Stanbic Bank Botswana Limited

INTEGRATED ANNUAL REPORT 2020

Stanbic Bank IT CAN BE™

Contents

Our success and growth over the long term is built on making a difference in the communities in which we operate.

Stanbic Bank Botswana is part of the Standard Bank Group, Africa's largest bank by assets, and provides the full spectrum of financial services, working to help make Batswana's dreams a lasting reality in line with the Bank's Purpose to fuel Botswana's growth. Across our business and the breadth of our services and solutions, with Stanbic Bank, IT CAN BE.

Stanbic Bank Botswana's Corporate & Investment Banking (CIB) division serves a wide range of requirements for banking, finance, trading, investment, risk management and advisory services. Corporate & Investment Banking delivers this comprehensive range of products and services relating to: investment banking; global markets; and global transactional products and services. Stanbic Bank Botswana Corporate and Investment Banking (CIB) expertise is focused on industry sectors that are most relevant to emerging markets. It has strong offerings in mining and metals; oil, gas and renewables; power and infrastructure; agribusiness; telecommunications and media; and financial institutions.

Stanbic Bank currently has a strong presence in Botswana.

These points constitute:

Branches
13

ATMs
75

Point of Sale Machines
3 008

Cash Deposit Machines
2

Stanbic Bank has always lived up to the promise of bringing banking to the nation and we have succeeded in doing so by having a wide network of branches in Botswana.

Having operated in Botswana for 29 years, Stanbic Bank Botswana continues to receive prestigious Awards as testament to the helpful role we play in Botswana, building on decades of key accolades.

Stanbic Bank Botswana's Personal and Business Banking unit (PBB) offers banking and other financial services to individuals and small-to-medium enterprises. PBB serves the increasing need among Africa's small business and individual customers for banking products that can meet their shifting expectations and growing wealth.

Having operated in Botswana for 29 years, Stanbic Bank Botswana continues to receive prestigious awards as testament to the constructive role we play in Botswana, building on decades of key accolades. In our continued pursuit of providing a universal banking solution to our customers, Stanbic Bank has recently been accorded the titles of Best Treasury & Cash Management Bank in Botswana 2019 from Global Finance Magazine and the Best Investment Bank in Botswana 2020 award from the same publication as well as the Best Foreign Exchange Provider 2020 award from Global Finance & Review. These awards are in recognition of Stanbic Bank Botswana's support of economic activity in various sectors.

Stanbic Bank Botswana is committed to enhancing the lives of the communities we operate in and it is this inherent focus on people and passion that drives our operations, for we believe Botswana is our home and we drive her growth.

Our value creation story

Our clients

are at the centre of everything we do. This is the central organising principle in the work we are doing to build a digital bank, redesign our operating models, and to develop our people and change our culture – which together will create long-term sustainable competitive advantage.

Risk appetite

Our strategy is achieved within the parameters of our risk appetite, which implies conscious risk taking. To enable regular changes to our risk appetite in response to challenges in our operating context, we continuously instil a risk-aware culture throughout the Group and continually enhancing our risk management capabilities.

Operating context

Our strategy represents an effective approach to the structural shifts in our industry. Global megatrends such as the technological revolution, increasing stakeholder pressure, and socioeconomic and environmental challenges are imposing the need for wide-reaching transformation in the way we do business.

We remain flexible in our strategic responses to the cyclical pressures in our markets. We identify pockets of opportunity for revenue generation, and employ well-developed risk models to anticipate and manage the impact of risks that are heightened during times of economic stress.

Business units and corporate functions

Our business units and corporate functions have aligned their operating strategies to the Group strategy, to ensure effective and coordinated execution within and across our operations for the benefit of our clients.

Group strategy

Our Group strategy is focused on creating shared value, and represents our commitment to the shared future we intend to create for our clients, our people and our other stakeholders.

Creating value for the Group

Our strategic value drivers align our allocation of resources to our strategy. We have identified five key value drivers, shown below, and continue to work on selecting the appropriate metrics for each, which are supporting more effective resource allocation and appropriate trade-off decisions.

- Client focus.
- Employee engagement.
- Risk and trust.
- Culture of continuous improvement.
- Social, economic and environmental outcome.

Creating value for society

Social relevance is fundamental to our survival and success, and is implied in our purpose and vision.

We are moving towards measuring our social return, and to obtain a truer picture of our broader value outcomes. This involves identifying the social, economic and environmental risks and opportunities that Botswana presents and how our business activities can respond to these.

Driving Botswana's growth over the long term

Our multi-generational purpose recognises the mutual interdependency of Botswana's wellbeing and that of the Group. It is the ultimate expression of our commitment to Botswana's growth that is inclusive and sustainable, and in turn secures viable markets for our long-term profitability and value creation.

GOVERNANCE APPROACH TO VALUE CREATION OVER TIME

Our governance approach

promotes strategic decision-making that combines long-term and shorter-term outcomes, to reconcile the interests of the Group and society in our pursuit of sustainable value.

Performance linked to value creation

We are embedding a high-performance culture and creating an environment in which our people are empowered and motivated to deliver exceptional client experiences, and are rewarded for their contribution towards realising our purpose and vision.

Remuneration that drives value over time

Our reward philosophy is being evolved to reflect the Group strategy. We combine reward elements that link directly to strategic and financial performance criteria and thresholds. These awards are made on a discretionary basis to avoid penalising executives for factors outside of their control that impact on value creation.

Ethical and effective leadership

Ethical and effective leadership relates to uniting purpose and performance. Embedding an ethical culture recognises that the trust of our stakeholders is the basis on which we compete and win.

Corporate citizenship

Corporate citizenship relates to the integral role we play in the socioeconomic wellbeing of Botswana. It commits us to using our resources responsibly as inputs to our business model, and balances our needs with those of society.

Sustainable development

Sustainable development commits us to enhance the resources and relationships we rely on today, for the future. Our plans to measure social, environmental and economic returns, will enable us to account for the total returns we deliver in line with our purpose.

ACTING ON OUR MATERIAL ISSUES

Our material issues synthesize the interests of the Group and those of its stakeholders. They are linked to our value drivers, direct the focus of our strategic planning and management priorities, and inform our reporting to stakeholders.

- Managing economic headwinds
- Putting our clients' best interests at the centre of our business
- Motivating our people
- Managing regulatory change
- Embracing innovation
- Leveraging our investments in IT

RESPONDING TO OUR STAKEHOLDERS

Our stakeholders are the providers of the capital we need to create value. Stakeholder inclusivity and responsiveness enables us to secure and maintain these inputs, and to identify opportunities and challenges.

- Clients
- Employees and their representatives
- Suppliers
- Governments and regulators
- Shareholders and investment analysts
- Communities and civil society

Our Group strategy

The saying, "never waste a crisis" has taken on a literal parallel with the unprecedented and accelerated pace of innovation and digitisation during the COVID-19 pandemic.

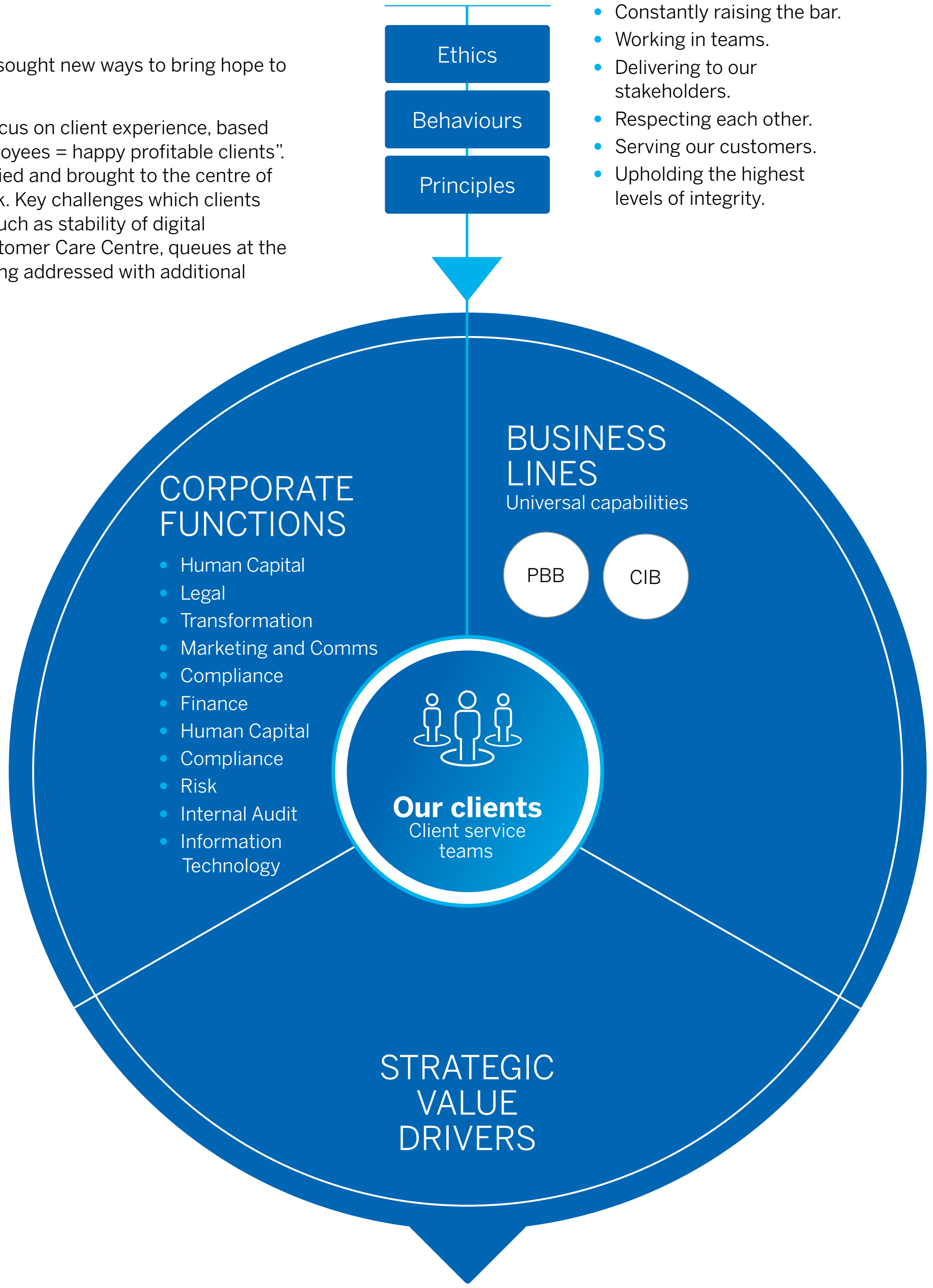
Under these circumstances, the Bank sought new ways to bring hope to clients and keep dreams alive.

The key differentiation has been the focus on client experience, based on the ethos that "happy capable employees = happy profitable clients". The voice of the client has been amplified and brought to the centre of every strategic intervention in the Bank. Key challenges which clients brought to the attention of the Bank, such as stability of digital channels, telephone access to the Customer Care Centre, queues at the branches and speed of service, are being addressed with additional investment into innovation.

Our values

serve as beacons for the behaviour and qualities that define us at our best as we execute our strategy.

- Being proactive.
- Constantly raising the bar.
- Working in teams.
- Delivering to our stakeholders.
- Respecting each other.
- Serving our customers.
- Upholding the highest levels of integrity.



Our purpose

Botswana is our home; we drive her growth.

Our vision

To sustainably improve the lives of Batswana by offering market-leading financial solutions.

help us focus our efforts and measure the progress towards delivering on our Group strategy and vision.

Our values-driven culture

2020 was an unusual year, with the COVID-19 outbreak posing significant and evolving challenges for communities, corporations, governments and regulators across the world. The rapid rise of COVID-19 cases, together with the wide range of measures to slow the spread of the virus, has slowed economic activity. As a result, the International Monetary Fund (IMF) predicted the global economy to contract by more than 4% in 2020 before growing by just above 5% in 2021.

The wide-ranging measures needed to slow the spread of the virus, particularly travel restrictions, hugely impacted both the tourism and the diamond industries which are very important to the economy of Botswana. Travel restrictions directly impacted on countries' ability to hold diamond sight sales for the significant part of 2020.

The annual economic growth for Botswana contracted by 7.9% compared to a 3% increase in 2019. We saw a contraction on an annual basis in Q3 2020 across all sectors except for Agriculture, Central Government and Water and Electricity. The two most impacted sectors were the mining sector and the trade sector, however, the mining sector showed a gradual improvement in the last quarter of the year as demand for rough diamonds picked up.

Our key focus areas

work together to ensure we offer our clients everything they need in the most effective way possible.

The way we work/The way we win

CLIENT CENTRICITY places our clients at the centre of everything we do.

Client centricity requires that our people and processes are outwardly focused on our clients as their needs and expectations change. This means we align the way we plan, deliver and execute work, doing the basics brilliantly and consistently so that we can do what our clients value.

WE ARE WORKING TO:

- See clients as **real people, not numbers.**
- Provide our clients with **relevant solutions.**
- Be a **trustworthy partner** on our clients' growth journeys.
- **Do the basics brilliantly and deliver on our promises** quickly, efficiently, reliably and respectfully.

DIGITISATION means enhancing our products and processes to continually improve how we meet our clients' and employees' needs.

Digitisation is more than just technology – it is about delivering the full range of financial services through secure, personalised, relevant and digitally enhanced experiences to our clients and employees in real-time, all the time.

WE ARE WORKING TO:

- Ensure that the services our clients and employees need are **consistently available, anywhere, anytime** – irrespective of channel.
- **Use data proactively** to guide our decisions, discover valuable insights and deliver personalised experiences.
- Remove friction, paper-based processes and waste to ensure **intuitive, easy to use, reliable interfaces** for our clients and employees.
- Create a workplace that encourages **curiosity, digital thinking and continuous improvement** for quick and frequent refinement of ideas and brilliant delivery.

