneration practices of its employees and those of management.
- Review and approve the Employee Value Proposition to determine a sustainable and equitable balance and mix of salaries, and benefits.
- Ensure that the remuneration for employees in control functions (Risk, Compliance, and Internal Audit) is designed in a manner to avoid conflict of interest, (The remuneration for employees in control functions should not be determined by employees falling under the business lines that they oversee, and performance measures should be based principally on the achievement of those employees' objectives so as not to compromise their independence.)
- Regularly monitor and review assessed impact of the implementation of the remuneration system at least annually to assess whether the bank-wide remuneration system is creating the desired incentives for managing risk, capital, and liquidity
- Making recommendations to the Board on the reinforcement, through transparency, of sound corporate governance principles covering, among other things, information about the incentive structure of the Bank, including compensation policies, executive compensation etc

5.2 Objectives Guiding Remuneration Policy

Although Stanbic Bank Botswana 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 want to be competitive in both elements, but 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.

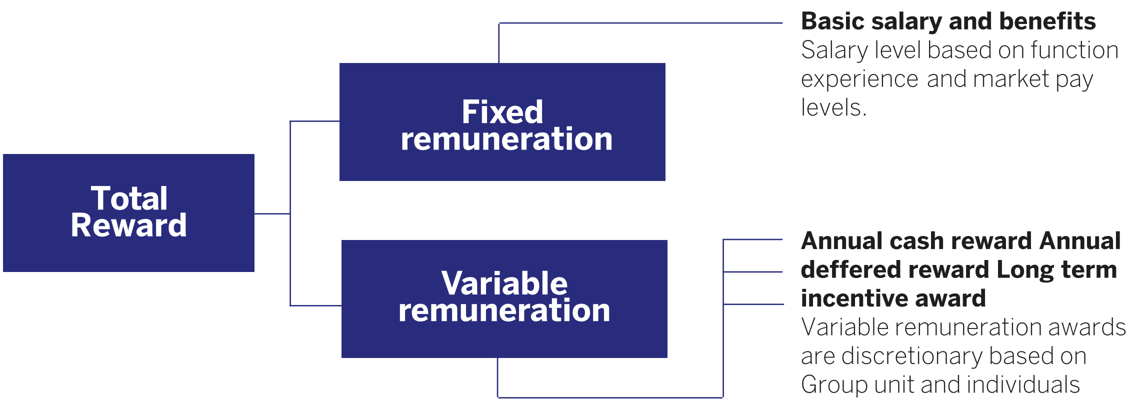
- all elements of pay are influenced by market and internal pay comparisons.
- individual performance appraisals identify talent at all levels in the business, enabling fair and competitive pay. Consequence, management including reward impact, forms part of the review of performance.
- individual rewards 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 behavioral 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 Stanbic 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.

5.4 Fixed Remuneration

The group operates across many different countries. Standard Bank Group takes local statutory and regulatory requirement 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 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 breaches 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 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 **letshwaom@stanbic.com** or the Chief Finance and Value Management Officer at **phoir@stanbic.com**.

7 List of Abreviations

ALCO	Asset and Liability Committee
BCB	Business and Commercial Banking
BIA	Basic Indicator Approach
BoB	Bank of Botswana
CAR	Capital Adequacy Ratio
CIB	Corporate and Investment Banking
CRMC	Credit Risk Management Committee
CRO	Chief Risk Officer
EAD	Exposure at Default
IFRS	International Financial Reporting Standards
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
IRRBB	Interest Rate Risk in the Banking Book
MTM	Mark-To-Market
NII	Net Interest Income
PPB	Personal and Private Banking
SBG	Standard Bank Group
TSA	The Standardised Approach
USD	United States Dollar
VaR	Value-at-Risk
RCCM	Risk Compliance and Capital Management
SIICR	Significant Increase in Credit Risk
RemCo	Renumeration Committee
NFR	Non - Financial Risk
ECL	Expected loss Ratio
NII	Net Interest Income