Our **INTEGRATED FINANCIAL SERVICES** offering delivers holistic solutions which are relevant to our clients.

Offering a **complete range of financial services** follows from our commitment to client centricity and reinforces the competitive advantages of our scale, scope and expertise. This means that our business units, legal entities and corporate functions must work as an integrated whole to service our clients' financial needs in a seamless way.

WE ARE WORKING TO:

- **Seamlessly and efficiently deliver** an integrated financial services Group, so our clients have access to and experience all our propositions relevant to their needs.

11 YEAR MILESTONES

2010

Financial Literacy Modules

Stanbic Bank pioneered the introduction of financial literacy modules covering four key financial topics which targeted junior secondary school students. The modules were developed to align to school curriculae and ensure financial literacy begins with our youth.

2011

Morupule Coal Mine GM's Cycling Challenge

In an effort to drive customer partnerships, the Bank's Corporate and Investment Banking division partnered with Morupule Colliery Limited, to sponsor the General Manager's Annual Cycle Challenge. Proceeds from this challenge were donated to communities within the Palapye and surrounding areas.

2012

Chief Executive's 600km Charity Cycle

As part of the Bank's Corporate & Social Investment Strategy, the Chief Executive and various stakeholders embarked on a monumental 600km Charity Cycle from Ghanzi to Gaborone to raise funds for a mobile clinic to donate to the Shakawe District to address National health concerns.

2013

Upgraded Core Banking System

The Bank invested in the largest system upgrade project in its history, by changing its Core Banking System from Bank Master to Finacle . This saw the Bank improve operational efficiencies and enhanced digital capabilities.

2014

Mobile Banking Launch

With the implementation of the Core Banking System came new digital developments and innovations from the Bank. Stanbic Bank launched its first ever Mobile Banking suite to the market so customers can enjoy 24/7 digital banking convenience. The offer comprised MyUpdates, Cellphone Banking, Stanbic Bank App and enhanced Online Banking.

2015

1st Mobile Branch Launched in Botswana

Stanbic Bank launched a state-of-the-art, fully-equipped Mobile Branch to address the growing market demand for banking in Botswana. It was the first of its kind in Botswana. The Mobile Branch is part of the Bank's drive to allow easy accessibility and convenience to banking services, while allowing for greater financial inclusion and enhanced customer experience.

2016

Township Rollers Football Club Sponsorship

To strongly support sports development in Botswana, Stanbic Bank announced its 3-year sponsorship deal with local football giants, Township Rollers Football Club, valued at P3.6million. The sponsorship positioned the Bank as the main sponsor and a co-sponsor alongside Liberty Life, also a Standard Bank Group subsidiary.

2017

Celebrating 25 years

Stanbic Bank opened it doors to Batswana in 1992. To celebrate its Silver Jubilee milestone, the Bank embarked on various celebratory initiatives across the country with the inclusion of stakeholders, customers, staff and communities.

2018

Appointment of new Chief Executive

Samuel Minta was promoted to the helm of Stanbic Bank Botswana, having joined the organisation in 2014 as the Chief Financial Officer. Samuel Minta succeeded Leina Gabaraane, who moved to lead Stanbic Bank Zambia.

2019

Launched Accelerate Incubator

As part of the Youth Employability & Entrepreneurship strategic imperative, Stanbic Bank established the Acceler8 Incubator, a co-working space with the sole vision of supporting entrepreneurs and youth in accessing mentorship, coaching, access to networking, markets and funding in one central place.

2020

Digital Transformation and Innovating for Progress

The year 2020 saw Stanbic Bank accelerate our digital transformation journey with the newly established Transformation Office. The Bank introduced a bevy of new digital solutions for greater inclusion, convenience and agility, and launched the game-changing Africa China Agent Proposition (ACAP) which aims to assist Botswana's importers source and validate quality goods, safely and efficiently, from the most competitive suppliers in China. In line with our brand Purpose and our IT CAN BE proposition, this is how we continue to help transform dreams into lasting realities for and with Batswana. IT CAN BE was the new Bank proposition launched in 2020.

CRAIG ANTHONY GRANVILLE – CHAIRMAN

Chairman's report

The pandemic undoubtedly presented the world with unprecedented challenges, resulting in major disruption to markets, economies and livelihoods.

Profit after tax +116%

P302m

2019: P140m

Return on Equity

20.7%

2019: 11.2%

The new Board members bring youthfulness, contemporary digital skills and fresh perspectives into our Boardroom.

As I reflect over the year under review, I would first and foremost take a moment to extend my condolences to the many families who have lost loved ones to the COVID-19 pandemic. On the other hand, it is very pleasing to note the resilience demonstrated by the Bank during this period. The Bank's primary focus has been to prioritise the health, safety and wellbeing of all our employees, clients, business partners and their families. Notwithstanding all these challenges, the 2020 performance was very strong reflecting a resilient balance sheet and good judgement by the Management team. The Group delivered profit after tax (PAT) of P302 million (2019: 140 million) with a significant portion coming from recoveries. We are confident that the 2021 performance will be equally strong as the Group focuses on alternative revenue streams as part of its digital transformation journey.

The pandemic undoubtedly presented the world with unprecedented challenges, resulting in major disruption to markets, economies and livelihoods. In these trying moments, the Bank stepped up to provide safety-nets to clients and communities, by way of short-term loan moratoria to over 2,000 clients, provision of community support worth over P1.5 million and provision of client education to adopt safer digital banking channels.

The full force of the pandemic proved the resilience of the current three-year Legacy221 strategy, which was adopted in 2019. We remain committed to our purpose of driving the growth of Botswana and of finding new ways to fulfill the dreams of our clients and communities.

The Botswana economy, like most, has borne a heavy toll as a result of the pandemic and this has adversely impacted on the government's fiscal agenda, due to a reduction of government income and increased costs to meet the demands of the pandemic. The recovery interventions by government, while unavoidable to a large extent, will create further pressure on economic activity. The changes required for sustainability present risks, but also opportunities. The Board has carefully considered these scenarios and accordingly fine-tuned the Bank's strategy.

Governance and risks

During the year, the Board spent quality time deliberating the myriad of risks and opportunities confronting our country and clients. Some of the agenda items were:

- Health, safety and well-being of employees and clients
- Leveraging the Fourth Industrial Revolution to improve the lives of clients
- Stability and resilience of the Bank's technology platforms
- Cyber and financial crimes
- The impact of climate change and responsible banking
- Social justice and inclusive banking
- Diversification of the economy and provision of sustainable livelihoods
- Enabling the youth as a force for wealth creation

The Board, in our duty of ensuring the long-term sustainability of the Bank, and in addressing key risks, affirms the resilience and relevance of the current Legacy221 strategy which continues into 2021. There are already ongoing engagements to prepare for the next phase of the Bank's strategy, which will deepen the current digital transformation of our client journeys.

Changes in the Board

In preparing for the future, the Board has been deliberate about curating the right complement of skills, experience and diversity. On that note, the Board is delighted to welcome two new members, Mrs Mythri Sambasivan-George and Mr Mthabisi Bokete. The new Board members bring youthfulness, contemporary digital skills and fresh perspectives into our Boardroom. Mythri has extensive experience in the auditing and retail finance industry, and provides corporate strategy consulting as well as early-stage and start-up development advisory services across the continent. Mthabisi is currently the youngest member to ever serve on the Board of the Bank. He is an established innovative youth entrepreneur, the founder and CEO of the multi award-winning software company known as Digital Natives focused on digital design and marketing.

Derick Finlayson stepped down from the Board in June 2020. Derick was appointed to the Board in November 2018 and was a member of the Board Credit Risk Committee and brought deep insights to Board engagements. The Board would like to thank him for his valuable contributions to the Bank.

I remain satisfied that the Board is appropriately balanced and contains the skills required to ensure that the Bank is well-governed and that the interests of all our stakeholders are well-served.

Outlook

While the current pandemic has exposed vulnerabilities across the world, it has also presented us with opportunities to do more to improve the quality of lives across the nation. I am confident that the Bank continues to lead in supporting the recovery process for our clients and communities, and more importantly, by supporting the diversification and resilience of the economy. This is a priority of the Bank and we will continue to provide this support.

Gratitude

I express deep gratitude to each of my fellow directors for their unwavering dedication and service to the Bank. On behalf of the Board, I thank Samuel Minta and the executive management team for your strong leadership, exceptional financial performance and for your effective handling of the COVID-19 pandemic during a very tough year. In particular, I would like to thank our employees who continue to work in the front line to service our valued clients in these difficult circumstances. Finally, I do highly appreciate the support and loyalty of our clients.

Graig Granville
Chairman

Chief Executive's report

In a very tough operating environment, the Bank deepened the delivery of the Legacy221 strategy. The key differentiation has been the focus on client experience, based on the ethos that **"happy capable employees = happy profitable clients"**.

SAMUEL MINTA - CHIEF EXECUTIVE

+20.3% Loans and advances	Credit loss ratio
15.3bn	0.3%
2019: 12.7bn	2019: 3.1%

Our dream is huge, our purpose is singular; to drive the growth of the nation and to find new ways to make dreams possible for our clients, communities and employees. This is the **"It Can Be"** wave. This aspiration anchored the Bank during this very tough year, a year that is certainly one for the history books, a year when life as we knew it, took a very different turn. Who would have imagined the scale of the COVID-19 pandemic and the impact it has had on livelihoods and lifestyles across the world? At the start of the year, being the second of our three-year strategy (Legacy221), there was great excitement and confidence. From the second quarter, we quickly braced for the pandemic and became deeply focused on keeping our employees and clients alive and the Bank operational. We deemed our success in this the new measure of "profitability".

The Year in Perspective

Botswana's GDP for 2020 is one of the hardest hit by the pandemic in Southern Africa, contracting by 7.9% for the 2020 calendar year, and estimated to rebound by 8.8% in 2021. In response, the Bank Rate was cut to a historic low of 3.75% (4.75% in 2019). Inflation closed the year at 2.2% (2.2% in 2019) and is expected to rise above 5% in 2021. Government revenue was adversely impacted with a ripple impact on the budget deficit. Fiscal deficits present opportunities for government to accelerate institutional renewal and to consider alternative sources of funding critical projects via PPPs and domestic debt structures to deepen the sophistication of local financial markets.

Government's three-prong recovery plan i.e., short-term support to affected business / people; medium-term building of domestic production capacity; long-term building of infrastructure, requires the support of all players in the economy to leverage these health / economic challenges to truly diversify the economy. The private sector has a mutual duty to invest into the recovery process.

The saying, "never waste a crisis" has taken on a literal parallel with the unprecedented and accelerated pace of innovation and digitization during the COVID-19 pandemic. Under these circumstances, the Bank sought new ways to bring hope to clients and to keep dreams alive.

Highlights during the year

Botswana's GDP for 2020 is **one of the hardest hit by the pandemic in Southern Africa**, contracting by 7.9% for the 2020 calendar year, and estimated to rebound by 8.8% in 2021.

The largest investment during the year was made to **upgrade the Bank's core banking system to the latest version.** This upgrade was successfully concluded in February 2021.

Competition in 2021 will be fierce, as banks and corporates seek to rebound. **The Legacy221 strategy remains resilient and relevant** in the face of such unprecedented threats.

Strategy and Operations

In a very tough operating environment, the Bank deepened the delivery of the Legacy221 strategy. The key differentiation has been the focus on client experience, based on the ethos that **"happy capable employees = happy profitable clients"**. The voice of the client has been amplified and brought to the centre of every strategic intervention in the Bank. Key challenges which clients brought to the attention of the Bank, such as stability of digital channels, telephone access to the Customer Care Centre, queues at the branches and speed of service, are being addressed with additional investment into innovation.

The largest investment during the year was made to upgrade the Bank's core banking system to the latest version. This upgrade was successfully concluded in February 2021. This was crucial to embed deeper personalised banking solutions, improve service turnaround times and enable offsite banking from our clients' physical locations via "Moby Banker". This also opens the exciting capability for "plug & play" solutions through API collaborations with Fintech players on the Finacle Version 3 system.

With the advent of the Fourth Industrial Revolution (4IR), clients are increasingly using mobile devices and faster internet connectivity for financial services. On the back of this, the Bank has proudly introduced a platform solution **(Unayo)** presenting several benefits to clients such as inclusive banking with digital agency banking, a marketplace where businesses and clients can interact and a solution that caters to the informal sector. Under the Unayo platform, the Bank will curate several ecosystems to enable the acceleration of economic diversification. This is the first of its kind in the Botswana market.

To specifically address a few perennial client pain-points, the Love Your Customer (LYC) framework was fine-tuned to remedy speed-to-serve, and business etiquette issues experienced by some of our clients, in a systematic and structured manner.

The state of the "hearts and minds" of our employees significantly influences service quality. During the year, the employee engagement survey results reported an improvement of 9 percentage points on the number of employees who consider Stanbic Bank an employer of choice. The partnership with Salesforce and the introduction of the Salesforce Trailhead has re-invigorated the excitement of learning future-ready / employable skills among our employees, as we continue to upskill and enable our employees for the 4IR environment. On this platform, employees require 50,000 points to become **Salesforce Trailhead Rangers**. I am delighted to see how enthusiastically our people have embraced this learning opportunity, all in the interests of self-improvement and to deliver exceptional client experience. The future looks very bright indeed!

Additionally, client satisfaction surveys indicate improvements in service quality, albeit with room for improvement in specific areas. I would like to thank our clients for the feedback, for which I pledge the commitment of the leadership to address.

Finally, the AcceleR8 centre for Youth Entrepreneurship and Employability made great progress toward creating sustainable impact of producing "wealthy young business owners who are capable of employing the youth" in the fight to reduce unemployment among the youth. The "AcceleR8 4 x 4 Model" was implemented and the AcceleR8 Advisory Council, made up mainly of the youth, was launched. The coming year will see the full roll-out of the impact model. Stanbic Bank adopted strategic partnerships and "co-solutioning" with the youth as the approach to deliver on the national challenge of youth employability. As I commend our partnerships with CEDA, LEA, BITC, HRDC and Statistics Botswana, we remain open for collaboration as the only sustainable way to create impact.

Outlook

The outcome of great teamwork across the Bank, discipline of the leadership team and the passion for creating solutions for clients culminated in the Bank posting an historic profit after tax of P302 million. Overall, it has been an exceptional year for the Bank.

The real impact of COVID-19 in 2021 will hinge on the outcomes of the vaccination programme roll-out across the globe and in the country, the decisions of corporates post the lifting of the SoE and the appetite for investment and capital flows. Heavily impacted industries such as mining, tourism and real estate may see light at the end of the tunnel, depending on the efficacy of these programmes.

Competition in 2021 will be fierce, as banks and corporates seek to rebound. The Legacy221 strategy remains resilient and relevant in the face of such unprecedented threats.

Acknowledgements

The Stanbic Bank Botswana Board has been exemplary and provided wise counsel and support during a very tough year. The Executive Committee members have been phenomenal, demonstrating passion for our vision of bringing life-changing improvements to Batswana. Our employees have shown bravery, resilience and drive in the service of our clients. To our clients and service partners, we thank you for your continued support through it all. Finally, I must specially mention and thank the Bank of Botswana for the immense support to the banking industry and to Stanbic Bank specifically.

Samuel Minta
Chief Executive

Chief Financial Officer's report

Despite economic uncertainties brought by COVID-19 pandemic, Stanbic Bank Botswana will continue to support viable client opportunities, while preserving the integrity of its balance sheet and reputed financial metrics.

CHOSE MODISE - CHIEF FINANCIAL OFFICER

↓ 59.1%
Cost to income

↓ (20.7%)
JAWS

↓ 16.9%
Capital adequacy ratio

Net interest revenue +0.6%
P685m
2019:P682m

Operating costs +15.6%
P640m
2019: P554m

Economic Climate

Global economy

2020 has been an unusual year, with the COVID-19 outbreak posing significant and evolving challenges for communities, corporations, governments and regulators across the world. The rapid rise of COVID-19 cases, together with the wide range of measures to slow the spread of the virus, has slowed economic activity. As a result, the International Monetary Fund expected the global economy to contract by more than 4% in 2020 before growing by just above 5% in 2021.

The wide-ranging measures needed to slow the spread of the virus, particularly travel restrictions, hugely impacted both the tourism and the diamond industries which are very important to the economy of Botswana. Travel restrictions directly impacted on countries ability to hold diamond sight sales for the significant part of 2020.

Local economy

The annual economic growth for Botswana contracted by 7.9% compared to a 3% increase in 2019. We saw a contraction on an annual basis in Q3 2020 across all sectors except for Agriculture, General Government and Water and Electricity. The two most impacted sectors were the mining sector and the trade sector however, the mining sector showed a gradual improvement in the last quarter of the year as demand for rough diamonds picked up.

Financial Performance of the Bank

Revenue

Total income dropped 5.1% to P1.08 billion as a result of restrictive measures put in place in an effort to control the spread of COVID-19 virus. Net interest income (NII) grew 0.6% to P685 million, whilst Non-Interest Revenue (NIR) dropped by 13.5% to P398 million.

NII growth reflects the Bank's focus on originating good quality assets as well as a tightly managed funding strategy. Loan book grew by 36.4% largely through Personal and Business Banking (PBB) segment which delivers both better margins compared to other solutions of the Bank and low concentration risk. Our Corporate and Investment Banking (CIB) segment has also shown some resilience particularly in Investment Banking and Transactional Products and Services (TPS). This growth has mitigated the impact of a 125 basis points cumulative bank rate cut since October 2019.

NIR took a knock as a result of COVID-19 restrictions ranging from hard lockdowns to restricted cross border activity and international travels. The impact was more pronounced on trading revenue due to reduced FX transactions. On the other hand, fees and commissions proved to be more resilient as they only experienced a 4.4% decline to P207 million, on a net basis, despite several trade restrictions. In its quest to reduce the COVID-19 impact on clients, over and above certain limited period payment moratoria given, the Bank reduced transactional fees by 25.0% for a period of three months. However, the pandemic accelerated the Bank's digital transformation strategy with respect to launching new digital solutions and future ready platforms.

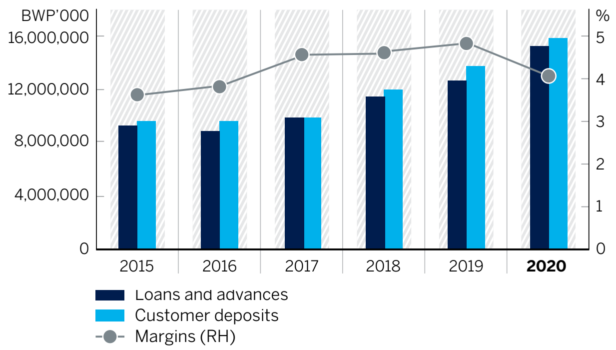
Credit impairment charges

Credit impairment charges decreased from P389 million to P40 million predominantly driven by recoveries from our CIB segment with a once-off recovery of about P80 million. PBB impairments edged up on the back of COVID-19 impact and a significant loan book growth. The Bank offered payment holidays and restructures to most impacted clients across all the business segments especially those in tourism and hospitality, transport, manufacturing and mining sectors. Overall, the loan book was resilient, only showing a limited increase in credit risk. Credit loss ratio (CLR) decreased from 3.1% to 0.3%. The normalised CLR which eliminates the once-off recovery for this year and once-off provision for prior is 0.8% (2019: 0.9%).

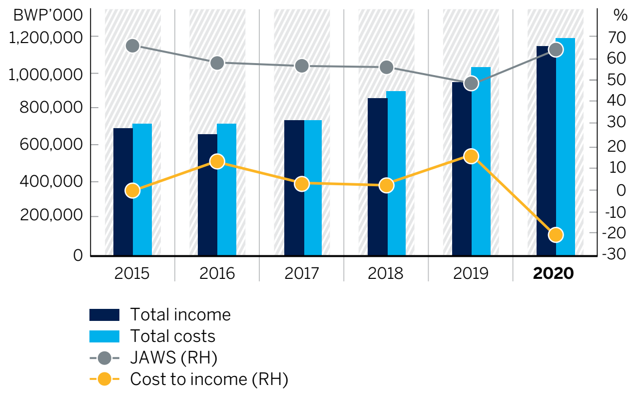
Operating expenses

Costs for the year were contained within expectations given key investments in technology and human resources. Total operating costs grew by 15.6% to P640 million. Staff costs grew 3.6% to P302 million reflecting continuous commitment in improving the Bank's employee value proposition and its future ready transformation journey. Other operating expenses increased by 29.0% to P338 million driven by strong focus on business growth and improved customer experience. This was largely through IT services (security, systems stability and support). This led to negative JAWS and an increase in the Bank's cost to income (CTI) to 59.1% from 49% in 2019.

BALANCE SHEET EFFICIENCY



TOTAL INCOME VS OPERATING COSTS



Capital and liquidity management

The Group maintained a strong capital adequacy ratio in 2020. Total capital adequacy ratio closed the year at 16.92% (2019: 17.70%), well above the minimum regulatory requirement of 12.5% (2019: 15.0%) and well within internal risk appetite.

The Group also closed with a strong liquidity position well above the approved risk appetite and tolerance limits. The prudential liquidity requirement averaged 13.9% in 2020 exceeding the minimum regulatory requirements of 10.0%. Other liquidity matrices such as the internal stress testing and net stable ratios remain in excess of internal requirements.

Outlook

We expect the global economy to grow by around 5% in 2021. However, the growth is most likely to be uneven and contingent on a successful rollout of vaccines and continued accommodative fiscal, monetary and financial conditions in the larger economies of the world. Liquidity pressures are expected to continue into 2021 as many governments go to the market for funding in order to meet the direct and indirect costs of the pandemic.

Despite economic uncertainties brought by the COVID-19 pandemic, Stanbic Bank Botswana will continue to support viable client opportunities, while preserving the integrity of its balance sheet and reported financial metrics. The global diamond industry showed signs of strong recovery in the final quarter of 2020. There are reasonable expectations that this will be sustained into 2021.

Chose Modise
Chief Financial Officer

Corporate governance report

Company registration number
The Company or Bank's company registration number is BW0000732198.

Activities
Stanbic Bank Botswana Limited provides personal and business banking and corporate and investment banking services in Botswana. The Bank has thirteen establishments across the country and has a staff compliment of 612 (2019: 569).

Holding Company
Stanbic Bank Botswana Limited is a wholly owned subsidiary of Stanbic Africa Holdings Limited. Stanbic Africa Holdings Limited is a wholly owned subsidiary of the Standard Bank Group Limited, a public company listed on the Johannesburg Stock Exchange.

The Standard Bank Group Limited traces its roots back to 1862 and has a primary listing on the Johannesburg Securities Exchange of South Africa (JSE) with a secondary listing on the Botswanan Stock Exchange (NSX).

Registered office
Plot 50371
Fairground Office Park
Gaborone

Shares in issue and stated capital
The total number of shares in issue as at 31 December 2020 is 31 936 205 (2019: P31 936 205) ordinary shares, at a stated capital of P390 177 000 (2019: P390 177 000). No shares were issued during the current or previous year.

Group results
The results for the year are set out in the accompanying financial statements and show an after-tax profit of P302 million (2019: P140 million) and P309 million (2019: P135 million) for the Group and Company respectively.

Dividends
No dividend was paid to the shareholder, Stanbic Africa Holdings Limited during the year ended 31 December 2020 (2019: PNil).

Matters not dealt with
There are no matters not already dealt with which are material to the state of affairs of the Bank or Group.

Post balance sheet events
Events material to the understanding of these annual financial statements that occurred between the financial year end and the date of these financial statements have been disclosed in note 45.

Subsidiaries and associated companies

Stanbic Insurance Services (Pty) Ltd
This company undertakes the provision of asset protection and credit life insurance products in collaboration with various insurance underwriters. Sales of these products have become embedded in the Bank's sales processes. The company reported a profit after tax of P4.7 million (2019: P5.5 million).

Stanbic Nominees Botswana (Pty) Ltd
Stanbic Bank Botswana Limited (the Bank), through its custody business, manages clients' funds and investments in securities. The Non-Bank Financial Institutions Regulatory Authority (NBFIRA) requires banks to separate assets managed on behalf of third parties from their own. Stanbic Nominees Botswana (Proprietary) Limited was established to comply with this requirement. The Company was established to ring-fence assets managed on behalf of the Bank's customers. The Company acts in a nominee capacity, which results in securities being registered in its name on behalf of the Bank's customers. The securities are not assets of the company as the company does not control the stocks and no benefits are expected to flow to the company from these investments. As such, the securities are not reflected on the company's statement of financial position but disclosed as third-party assets under management in note 40 of these financial statements.

Stanbic Financial Services (Pty) Ltd
During the financial year the Bank set up a new subsidiary in line with regulations stipulated by NBFIRA, whose requirements were to separate investment advisory and market marker activities. The new entity Stanbic Financial Services (Pty) Ltd is still undergoing regulatory approvals.

Standard Bank Group Limited – overview
The Standard Bank Group complies with the principles of the Code of Corporate Practices and Conduct (King Code). The principles of the King Code determine the standards for the Group's governance framework and practices. Stanbic Bank Botswana (the Bank) is guided by these principles. In addition, compliance with applicable legislation, regulations, standards and codes remains an essential characteristic of the Bank's culture. The Board of Directors monitor compliance with these by means of management reports. Information on the outcomes of any significant interaction with key stakeholders, such as the Bank's regulators, is also provided to the Board. The Bank complies with all applicable legislation, regulations, standards and codes in Botswana.

The Stanbic Bank Botswana Board
The Board of directors of Stanbic Bank Botswana Limited have deep experience and diverse skills, which collectively ensure that the Board operates effectively to protect and create value in the design and delivery of the Bank's strategy, and in the execution of its duties.

The Stanbic Bank Botswana Limited Board is a unitary Board.

1. Appointments and resignations
There is a formal and transparent Board-approved director nomination and appointment policy. When considering candidates for nomination, the Board considers skills matrix, need for diversity, the Bank's strategy and feedback from Board evaluations.

The following Directors were appointed during the year:

- Mythri Sambasivan-George (appointed 14 October 2020)
- Mthabisi Bokete (appointed 29 October 2020), and

The following resigned:

Derick Finlayson resigned on 11 June 2020. The Board would like to thank him for his contribution to the Bank.

2. Board induction
Newly appointed directors are provided with all relevant governance information. This includes the Bank's founding documents, mandates, governance structures, legislation, policies and minutes of previous meetings. One-on-one meetings are scheduled with management and the company secretary to introduce new directors to the bank and its operations. The remainder of the induction programme is tailored to each new director's specific requirements.

Corporate governance report

Directors' profiles

1 Craig Anthony Granville
Non-Executive Director (Independent) - Board Chairman

Qualifications BCompt (UNISA) (FCA Botswana), (FCA Zimbabwe)

First appointed to the Board in 2007, appointed Board Chairman in 2015 and reappointed as Chairman in 2020

Craig Granville is a non-executive Director and Chairman of the Board of Directors. Craig holds a BCompt Degree from the University of South Africa. He is a qualified Chartered Accountant and Fellow of the Botswana Institute of Accountants. He was previously a Partner at PricewaterhouseCoopers and is currently the Managing Director of Accpro Accountants Proprietary Limited.

Craig is a member of the Board Risk Management Committee and Board Information Technology Committee.

2 Samuel A Minta
Chief Executive

Qualifications MBA, B.Sc.ACI, CA
Appointed September 2018

The Board appointed Sam Minta as the Chief Executive of Stanbic Bank in September 2018 following his service as Acting Chief Executive with effect from January 2018. Sam is a well-seasoned Chartered Accountant, having served as CFO of Stanbic Bank Botswana since 2015. His appointment to Stanbic Bank Botswana was preceded by various executive appointments within the Group, including CFO at Stanbic Bank Zambia and COO at Standard Bank South Africa.

3 Jennifer Mary Marinelli
Non-Executive Director (Independent) - Chairperson Board Audit Committee

Qualifications BCompt (FCA)
Appointed 2009

Jennifer Marinelli is a fellow member of the Botswana Institute of Accountants. She is admitted to the Zimbabwe Institute of Accountants as a Fellow Chartered Accountant. Mrs Marinelli holds a Bachelor of Accounting Science from UNISA. She has over twenty-two years' experience employed at Deloitte & Touche and where she was an Audit Partner. She is a founding member of REPSSI and an Audit Committee member of the University of Botswana and Afinitas Limited. She was a director of Sefalana Holding Company Limited from 2001 to 2015. Mrs Marinelli has been appointed as the Chairperson of Sefalana Holding Company Limited effective 1st December 2020. She is also an associate member of the Botswana Institute of Arbitrators. Jennifer is the Chairperson of the Board Audit Committee and is a member of the Board Information Technology Committee and the Board Credit Committee

4 Orefitlhetse Masire
Non- Executive Director (Independent) - Chairperson Board Human Capital Committee

Qualifications BSc (BAdmin) (Auburn), MSc (Strategic Management) (Derby)
Appointed 2009

Orefitlhetse Masire is a non-executive director of the Bank. She is a Training & Human Resources Consultant, a director at Laurelton Diamonds Botswana, a subsidiary of Tiffany and Company, and an entrepreneur. She currently holds the position of Managing Director at Career Diversity (Pty) Ltd, is a council member of Business Botswana and a sub-committee member of the Labour, Immigration Sector of HLCC and also a member of Botho University Advisory Board. Prior to this Orefitlhetse was employed by Botswana Confederation Commerce Industry Manpower (BOCCIM) now called Business Botswana where she held key positions. She was a member of the Board at the following: Labour and Immigrants Selection Board (2017); BOTA Quality Assurance Board (until 2014); Executive Committee Member: University of Botswana Foundation (until 2009); President: Botswana Defence Force Women's Club (until 2012); Treasurer Women in Business Association (until 2014); Chairlady Catholic Women's League (until 2008).

Orefitlhetse is the Chairperson of the Board Human Capital Committee and is a member of the Board Audit Committee.

5 Dale Ter Haar
Non- Executive Director (Independent) - Chairperson Board Risk Management Committee

Qualifications BSc (BAdmin)
Appointed 2009

Dale Ter Haar is a non-executive director. Dale holds a BSc in Business Administration from Cardiff University and attended the Royal Military Academy Sandhurst. Dale is self-employed and runs a successful consultancy business. He previously served as the Managing Director of CIC Energy Botswana. Prior to this, he had a distinguished military career serving 9 years as an officer with a British tank regiment. He is on the Board of Chobe Holdings Limited and Chairman of the Remuneration and Human Resources Committee and its Board Audit Committee and is a Trustee of the Lady Khama Charitable Trust.

Dale is Chairman of the Board Risk Management Committee and a member of the Board Human Capital Committee and Board Information Technology Committee.

6 Pindie Nyandoro
Regional Chief Executive

Qualifications Bsc, MBA, LLB
Appointed 2011

Pindie was appointed to the Stanbic Bank Botswana Board on 26 May 2011, following her appointment as the Regional Chief Executive for Stanbic Bank Botswana. Pindie has held various positions in the banking industry including Managing Director Stanbic Bank Zimbabwe Limited. She is currently a Board member of Standard Bank Eswatini, Stanbic Bank Zambia, Standard Lesotho Bank, Standard Bank Botswana and Stanbic Bank Zimbabwe.

Pindie is a member of the Board Risk Management Committee and an invitee to the Board Audit Committee.

Directors' profiles (continued)

7 Rudie De Wet

Non-Executive Director (Independent) Board member

Qualifications B. Arch, University of Pretoria
Appointed 2015

Rudie is a director at Dewet Drilling Botswana a company managing / co-managing various drilling and civil engineering projects in Botswana. He is a director and shareholder of Dewet Drilling (Pty) Ltd, DWD Engineering (Pty) Ltd, Albertina Ranch (Pty) Ltd and Seleka Ranch (Pty) Ltd. Rudie is a non-executive director of Seedco International and also serves as Vice Chairman, Botswana Wildlife Producers Association.

Rudie is a member of the Board Risk Management Committee and the Board Credit Committee.

8 Mohamed Ismail

Non-Executive Director (Independent) – Chairperson Board Credit Committee

Qualifications BCom (UCT), BCompt (Hons) (Unisa), CA(NAM), CA(SA)
Appointed 2015

Mohamed is a versatile, delivery focused, assertive business leader with over forty years of experience in leading the Ismail Group of Companies, being a successful diversified portfolio of businesses ranging from petroleum retailing, liquefied petroleum gas (LPG) distribution and Quick Service Restaurants. He is the master franchisee for Chicken Licken outlets in Botswana.

Mohamed is the Chairperson of the Board Credit Committee and is a member of the Board Human Capital Committee.

9 Dr Tebogo TK Matome

Non-Executive Director (Independent) – Chairperson Board Information Technology Committee

Qualifications Doctor of Philosophy, Master of Social Sciences, Bachelor of Commerce
Appointed 2017

Dr Matome is the founding and former Chief Executive Officer of the Local Enterprise Authority responsible to lead, direct and implement the Republic of Botswana Government Strategy on SMME development. He is also a former CEO of the Botswana Stock Exchange and was responsible for developing and running the institution. He has also worked for Botswana Insurance Fund Management and lectured on money and finance modules at the University of Botswana. Dr Matome held various Board appointments including being Chairman of Bokamoso Private Hospital, Maruapula School Governing Council, Vice Chairman of the Non-Bank Financial Institutions Regulatory Authority, and ordinary member at BTA (now BOCCRA), CEDA and BCL amongst others. Dr Matome has also published several articles in international and overseas reference journals.

Dr Matome is the Chairperson of the Board Information Technology Committee and is a member of the Board Audit Committee and the Board Human Capital Committee.

10 Mythri Sambasivan-George

Non-Executive Director (Independent)

Qualifications Chartered Accountant CGMA (UK), ACMA (UK), FCCA (UK), FCPA (Botswana)
Appointed 2020

Mythri has extensive experience in the auditing and retail finance industry which she amassed through the various roles she has held. She recently left Letshego Holdings Limited after serving for about ten (10) years in various senior executive positions. Mythri's most recent role at Letshego was Group Chief Commercial Officer, which she held since 1st September 2017. Prior to that, she held various positions at Letshego Holdings Limited, including Group Head of Corporate Affairs, Group Head of Sustainability and International Communications and Group Finance Manager. Prior to her decade at Letshego, Mythri had joined KPMG as an audit trainee in 2003 and moved to Letshego having risen to Audit Manager on large and public interest entities in audit and assurance services over seven (7) years at KPMG.

Mythri Sambasivan-George is the founder and managing director of Vetri Consulting, an advisory firm that provides strategy, environmental, social and governance (ESG), corporate transaction and enterprise development support to clients across the growth spectrum.

Mythri is an independent non-executive Board member and is a member of the Board Audit Committee and the Board Credit Committee.

11 Mthabisi Bokete

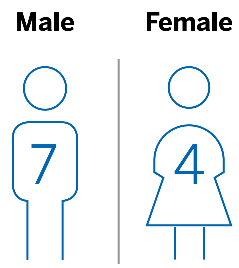
Non-Executive Director (Independent)

Qualifications B Eng. (Hons) Mechatronics
Appointed 2020

Mthabisi is currently the youngest serving Board Member in history of the Bank. He is an established innovative youth entrepreneur and the founder and CEO of the multi award-winning software company, Digital Natives, which is focused on digital design and marketing.

Digital Natives introduced and designed a Mobile Digital Wifi Enabled Truck which won the Regional SADC's Innovation Investment competition. Amongst other awards Mthabisi also won the 2019 Total Startupper competition and Huawei Most Innovative App 2017. Mthabisi was nominated for the Africa Forbes 30 Under 30 2020 awards.

Mthabisi is an independent non-executive Board member and is a member of the Board Information Technology Committee and the Board Human Capital Committee.



COMMITTEE MEMBERSHIPS
BCC
BHCC
BITC
BRMC
BAC

Executive management

Samuel Minta
Chief Executive

Chose Modise
Chief Financial Officer

Shathani Molefe
Head of Compliance

Kabo Molomo
Head of Credit
(Appointed 1st October 2020)

Moabi Letsididi
Head of Operations

Sheperd Aisam
Head of Corporate and Investment Banking (CIB)

Chedza Balopi
Head of Human Capital

Chiko Manokore
Head of Personal and Business Banking (PBB)

Stephanie Sandridge
Head of Marketing

Mmoloki Letshwao
Head of Internal Audit

Siamisang Morolong
Head of Legal

Christopher Gwere
Head of Risk

4. Board composition

The Board is currently composed of ten (10) directors (eight (8) independent non-executive directors and two (2) executive directors).

5. Board responsibilities

Ultimate responsibility for governance rests with the Board of Directors (Board). The key mandate of the Board, which forms the basis for its responsibilities, is to ensure that the Bank is a sustainable organisation capable of fulfilling its stated objectives. The Board is committed to achieving high standards of corporate governance, through transparency, accountability, good performance, effective controls, integrity and a sound ethical culture across all Group activities.

The Bank has a unitary Board structure and the roles of the chairman and the chief executive are separate and distinct. The Chairman is a non-executive director. The number and stature of independent non-executive directors ensures that sufficient independence is brought to bear on decision making.

6. Board meetings

During the year, the Board held seven meetings, including the annual strategy session. In addition to standard items on the Board agenda, which includes compliance and governance matters, the Board's key focus areas in 2020 included: client centricity and agility; people issues and future skills and issues relating to technology, cyber security and the Cloud.

The Board of Directors is provided with comprehensive documentation ten days prior to each of the scheduled meetings. A secure electronic Board management system is used to access Board papers and materials. Board packs are made available via this system prior to meetings, allowing adequate time for the Board members to apply their minds to the content.

In 2020, attendance by Directors at the meetings of the Board was as follows:

	Quarter 1 05 Mar 2020	Quarter 2 20 May 2020	Quarter 3 Special 08 Jul 2020	Quarter 3 19 Aug 2020	Quarter 3 Special 08 Sep 2020	Quarter 4 Special 05 Oct 2020	Quarter 4 07 Dec 2020
C A Granville (Chair)	√	√	√	√	√	√	√
J M Marinelli	√	√	√	√	√	√	√
D S Ter Haar	√	√	√	√	√	√	√
O Masire	√	√	√	√	√	√	√
M Ismail	√	√	√	√	√	√	√
P R De Wet	√	√	√	√	√	√	√
T T K Matome	√	√	√	√	√	√	√
D Finlayson *	√	√	n/a	n/a	n/a	n/a	n/a
P Nyandoro	√	√	√	√	√	√	√
M Sambasivan-George	n/a	n/a	n/a	n/a	n/a	n/a	√
M Bokete	n/a	n/a	n/a	n/a	n/a	n/a	√

*D Finlayson resigned from the Board and its Sub-committees effective 11 June 2020.

7. Board committees

Board Audit committee

Board Risk Management committee

Board Credit committee

Board Human Capital committee

Board Information and Technology committee

The role played by Board Committees is key in facilitating the discharge of the Board's responsibilities. The Board has delegated certain functions to its committees in line with the corporate governance framework and relevant legislation. Each committee has a Board-approved mandate.

7.1. Board Risk Management Committee (BRMC)

BRMC is mandated with the responsibility to ensure quality, integrity, reliability and independence of the Bank's risk management function. The committee assists the Board in the discharge of its duties relating to corporate accountability and associated risks in terms of management, assurance and reporting. The BRMC reviews and assesses the integrity of the risk control systems and ensures that risk policies and strategies are effectively identified, managed and monitored in order to contribute to a climate of discipline and control, to reduce the impact of risk, including fraud, in all areas of operation. For the year under review, the committee is satisfied that it has fulfilled its obligations in terms of its mandate. In discharging its responsibilities, as set out in the committee's terms of reference, the following were some of the key focus areas that were considered and approved for the year: Risk appetite and risk profile for the Bank's banking operations; on a quarterly basis, reviewed detailed risk management reports which covered key risk types, including credit, operational, country and market risk across the bank; reviewed quarterly reports on legal and reputational risk. The Committee also considered regulatory matters including updates on regulatory developments, with continued focus on AML (Anti-money laundering); and approval of the macroeconomic scenarios for the running of the Internal capital adequacy assessment process (ICAAP) stress testing process.

	Quarter 1 03 Mar 2020	Quarter 2 18 May 2020	Quarter 3 17 Aug 2020	Quarter 4 24 Nov 2020
D S Ter Haar (Chair)	√	√	√	√
P Nyandoro	√	√	√	√
P R De Wet *	n/a	√	√	√
C A Granville	√	√	√	√

*P R De Wet was appointed to the Committee on 20 May 2020.

7.2. Board Credit Committee (BCC)

The purpose of the Bank's Board Credit Committee is to ensure that effective credit governance is in place in order to provide for the adequate management, measurement, monitoring and control of credit risk including country risk. For the year under review, the committee is satisfied that it has fulfilled its obligations in terms of its mandate. In discharging its responsibilities as set out in the committee's terms of reference, the following were some of the key strategic focus areas for the year:

	Quarter 1 02 Mar 2020	Quarter 2 14 May 2020	Quarter 3 13 Aug 2020	Quarter 4 23 Nov 2020
M Ismail (Chair)	√	√	√	√
O Masire *	√	n/a	n/a	n/a
P R De Wet	√	√	√	√
D Finlayson	√	√	n/a	n/a
J M Marinelli **	n/a	√	√	√

*O Masire resigned from the Committee on 20 May 2020.
**J M Marinelli was appointed to the Committee on 20 May 2020.

7.3. Board Audit Committee (BAC)

The role of the BAC is to assist the Board with discharging its responsibility to safeguard the Bank's assets, maintain adequate accounting records, develop and maintain effective systems of internal control. The Committee provides a channel of communication between the Board, management, regulatory authorities, internal auditors and the external auditors. The overall objective of the Committee is to ensure that management has created and maintained an effective control environment in the organisation and demonstrates and stimulates the necessary respect of the internal control structure amongst all parties. For the year under review, the committee is satisfied that it has fulfilled its obligations in terms of its mandate. In discharging its responsibilities as set out in the committee's terms of reference, the following were some of the key focus areas for the year: reviewed and approved internal audit's charter and approved the internal audit plan, reviewed quarterly reports from internal audit which covered progress with audit plan delivery; review of financial reports including quarterly financial updates and updates on liquidity and capital planning and management and review of review of reports on fraud and investigations risks; considered and approved the external auditor's appointment.

7.3. Board Audit Committee (BAC) (continued)

	Quarter 1 Special 20 Jan 2020	Quarter 1 04 Mar 2020	Quarter 2 19 May 2020	Quarter 3 18 Aug 2020	Quarter 3 Special 20 Aug 2020	Quarter 4 30 Nov 2020	Special Meeting 17 December 2020
J M Marinelli (Chair)	√	√	√	√	√	√	√
M Ismail *	√	√	n/a	n/a	n/a	n/a	n/a
O Masire **	√	√	√	√	√	√	√
T T K Matome	√	√	√	√	√	√	√
P Nyandoro***	√	√	√	√	√	√	√

*M Ismail resigned from the Committee on 20 May 2020.
**O Masire was appointed to the Committee on 20 May 2020.
***P Nyandoro is an invitee to the Board Audit Committee meetings.

7.4. Board Information and Technology Committee (BITC)

The purpose of the Board Information Technology Committee (BITC) is to assist the Board to fulfil its oversight responsibilities for the Bank's investments, operations and strategy in relation to Information Technology (IT) and to ensure that relevant Governance Standards are being effectively implemented by management and that the Board receives assurance on the effectiveness thereof. During 2020, five quarterly committee meetings were held. In discharging its responsibilities as set out in the committee's terms of reference, the following were some of the key focus areas for the year - the approval of IT and data standards including a review of the Bank's IT strategy, and the Chief Information Officer's quarterly reports; considered an overview of cybercrime and cyber sub-risks affecting the financial services industry.

	Quarter 1 02 May 2020	Quarter 2 14 May 2020	Quarter 2 Special 22 June 2020	Quarter 3 18 Aug 2020	Quarter 4 23 Nov 2020
T T K Matome (Chair)	√	√	√	√	√
P R De Wet (Chair) *	√	n/a	n/a	n/a	n/a
J M Marinelli	√	√	√	√	√
D S Ter Haar	√	√	√	√	√
C A Granville **	n/a	√	√	√	√

*P R De Wet resigned from the Committee on 20 May 2020.
**C A Granville was appointed to the Committee on 20 May 2020.

7.5. Board Human Capital Committee (BHCC)

The Board has delegated the BHCC to provide general oversight on the formulation and implementation of effective and efficient Human Capital Strategy and Policies and ensure that the strategy and policies are consistent with the Bank's culture, objectives, the Bank's overall strategy and control environment. For the year under review, the committee is satisfied that it has fulfilled its obligations in terms of its mandate. In discharging its responsibilities as set out in the committee's terms of reference, the following were some of the key focus areas for the year: talent and succession planning including the executive management succession plans.

	Quarter 1 03 Mar 2020	Quarter 2 18 May 2020	Quarter 3 14 Aug 2020	Quarter 4 24 Nov 2020
O Masire (Chair)	√	√	√	√
C A Granville *	√	n/a	n/a	n/a
M Ismail	√	√	√	√
T T K Matome	√	√	√	√
D S Ter Haar **	n/a	√	√	√

*C A Granville resigned from the Committee on 20 May 2020.
**D S Ter Haar was appointed to the Committee on 20 May 2020.

8. Strategy setting and performance monitoring

The Bank's strategy is the responsibility of the Board. This is considered and approved by the Board at a meeting dedicated for that purpose. The Board monitors the Bank's performance on an ongoing basis. Performance is monitored by way of quarterly management reports and presentations at Board meetings. Deep-dive sessions are held on each business unit's performance and heads of business units attend Board meetings, as required, increasing contact between the Board and Management.

The annual offsite strategy session with the Board was held on 08 September 2020. The annual strategy session allows for the Board and Management to engage solely on strategic matters, including agreed key focus areas.

9. Skills, knowledge, experience and attributes of directors

The Board is of appropriate size. The collective background of the Board members provides a balanced mix of skills, demographics, genders, nationalities, experience and tenures to enable it to fulfil its governance role and responsibilities objectively and effectively. The Board possess the skills, knowledge and experience necessary to fulfil their obligations. The Directors bring a balanced mix of attributes to the Board, including: Financial services; Risk Management and Controls; Accounting and Auditing; IT and Digital; People development / Diversity and Inclusion; Governance and Stakeholder Engagement.

10. Access to information

Directors have unrestricted access to the Bank's management and company information, and the resources required to carry out their duties and responsibilities. Access to external specialist advice is available to directors at the Bank's expense in line with the Board-approved policy for obtaining independent professional advice by directors.

11. Directors Declarations and Conflicts of interest

Directors declare their professional and business interests to the Board before assumption of office and this declaration is continuously reviewed and updated where there are changes.

The Board is committed to acting in the best interest of the Bank, in good faith and without undue personal conflicts of interest. All Board decisions are consistently based on ethical foundations in line with the Bank's values. In line with King IV, at the beginning of each meeting all members are required to declare any conflicts of interest they have in respect of matters on the agenda. Any such conflicts are proactively managed, as determined by the Board and subject to legal provisions. The Company Secretary maintains a register of directors' interests as they occur. The Board is aware of outside commitments of directors and is satisfied that directors allocate sufficient time to enable them to discharge their oversight responsibility.

12. Rotation of directors

In accordance with the Companies Act, one-third of the non-executive directors are required to retire annually, and if available and eligible, may stand for re-election at the company's AGM.

13. Independence assessment

The Board deliberates and approves the categorisation of directors as independent using the criteria set out in the King Code. When assessing independence of directors, the review process includes a self-assessment by each director as well as consideration of each director's circumstances by the Board. Consideration is also given to whether directors' interests, position, association or relationships, are likely to influence unduly or cause bias in decision-making when judged from the perspective of a reasonable and informed third-party. Craig Granville, Jennifer Marinelli, Dale Ter Haar and Orefitlhetse Masire have served for periods longer than nine years. Following a review from which they were recused, the Board confirmed that they continue to be independent in character, demonstrated behaviour, contribution to Board deliberations and judgement, notwithstanding tenure.

14. On Going Director Training

Directors are kept abreast of applicable laws and regulations, changes to legislation, standards and codes, and relevant financial sector developments that could affect the Bank and its operations. During the year under review the following training topics were considered:

- Compliance training: Compliance Mandate-Board and Senior Management accountability and responsibility; regulatory Environment-Key regulators; and Regulatory universe-recent changes in the regulatory landscape
- AML Training
- The Bank's Digital and key Products
- Building Data Monetization Capabilities that Pay off
- Security; Data and Cloud
- Functional and Legal entity Credit Approval Process

15. Board effectiveness and evaluation

The Board and its Committees conduct annual self-evaluations to assess themselves against their objectives. The aim of the evaluation is to assist the Board in improving its effectiveness. The outcome of the evaluation is discussed at a Board meeting and any areas of concern are addressed. Relevant action points are also noted for implementation. The performance of the Chairman and the Chief Executive is also assessed annually.

16. Shareholder's responsibilities

The shareholder's role is to appoint the Board of directors.

17. Going concern

The Board has reviewed the facts and assumptions on which it relies and, based on these, continues to view the Bank as a going concern for the foreseeable future.

18. Sustainability

The Group's commitment to sustainable development and ethical business practice is premised on our belief that the only way to grow shareholder value and manage business risk over the long term is to do our best to meet the needs of all our stakeholders. As such we continue to manage the Group's non-financial impacts and contributions in a balanced and considered manner – seeking to align the interests and expectations of all our stakeholders in a way that unites commercial opportunity with social and environmental responsibility.

It is the policy of the Group to set aside a substantial percentage of it's after tax profits for community development and support.

Social and environmental responsibility remains an important part of the Group's culture. The monitoring and reporting of sustainability issues is still an evolving discipline within our organisation.

19. Social responsibility

As an African business, the Bank understands the challenges and benefits of doing business in Africa, and owes its existence to the people and societies within which it operates.

The Bank is committed therefore not only to the promotion of economic development but also to the strengthening of civil society and human well-being.

The Bank concentrates its social investment expenditure in defined focus areas in order to make the greatest impact. These areas of focus are subject to annual revision as the country's socio-economic needs change.

20. Codes and regulations

The Bank operates in a highly regulated industry and is committed to complying with legislation, regulation, and codes of best practice and seeks to maintain the highest standards of governance, including transparency and accountability.

The Bank complies with all applicable legislation, regulations, standards and codes.

21. Acknowledgements

Our sincere thanks go to our customers, staff and other stakeholders for their continued support over the past year. The guidance and diversity of the Board gives us added confidence to enable us to take our Bank to the next level.

Risk management and control

Introduction

The effective management of risk is critical to the reputation, earnings and financial position of Stanbic Bank Botswana Limited where a culture of encouraging sound economic decision-making, which adequately balances risk and reward, is embedded in all our banking activities.

A disciplined and integrated approach to managing risk is fundamental to the success of our operations. A description of the Bank's approach to risk management covering a summary of the overall methodology and the management of individual types of risks is detailed below.

Risk management approach

The Bank's approach to risk management is based on a well-established governance process and relies on both individual responsibility and collective oversight, supported by comprehensive reporting. This key philosophy influences our risk culture and is evident in the actions and behaviour of our employees and leaders as they make decisions that balance risks and reward to optimise risk-based returns.

The Bank has in place governance standards for all major risk types. All these standards are applied consistently across the Bank and are approved by the Board. These standards form an integral part of the Bank's governance structure, reflecting the expectations and requirements of the Board in respect of key areas of control across the Bank. The standards ensure alignment and consistency in the manner that major risk types across the Bank are identified, measured, managed, controlled and reported. The Bank's risk governance structure emphasises and balances strong independent oversight with clear ownership for risk control within each business unit.

The Bank has entrenched three lines of defense for effective risk management. In the first line of defense is business unit management who are responsible for conducting business to meet set objectives (growth, return etc.) and seek the best risk/return trade-offs. They are primarily responsible for risk management. Their assessment, evaluation and measurement of risk is an ongoing process integrated within the day-to-day activities of the business. This process includes the implementation of the Bank's risk management framework, identification of risk issues and the implementation of remedial action where required. Business unit management owns and manages risks within their business units.

The second line of defense consists of the Bank's Risk Management function which is independent of line management. The Risk Management function is primarily accountable for setting the Bank's risk management framework and policy which emphasises transparency, accountability and supports a common understanding among stakeholders of how the Bank manages risk. The Risk Management function defines mandates, guidelines and limits to keep business within risk appetite; they monitor the risk profile and identify potential breaches and initiate and track corrective actions. The Risk Management function is also charged with providing oversight and independent reporting to senior management at the risk management oversight committees and to the Board at the Board Risk Management Committee (BRMC).

The third line of defense consists of the Internal Audit function which provides an independent review of adherence to risk and control standards, mandates and guidelines, and is responsible for the assessment of the adequacy and effectiveness of the overall risk management framework and risk governance structures as well as identification of operational weakness. Internal Audit reports independently to the Board Audit Committee (BAC). The Head of Internal Audit reports and provides independent assurance to the BAC and has unrestricted access to the Chief Executive and the BAC Chairperson.

Risk appetite and risk tolerance

Risk appetite is the quantum of risk that the Bank is willing to accept in the normal course of business in pursuit of its strategic and financial objectives. It is normal business practice that risks taken within "appetite" may give rise to expected losses, and these are adequately covered by expected earnings through provisioning. In defining its risk appetite, the Bank takes into account its vision, mission, strategy, guiding principles, risk philosophy and capacity to bear risk.

Risk tolerance is an assessment of the maximum risk the Bank is willing to sustain for short periods of time. It emphasises the "downside" of the risk distribution, and the Bank's capacity to survive unexpected losses.

The capacity to absorb unexpected losses depends on having sufficient capital and liquidity available to avoid insolvency. Risk tolerance typically provides a useful upper boundary for the Bank's risk appetite.

The Bank's Board has ultimate responsibility for the Bank's strategic direction and an effective risk management culture, which includes evaluating key risk areas and ensuring that the processes for risk management and systems of internal control are implemented. It has delegated its risk-related responsibilities primarily to five committees: the Board Risk Management Committee (BRMC), the Board Audit Committee (BAC), the Board Credit Committee (BCC), the Board Information and Technology Committee (BITC) and the Board Human Capital Committee (BHCC) with each committee focusing on different aspects of risk management.

Internal audit assurance

The Bank's internal audit function operates under a mandate from the BAC. Internal Audit's primary objective is to provide assurance to BAC on the quality of controls in the Bank's operational activities. It assists the Executive Management team in meeting their business objectives by examining the Bank's activities, assessing the risks involved and evaluating the adequacy and effectiveness of processes, systems and controls to manage these risks. It applies a risk-based audit approach in executing its mandate. Material or significant control weaknesses and planned management remedial actions are reported to management and the BAC. These issues are tracked to ensure that agreed remedial actions have been implemented. Overdue audit issues are also reported to the BAC on a quarterly basis.

Basel II

The Basel Capital Adequacy Framework (Basel II) as defined by the Bank for International Settlements (BIS) is premised on three pillars, Pillar I: Minimum Capital Requirements, Pillar II: Supervisory Review Process, Pillar III: Market Disclosure, and aims at encouraging banks, through minimum capital requirements, to improve their risk management processes.

The Bank complies with all capital adequacy requirements as prescribed by Bank of Botswana under the revised capital standard. The Bank through its Treasury and Capital Management (TCM) unit, monitors capital adequacy with the aim of taking decisions that optimise capital.

The management of all significant risks to Stanbic Bank Botswana Limited and the general banking industry are discussed below:

Risk management in banking activities

Credit risk

Credit risk is the risk that a counterparty will be unable to pay the principal amount and interest in full, when these fall due.

The Bank has set in place comprehensive resources, expertise and controls to ensure efficient and effective management of credit risk, specifically in the banking activities, as described below.

- In lending transactions: credit risk arises through non-performance by a counterparty for credit facilities utilised. Such facilities are typically loans and advances, including the advancement of securities and contracts to support customer obligations (e.g. letters of credit and performance guarantees).

- In trading activities: credit risk arises due to non-performance by a counterparty for payments linked to trading related financial obligations.

Approach to managing credit risk

Credit risk is managed by means of a governance structure with clearly defined mandates and delegated authorities and the use of relevant credit assessment tools in the evaluation of new and outstanding facilities for customers under the respective business units discussed below.

Corporate and Investment Banking (CIB)

The use of risk rating models combined with an in-depth knowledge and understanding of each customer is essential in assessing the credit risk of each CIB counter party. A consistent credit rating framework is in place to assist the Bank in making credit decisions on new commitments and in managing the portfolio of existing exposures. The probabilities of default under these models are an important component of the formal credit assessment process of new and existing businesses. The validation and on-going enhancement of these models is a continuous focus area to ensure that the tools used in these credit assessments remain relevant and adequate.

Personal and Business Banking (PBB)

The nature of the product and strength of historical data is a fundamental dependence under credit risk management for the Personal and Business Banking customers. A diverse range of performance analysis techniques are applied across product sets and potential credits in recognition of the differing asset, maturity and individual or business profiles.

Rehabilitation and recovery form a key component of the credit cycle. All credit portfolios are closely monitored on a regular basis to evaluate the level of risk assumed against expected risk levels. This role is competently executed by a fully-fledged rehabilitation and recovery unit within the credit function.

Liquidity risk

Liquidity risk is defined as the risk that an entity, although solvent, cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due, or can only do so at materially disadvantageous terms.

Liquidity risk arises if the Bank cannot maintain or generate sufficient cash resources to meet its payment obligations in full as they fall due or can only do so at materially disadvantageous terms. Liquidity risk can arise from both internal and external risk factors.

A sound and robust liquidity management process is required to measure, monitor and manage liquidity exposures. The Bank's liquidity management framework is principles based and is aimed to measure and manage the liquidity position at various levels to ensure that all payment obligations can be met under both normal and stressed conditions without incurring additional costs.

Approach to managing liquidity risk

The nature of the Group's banking and trading activities gives rise to continuous exposure to liquidity risk. Liquidity risk may arise where counterparties, who provide the Group with short-term funding, withdraw or do not roll over that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The Group manages liquidity in accordance with applicable regulations and within the Group's risk appetite framework. The Group's liquidity risk management governance framework supports the measurement and management of liquidity across both the corporate and retail sectors to ensure that payment obligations can be met by the Group's legal entities, under both normal and stressed conditions. Liquidity risk management ensures that the Group has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times. The Group manages liquidity risk as three interrelated pillars, which are aligned to the Basel III liquidity requirements.

The following elements are incorporated as part of a cohesive liquidity management process:

- Maintaining a structurally sound balance sheet;
- Foreign currency liquidity management;
- Ensuring the availability of sufficient contingency liquidity;
- Preserving a diversified funding base;
- Undertaking regular liquidity scenario/stress testing;
- Maintaining adequate liquidity contingency plans; and
- Short term and long term cash flow management.

The cumulative impact of the above elements is monitored by the Bank's Asset and Liability Committee (ALCO) and the process is underpinned by a system of extensive internal and external controls. The latter includes the application of purpose-built technology, documented processes and procedures, independent oversight by risk management and regular independent reviews and evaluations of the effectiveness of the system by both internal and external audit.

Active liquidity and funding management is an integrated effort across a number of functional areas. Short term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and ALCO requirements. Long term funding needs are derived from the projected balance sheet structures and positions are regularly updated to ensure the Bank's adherence to all funding governance. Liquidity contingency plans are designed to, as far as possible, protect stakeholder interests and maintain market confidence in order to ensure a positive outcome in the event of a liquidity crisis. The plans incorporate an extensive early warning indicator methodology supported by a clear and decisive crisis response strategy. These plans are reviewed periodically for relevance and reliability.

We maintain a prudent approach to liquidity management in accordance with the applicable laws and regulations, these include maintaining both the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) in excess of the minimum regulatory requirements throughout 2020. These ratios are the main drivers of liquidity risk management, as such appropriate liquidity buffers were held in line with the assessment of liquidity risk in stressed market conditions across the geographies in which the Group operates.

Proactive liquidity management in line with Group liquidity standards ensured that, despite volatile and constrained liquidity environments at the onset of the COVID-19 pandemic, adequate liquidity was maintained to fully support balance sheet strategies. This has been achieved through continuous engagements between treasury and capital management, risk and business units in which the liquidity risk with respect to on- and off-balance sheet positions was carefully monitored. At the same time consideration has been provided to the adequacy of contingent funding, ensuring sufficiency to accommodate unexpected liquidity demands. The Group continues to leverage the extensive deposit franchises across the portfolio to ensure that it has the appropriate amount, tenor and diversification of funding to support its current and forecast asset base while minimising cost of funding.

Market risk

Market risk arises from a decrease in the market value of a portfolio of financial instruments caused by an adverse move in market variables such as equity, bond and commodity prices, currency exchange rates, interest rates and credit spreads, as well as implied volatilities on all of the above.

Market risk exposures resulting from trading activities are contained within the Bank's Corporate and Investment Banking trading operations. The Board grants authority to take market risk exposure to ALCO. The Bank manages market risk through a range of market risk limits and triggers. It uses a suite of risk measurement methodologies and tools to establish limits, including securities revaluation models (Mark to Market), PV01 (Present value of the nominal at the adverse interest rates shock by one basis point), stress testing, loss triggers and other basic risk management measures and internal controls.

A clear segregation of duties as well as independent reporting lines exists between the Bank's Global Markets, Global Markets Operations and Market Risk functions.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB refers to the current and/or future risk to the Bank's earnings and capital arising from adverse movements in interest rates that affect the Bank's banking book positions.

Changes in interest rates affect a 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 a bank is also affected when interest rates change, as the present value and timing of future cash flows change, influencing the underlying value of a bank's assets, liabilities and off-balance sheet items.

The governance framework adopted for the management of structural interest rate risk mirrors that of liquidity risk management in terms of committee structures and the setting of standards, policies and limits. This is also true for the monitoring process and internal controls. The interest rate gap analysis is shown under note 42.6.

Operational risk

Operational risk is the potential for loss resulting from the inadequacy of, or a failure in, internal processes, people, systems or external events.

The Bank recognises the significance of operational risk, and the fact that it is inherent in all business units. The Bank's operational risk governance standard codifies the core governing principles for operational risk management and defines a common framework with the basic components for the identification, assessment, management, monitoring and reporting of operational risk. This common framework defines the minimum requirements whilst ensuring an element of flexibility for each business unit's particular operating environment. This framework is further supported by a set of comprehensive operational risk management policies.

Approach to managing operational risk

The Bank's approach to managing operational risk has been the adoption of practices that are designed to improve the efficiency and effectiveness in the utilisation of the Bank's resources, minimising losses and effectively exploiting opportunities. This approach is aligned to the Bank's enterprise wide risk management framework and adopts sound risk management practices recommended by the Basel II Accord's Sound Practices for the Management and Supervision of Operational Risk.

The Bank's independent operational risk management function performs control and oversight roles, including the implementation of a set of appropriate policies, governance standards and tools. These tools include:

- A centralised operational loss database providing management reports which are used to identify improvements to processes and controls arising from loss trends;
- Risk and Control Self-Assessments through which existing and emerging risks and their related controls are identified and assessed;
- Key Risk Indicators, which measure specific factors to provide an early warning to proactively address potential exposures;
- An escalation matrix that supports the identification, assessment, quantification and timely escalation of risks and risk incidents to management for appropriate decision-making; and
- A robust business resilience framework, with disaster recovery plans to ensure that the Bank appropriately manages the adverse impact from unforeseeable disasters to the business and continues to provide services to its clientele at acceptable predefined levels.

Insurance Risk

Insurance Risk Management includes oversight of the effective use of insurance aligned with the Bank's risk management strategy and risk appetite. To provide additional protection from loss, the Bank manages a comprehensive portfolio of insurance and other risk mitigating arrangements.

The Bank further maintains a comprehensive insurance programme to cover residual risk as a result of losses from fraud, theft, potential liability claims, and damage to physical assets while additionally operating comprehensive internal audit and risk assurance programmes on the entire Bank's operations.

Information Technology Risk

Part of operational risk management speaks to the Information Technology (IT) component of the operational environment. The nature of the IT world dictates that the Bank implements an effective risk management and control environment and to this end, the Bank has adopted the following Frameworks:

Control Objective for Information and Related Technology (COBIT): This framework is used for governance and management of an IT enterprise. A robust control environment driven by clearly defined policies, processes and procedures as well as close monitoring of all system performance and access to the technology enabled assets are at the core of managing the technology risks. This also includes the availability of services offered through the technology domain.

Information Technology Infrastructure Library (ITIL): The Bank has adopted the ITIL framework to manage IT service delivery which is at the core of our strategic delivery to ensure a continuation of service to our customers and our industry partners.

Information Security Forum's Standard of Good Practice: The Bank has adopted this Standard as it is the most comprehensive and current source of information security controls available, enabling the Bank to adopt good practice in response to evolving threats and changing business requirements.

In keeping with sound Corporate Governance practices, the Board ensures that prudent and reasonable steps have been taken with respect to fulfilling its responsibilities for Information Technology (IT) Governance. To assist the Board to fulfil this obligation, the Executive Committee has been delegated the authority of oversight of the management of IT Governance. The IT Steering Committee has therefore been formed as a sub-Committee of the Executive Committee and provides assurance to the Board regarding the performance of IT as a strategic asset.

The purpose of the Committee is to provide assurance to the Executive Committee and the Board that management has implemented effective Technology Governance structures that support the effective and efficient management of resources, the optimisation of costs and the mitigation of risk in a secure and sustainable manner. The Committee meets on a monthly basis and has a mandate from the BITC to which it reports on a quarterly basis.

Human Capital Risk

The Human Capital Committee serves as a subcommittee of the Executive Committee.

The purpose of the Committee is to provide focus and direction on Human Capital matters to ensure successful delivery of Human Capital strategies and plans and to ensure that the Bank is resourced sustainably with a pool of diverse, highly skilled, motivated and effective workforce, capable of delivering on the Bank's Strategy.

The Committee meets on a monthly basis and is under a mandate of the BHCC to which it reports on a quarterly basis.

Business Resilience

Within the Bank, Business Resilience is a specialist operational risk discipline enabled by three capabilities, which are integrated in a single framework to provide an agile, cohesive and coordinated suite of point-in-time response and recovery interventions to counter the financial and reputational impacts of worst case operational disruptions.

The three Business Resilience capabilities within the Bank are Emergency Response, Crisis Management and Business Continuity Management (BCM) which includes IT Service Continuity. Business Resilience ensures timely availability of all key processes which are required to support essential activities and customer services in the event of a disruption of business. The Bank tests, both periodically and as appropriate, its business continuity plans, IT Disaster Recovery plan and conducts evacuation drills across all its points of representation with a view of testing the adequacy, reliability and resilience of the plans.

COVID-19 has led to the worst economic shock in living memory. In March 2020, the World Health Organisation declared COVID-19 a pandemic and countries responded with widespread lockdowns. The bank responded to the lockdowns and risk of the pandemic spread by adopting the COVID-19 protocols and splitting its workforce between working from the office, working from home and other alternative sites.

Compliance risk

Compliance is an independent core risk management function of the Bank, which has unrestricted access to the BRMC, Chief Executive and the Chairman of the Board.

The Bank ensures compliance to various Regulatory prescriptions such as laws, guidelines and policies by embedding the compliance risk management framework across all business areas. The Bank operates a centralised Compliance function which is run by a fully resourced specialised unit that provides oversight on all compliance related matters. The Compliance unit provides leadership and the Bank with guidance on existing and emerging legislative developments through training and stakeholder engagements where the compliance issues specific to the business area are discussed. The aim of which, is to ensure that compliance risk is managed by all staff and stakeholders of the Bank in their respective positions. Once the knowledge of an Act, Regulations, Guidelines and Policies is embedded in the business unit's operations, the Compliance function conducts a monitoring review to determine the adequacy of the controls and ascertain the level of compliance risk the Bank faces in relation to the business function.

Money Laundering Control

The Anti-Money Laundering (AML) and Counter Terrorism Financing (CTF) landscape was enhanced significantly in 2018 to align with the Financial Action Task Force (FATF) recommendations. As a result, the Financial Intelligence Act and regulations were amended for adoption across the country. The changes in legislation have been incorporated into the Bank's risk management framework and mitigating controls have been incorporated into the operational policies, processes and procedures to combat risks of money laundering and financing of terrorism across the Bank's network.

Occupational Health and Safety

The health and safety of employees, clients and other stakeholders and the environment continues to be a priority. The Bank seeks to effectively identify, reduce or control accidents or injuries to employees, contractors and clients. The Bank continues to focus on ensuring compliance with current legal and regulatory framework and ensuring that occupational health and safety procedures are closely linked to the operational needs of the business.

Taxation risk

Taxation risk is the possibility of suffering losses, financial or otherwise, as a result of the misapplication of tax systems (whether in legislative systems, rulings or practices) applicable to the entire spectrum of taxes and other fiscal imposts to which the Bank is subject.

The Bank fulfils its responsibilities under tax law in relation to compliance, planning or client service matters. Tax law includes all responsibilities which the Bank may have in relation to company taxes, personal taxes, capital gains taxes, indirect taxes and tax administration.

The identification and management of tax risk is the primary objective of the Bank's tax and regulatory function, and this objective is achieved through the application of a tax risk matrix approach, which measures the fulfilment of tax responsibilities against the specific requirements of each category of tax to which the Bank is exposed, in the context of the various types of activity the Bank conducts.

Reputational risk

Safeguarding the Bank's reputation is of paramount importance to its continued operations and is the responsibility of every member of staff. Reputational risks can arise from social, ethical or environmental issues, or as a consequence of operational risk events. Stanbic Bank's strong reputation is dependent upon the way in which it conducts its business, but it can also be affected by the way in which its clients, to whom it provides financial services, conduct themselves.

Management of all operating activities is required to establish a strong internal control structure to minimise the risk of operational and financial failure and to ensure that a full assessment of reputational implications is made before strategic decisions are taken. The Bank sets clear standards and policies on all major aspects of the business and these standards and policies are integral to the Bank's system of internal controls and are communicated through procedures, manuals and appropriate staff training.

Business/Strategic risk

Strategic risk is the risk of adverse outcomes resulting from a weak competitive position or from a choice of strategy, markets, products, activities or structures. Major potential sources of strategic risk include revenue volatility due to factors such as macroeconomic conditions, inflexible cost structures, uncompetitive products or pricing, and structural inefficiencies.

It is not cost effective to attempt to eliminate all business or strategic risk and it would not, in any event, be possible to do so. Events of small significance are expected to occur and are accepted as inevitable; events of material significance are rare and the Bank seeks to reduce the risk from these in a framework consistent with its expected risk profile and appetite.

Risk Data Aggregation and Risk Reporting (RDARR)

After the financial crisis in 2008, it became clear that banks did not have the necessary risk information readily available to understand their exposures to counterparties. Poor decisions were being made, based on poor data and supervisory regulators failing to identify and address large concentrations of risk taken on by some banks.

To rectify this, the Basel Committee on Banking Supervision (BCBS) published BCBS 239, "The Principles for Effective Risk Data Aggregation and Risk Reporting". The BCBS 239 standard introduces a global, overarching risk data aggregation and risk data reporting framework. It comprises a set of principles aimed at making sure the aggregation of data is such that banks can monitor risks accordingly and, importantly, report on them accurately and in a timely fashion.

RDARR is a business initiative within the Bank that aims to strengthen our risk data aggregation capabilities, and internal risk reporting practices. RDARR is underpinned by the 11 BCBS 239 principles that are relevant to banks. RDARR provides openings to think and do things differently - to optimise the competitive advantages and market opportunities that comprehensive risk reporting and management of risk information can provide.

The backbone of the RDARR programme is risk data, how we aggregate, trace its origins, improve its quality and overall use of risk data as an asset from which to make informed and proactive business decisions.

RDARR will enable the Bank to:

- Formulate our business strategies and aspirations taking into account a transparent and accurate assessment of our risks and opportunities to drive a competitive advantage;
- It will provide us with the opportunity to enhance the infrastructure for reporting key information so as to support the Board and senior management in identifying, monitoring and managing risks; and
- It will improve confidence in the information that is made available and shorten the decision-making process throughout the Bank.

Resolution and Recovery Planning (RRP)

Resolution and Recovery Planning (RRP) seeks to identify management actions which would be adopted during periods of severe stress to ensure the survival of the Bank and the sustainability of the economy of Botswana. This calls for identification of options available to the Bank to regain full financial viability in times of severe financial stress.

The four major building blocks of the Bank's RRP are:

- STRATEGY SETTING AND DEFINING RISK APPETITE;
- RISK IDENTIFICATION AND MEASUREMENT;
- CAPITAL ADEQUACY PLANNING AND STRESS TESTING; AND
- MONITORING, MANAGEMENT AND COMMUNICATION.

The capital adequacy ratio reflects the capital strength of an entity.

Stanbic Bank Botswana Limited is required to meet the Bank of Botswana capital requirements, set at a minimum capital adequacy ratio of 12.5 percent (2019: 15.0 percent).

Qualifying capital

Qualifying capital is divided into two tiers: primary and secondary.

Primary capital (Tier I) comprises funds raised through the issue of ordinary shares, non-redeemable, non-cumulative preference shares, retained earnings and reserves (other than regulatory reserves).

Secondary capital (Tier II) comprises cumulative preference shares, certain subordinated loan funding and general debt provisions net of any related deferred tax.

Risk weighted assets

Risk-weighted assets (RWA) represent an aggregated measure of different risk factors affecting the evaluation of financial products and transactions in a bank. The aggregation considers credit, market and operational risk. RWA for credit risk are determined by applying a set risk-weighting to on and off-balance sheet financial investments, according to the relative credit risk of the counterparty.

RWA for market risk is determined by applying prescribed risk weights to market risk exposures. Market risk factors considered are changes in the Bank's trading book due to changes in equity prices, interest rates, credit spreads, foreign-exchange rates, commodity prices and other indicators whose values are set in a public market.

RWA for operational risk is calculated using a methodology consistent with the qualitative and quantitative criteria as defined in Basel II.

Corporate social investment report

Introduction

Across Stanbic Bank Botswana, we recognise that the success of our business is inherently interwoven with the success of our people, our communities and our wider ecosystem.

This is because, at the heart of all that we do, is the recognition that we cannot exist in isolation as a corporate citizen or indeed as a member of society; nor do we wish to.

We create value by living our Purpose and achieving our Vision through the diligent execution of our strategy, a strategy which is underscored by the unwavering desire to improve lives, create hope, and make dreams possible. Our strategic value drivers measure our strategic progress and the value we create for our various stakeholders: value for clients through delivering complete and relevant solutions; value for employees through shaping a workforce that is ready to meet our clients' needs now and in the future, united and motivated; value for stakeholders by doing the right business and in the right way; value for our shareholders by meeting our medium-term financial targets and ensuring positive returns; and value for society by driving positive, inclusive and sustainable impact across Botswana. Botswana is our home and we drive her growth.

Key to this is the Social, Economic and Environmental (SEE) strategic value driver, bringing to life our determined and deliberate focus on ensuring Social, Economic and Environmental progress and impact in all that we do, so that the positive returns we bring go beyond simply our financial returns. SEE played an integral part in our operations and engagements throughout the year 2020, underpinning how our business activities and our stakeholder engagement were harmonised. This cut across various spheres, from Education, to COVID-19 Community Relief and SME support, to name a few.

Impact areas:

- Education
- Financial Inclusion
- Infrastructure
- Job Creation & Enterprise Growth
- African Trade & Investment
- Climate Change & Environmental Sustainability

Corporate Social Investment Activities

Education and financial literacy

- **Mahupu Unified Secondary School educational:** In March 2020, we hosted 60 Business Studies students from Mahupu Unified Secondary School, Takatokwane, for an educational trip. Held at our Head Office, the all-day engagement presented an opportunity for us to present to the students on Money, Banking and Finance topics to unpack their school curriculum with the aim of helping them improve their academic performance.

- **Better My Lebotha (BML) financial literacy radio series:** we hosted our 5th season of the six months long radio financial literacy series on Yarona FM, with a clear focus on youth theme of "Let's Talk Youth Employability + Entrepreneurship." The season's topics covered information and skills young people can use to better prepare themselves for joining the job market and for a more entrepreneurial mindset, with expert guests invited, selected for their skills, organisation and relevance to the topic, to unpack key issues further. Amongst the key themes discussed on air were: Starting out as a new employee; Looking for a job; Career development, upwards or outwards; and Giving SMEs access to markets. These were based on crowdsourced content of what youth desire to learn more about and discuss further, shared with us in a number of previous youth platforms, as well as through digital feedback platforms.

- **Financial Literacy Drive for media:** through existing external platforms that we were involved in, such as a local fashion and design platform by Masa Square Hotel, to our own platforms driven directly by Stanbic Bank, we hosted a number of media financial literacy platforms to educate our colleagues in the media space on basic money management, handling personal finances, savings and investments. This was both to better empower them to report on such topics, as well as to empower greater money management in their capacities as individuals.

- **Junior Achievers Botswana (JAB) Memorandum of Understanding:** In March 2020, we partnered with Junior Achievement Botswana (JAB) on their secondary school programme aimed at driving Entrepreneurship and Financial Literacy Training in 1,500 secondary schools across the country. This included a total of 45 schools, 32 of which are Junior Secondary Schools and 13 Senior Secondary Schools. The purpose of the collaboration, formalized through signing of a Memorandum of Understanding for long-term alignment, was to help uplift secondary school students, further drive the Youth Employability and Entrepreneurship agenda and promote financial inclusion.

- **Celebrating the BIUST graduation:** In December 2020, we joined Botswana International University of Science and Technology (BIUST) in celebration of the academic achievement of students from the University on their 2020 graduation day. Our Chief Executive, Mr. Samuel Minta, was part of the programme at this year's virtual graduation held under the theme Innovation, Technology & Entrepreneurship: Access to a Knowledge-based Economy in the COVID-19 Era. As a regular sponsor of the BIUST graduation ceremonies, we remain committed to making a sustainable contribution not only to access higher education, but also to employment initiatives, employability and job creation.

- **Therisanyo Primary School donation:** Our Finance team heeded the call to champion greater staff involvement in community work, raising funds to donate school uniforms to this Gaborone school, as well as sanitary items. This donation was a true demonstration of our Corporate Social Investment pillars, wherein Education and Health are key tenets and a strong reflection of our passion for volunteerism and making a meaningful difference in the communities in which we operate.

Mahupu Unified Secondary School Financial Literacy Programme Lead by Human Capital

CIB Connect Economic Forum Panelists

Employability and entrepreneurship

- **AcceleR8 Incubator:** The AcceleR8 space serves as a dynamic and fluid platform for youth to fuel innovation and ideation, as well as an incubator for impactful businesses. This is yet another means for us to help build legacies and invest in youth employability and entrepreneurship, working with key partners and stakeholders across the public and private sector to realise this ambition. This entails co-creating a sustainable solution on Youth Employability to contribute towards reducing youth unemployment, increasing export diversification and driving wealth creation for the youth. During 2020, AcceleR8 hosted and collaborated on a number of engagements working towards achieving its vision, also installing a dedicated advisory board to help ensure best practice and governance. We launched books and help authors market their talents, celebrated artists and new entrepreneurs, and continued to provide coaching, mentorship and advice on access to markets and funding. Through the acceleration programme we are assisting existing youth business in realising their true growth potential.

- **Conversations:** Building on our desire to encourage positive progress in the youth employability and entrepreneurship space, we established the "#Conversations" Instagram series, a platform which gave a nod to some of Botswana's most notable entrepreneurs. The segment saw both seasoned and aspiring entrepreneurs discussing their personal journeys as well as various issues affecting young entrepreneurs in Botswana and encouraged conversations on key aspects of the entrepreneurial world of youth and in some cases seasoned practitioners to help share learnings and insights amongst the growing community of young people in business.

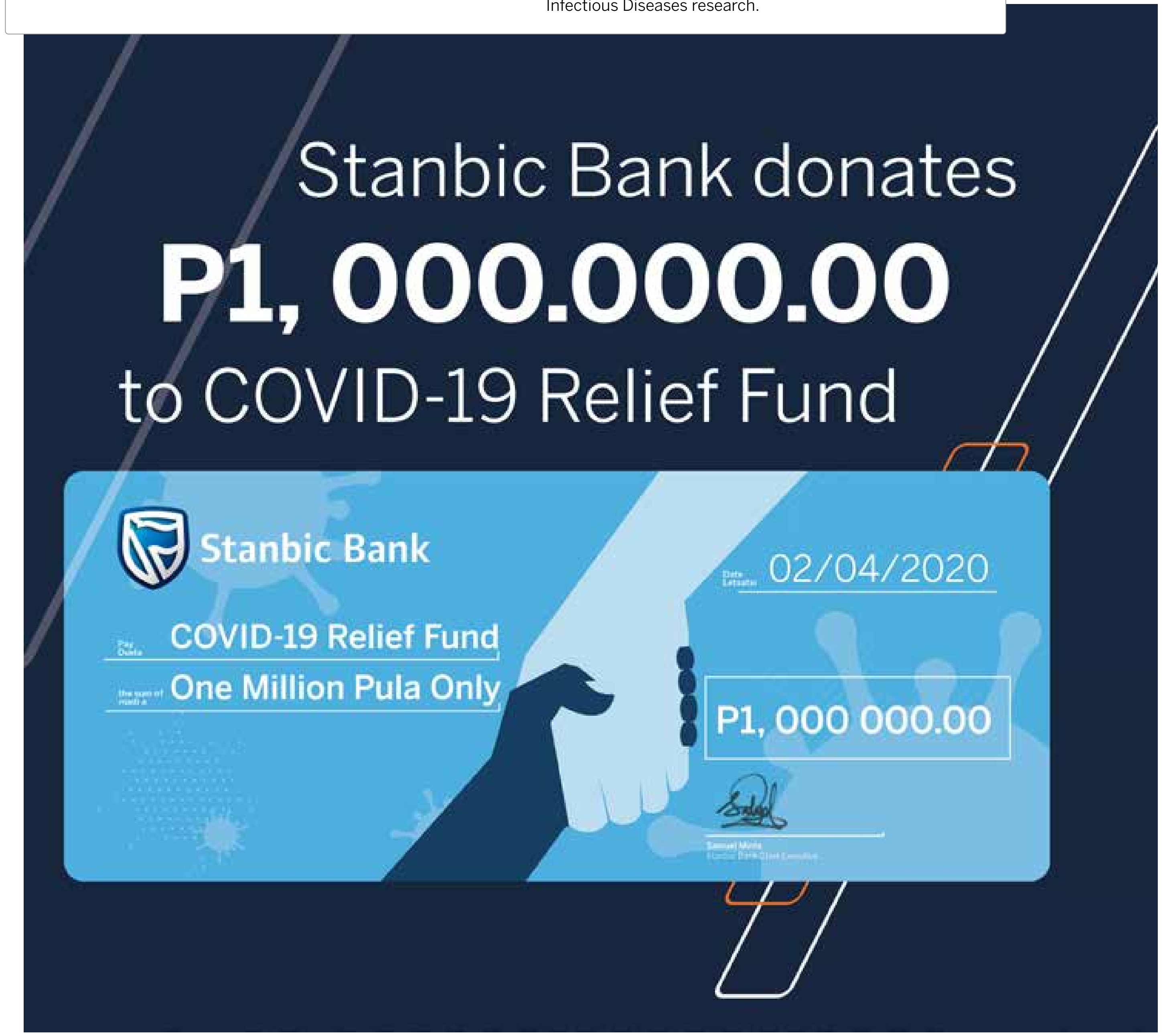
- **Project 124:** In today's times, world economies look to the youth, particularly in the space of entrepreneurship and job creation to fuel economic development. It is in this light that we were honoured to be the Project 124 Entrepreneurs Conference coined "The Next Normal", under the theme "Accelerating Entrepreneurs Towards Better Futures" at our AcceleR8 Incubator. This is a subject matter we are passionate about and were excited to host a number of industry experts, with guest of honour Minister of Investment, Trade and Industry, the Honourable Peggy Serame. We are proud of our association with Project 124. Established in 2015, Project 124 stands to be the leading private and citizen-owned youth entrepreneurship development program in Botswana, providing classic and practical training, mentorship, funding, networking and growth for entrepreneurs.

Board and Exco members at the International Women's Day Celebration

Corporate Social Investment Activities (continued)

COVID-19 relief

- **Support of relief efforts during COVID-19 pandemic:** We remain committed to supporting Government's efforts towards managing the impact and indeed potential further impact of COVID-19 on the National economy and our fellow Batswana. Further to the announcement that a Relief Fund had been established by Government to mitigate the impact of COVID-19, we committed P1 000 000 towards the Fund in April 2020.
- **Donation of COVID-19 relief items:** In July 2020, we officially handed-over community relief collateral to Mahupu Unified Secondary School in Takatokwane. Our donation of 1,850 protective masks, 150 toiletry hampers and 100 sanitisers was testament to our unwavering commitment to uplift the communities in which we serve. In July 2020, we extended a further wave of relief efforts with a donation of community relief collateral distributed amongst community members in Gaborone, Palapye, Selibe-Phikwe, Francistown, Maun, Kazungula and Mogoditshane. This included 4,000 masks, 2,000 sanitisers, 500 toiletry hampers and P100 000 to the University of Botswana Research Division towards COVID-19 Infectious Diseases research.



Corporate Social Investment Activities (continued)


CANA 2020 Swimming Championships

Enhancing the business ecosystem

- **Facilitating Ease of Trade with ACAP:** In April 2020, we launched our Africa China Agent Proposition (ACAP), which aims to assist Botswana's importers source and validate quality goods, safely and efficiently, from the most competitive suppliers in China. The initiative provides access to a universe of Chinese suppliers and eases the cash flow of importers through expert financial support and empowering importers with insight and control of the entire importing and logistics process.
- **Ngwana Enterprise - Connecting the City Challenge:** In June 2020, we provided financial support under CSI to Ngwana Enterprise towards e- Connecting the City Challenge, by NGWANA AFRICA in partnership with Botswana Innovation Hub. The event was led by GEN and NGWANA AFRICA staff and trained Group facilitators from around the world and experts from the startup ecosystem in Botswana. The focus was on generating great ideas in response to local challenges and opportunities in the City of Francistown. In alignment to the "new normal" the project adopted the model of a virtual workshop which used a design thinking process to collaboratively generate and refine solutions.
- **CEDA, Stanbic Bank Botswana Landmark Agreement:** We signed a Memorandum of Understanding (MoU) with the Citizen Entrepreneurial Development Agency (CEDA) in September 2020 to facilitate seamless importation of goods and services from China by CEDA-funded clients. The solution was facilitated through the Africa China Agent Proposition (ACAP), which provides buyers from Africa with exclusive access to accredited trade agents in China. The partnership with Stanbic Bank Botswana enables CEDA clients to source their inputs, raw materials and machinery from China with reduced risks and challenges. Through this agreement, CEDA-funded projects will be able to connect with reputable suppliers to ensure seamless trade.

Sports development

- **Support for football giants, Township Rollers:** In January 2020, we reaffirmed our support for sports development in Botswana with the renewal of our three-year sponsorship agreement with local football giants, Township Rollers Football Club. The renewed agreement sees us as the main sponsor of the Club for the period 2019-2022. The sponsorship is aligned to our mandate of moving communities forward by partnering with organisations dedicated to the development of young talent. This ultimately contributes to the growth and discipline of athletes in Botswana.
- **Backing Team Botswana at CANA ZONE IV Swimming Championships**: As excitement built ahead of the Confederation Africaine de Natation (CANA) ZONE IV Swimming Championships hosted in Botswana in February 2020, we sponsored the tournament and encouraged Batswana to show the National team representing us boundless support. The CANA Zone IV Championships is a regional event and is hosted on a rotational basis and has been in existence for over 19 years. 2020 was the first year that Botswana has hosted the CANA Zone IV Championships. It was a privilege and an honour to have partnered with Botswana Swimming Sports Association (BSSA) to bring the CANA Zone IV Swimming Championships to Botswana.

As Stanbic Bank Botswana, we constantly work to make life better for our fellow Batswana by doing the right business, the right way, contributing to the financial wellbeing of our clients, and supporting sustainable and job-creating growth of the Botswana's economy. We are committed to tracking, assessing and reporting on our SEE impacts and 2020 was testament to this, as we work to deepen our impact for all our valued stakeholders in a meaningful, sustainable manner.

Annual financial statements

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Group is required by the Companies Act to prepare financial statements for each financial period.

The directors are responsible for the preparation of the Group and Company financial statements of Stanbic Bank Botswana Limited that give a true and fair view; comprising the statements of financial position at 31 December 2020, profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, significant accounting policies and the notes to the financial statements, in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, and in the manner required by Banking Act (Cap 46:04) of Botswana.

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

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

The directors have made an assessment of the Bank and its subsidiaries' ability to continue as going concerns and have no reason to believe these entities will not continue as going concerns in the foreseeable future. An impact assessment of the COVID-19 pandemic is provided in note 42.6 of these financial statements.

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

Approval of the Group's financial statements and financial statements of the Bank:

The Group and the Bank's financial statements were approved by the directors on 18 March 2021 and are signed on their behalf by:

S.A. Minta
Director

C.A. Granville
Director

KPMG

KPMG, Chartered Accountants Audit
Plot 67977, Off Tlokweng Road, Fairgrounds Office Park
PO Box 1519, Gaborone, Botswana Telephone +267 391 2400
Fax +267 397 5281
Web http://www.kpmg.com/

Independent Auditor's Report

To the shareholder of Stanbic Bank Botswana Limited

Opinion

We have audited the consolidated and separate financial statements of Stanbic Bank Botswana Limited (the Group and Company) set out on pages 40 to 137, which comprise the statements of financial position at 31 December 2020, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, accounting policies and notes to the financial statements.

In our opinion, these consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Stanbic Bank Botswana Limited at 31 December 2020, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04) of Botswana

Basis for opinion

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

Key audit matters

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

Credit impairment for loans and advances to customers

This key audit matter is applicable to both the consolidated and separate financial statements.

Refer to accounting policy 6, note 21.1 relating to key management assumptions, note 22.8 on credit impairment losses on loans and advances, note 27 on loans and advances and note 42.3 on credit risk.

Key audit matter	How the matter was addressed in our audit
The Group's and the Company's core business involves providing loans and advances to individuals and to the commercial and corporate sectors. Consequently, the main component of the Group's and Company's financial assets comprise loans and advances to customers which is significant to the total assets of the Group and Company. Expected credit losses (ECL) relating to loans and advances to customers represent management's best estimate of the losses expected within the loans and advances portfolio. Management applies significant judgement in respect of the following: — Evaluation of significant increase in credit risk (SICR);	Our procedures included: — We evaluated the design and implementation, and where applicable, the operating effectiveness of key controls over the loan impairment processes implemented for credit models, inputs, assumptions and management's oversight over the ECL. — We evaluated the design and implementation and the operating effectiveness of controls relating to the loan origination process and credit reviews. — We critically evaluated the ECL models and key assumptions applied in the calculation of the ECL relating to both the specific and portfolio ECL. This included the use of credit risk specialists who evaluated the reasonableness of the assumptions used in the models and evaluated the accuracy of the calculations in the models.

Key audit matter	How the matter was addressed in our audit
— Determination of macroeconomic inputs and forward looking information used in the SICR assessment and ECL measurement that includes the impact of COVID-19 on the postmodel adjustment made; — Evaluation of the ECL raised for stages 2 and 3 exposures; and — The estimation of the probability of default (PD), exposure at default (EAD) and the loss given default (LGD). Due to the significance of the loans and advances to customers and the significant estimation uncertainty and judgement involved in determining the ECL, credit impairments for loans and advances to customers was considered to be a key audit matter.	— We assessed and challenged the data inputs into these ECL models, including key assumptions, evaluation of SICR, estimated macroeconomic inputs, forward looking information, present values of collateral, timing of cash flows, stage classification of exposures and the estimated PD, EAD and LGD by comparing to the economic scenarios provided by the Bank of Botswana and approved by the Asset and Liability Committee, industry norms and internal business practices. This included assessing the ability of the model to reflect the impact of COVID-19 through appropriate calibration. — We assessed individual loans included under stage 3 to ensure they are adequately provided for by reviewing appropriateness of the bucketing between different stages. — We benchmarked the calculated model outcomes to other banking entities to assess the reasonableness thereof. — Where management's experts provided valuations in respect of collateral, we assessed the experts' competence and evaluated management's controls in respect of the appointment of the experts, including assessment of their professional qualifications, experience and independence. — We assessed the adequacy of the disclosure made in the financial statements against the requirements of IFRS 9, Financial Instruments.

Other information

The directors are responsible for the other information. The other information comprises all the information contained in the document titled "Stanbic Bank Botswana Limited Group and Company Annual Financial Statements for the year ended 31 December 2020", but does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

Responsibilities of the directors for the consolidated and separate financial statements

The directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04) of Botswana, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/ or the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is 41 higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

KPMG

KPMG

Certified Auditors
Practicing member: Gosego Motsamai (20030026)
Certified Auditor of Public Interest Entity
BAOA Certificate Number CAP 035 2019

09 April 2021
Gaborone

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	Group		Company	
		2020 P000's	2019 P000's	**2020 P000's**	2019 P000's
Interest income	22.1	**941 048**	913 911	**941 048**	913 911
Interest expense	22.2	**(255 617)**	(232 243)	**(255 632)**	(232 257)
Net interest income		**685 431**	681 668	**685 416**	681 654
Fee and commission income	22.3	**262 859**	268 829	**251 370**	258 803
Fee and commission expense	22.4	**(55 722)**	(52 270)	**(55 723)**	(52 273)
Net fee and commission income		**207 137**	216 559	**195 647**	206 530
Net trading income	22.5	**174 491**	222 048	**174 491**	222 048
Other income	22.6	**16 419**	21 977	**33 611**	25 679
Other gains and (losses) on financial instruments	22.7	**294**	(237)	**294**	(237)
Non-interest income		**398 341**	460 347	**404 043**	454 020
Total income		**1 083 772**	1 142 015	**1 089 459**	1 135 674
Credit impairment charges	22.8	**(39 983)**	(389 046)	**(39 983)**	(389 046)
Net income		**1 043 789**	752 969	**1 049 476**	746 628
Staff costs	22.9	**(302 383)**	(291 851)	**(302 383)**	(291 851)
Other operating expenses	22.10	**(337 587)**	(261 660)	**(339 201)**	(261 406)
Total operating expenses		**(639 970)**	(553 511)	**(641 584)**	(553 257)
Profit before indirect tax		**403 819**	199 458	**407 892**	193 371
Indirect tax	22.12	**(19 462)**	(22 590)	**(19 439)**	(22 459)
Profit before direct tax		**384 357**	176 868	**388 453**	170 912
Direct tax	22.12	**(81 933)**	(37 142)	**(79 808)**	(35 559)
Profit for the year		**302 424**	139 726	**308 645**	135 353
Total comprehensive income for the year		**302 424**	139 726	**308 645**	135 353

S.A. Minta
Director

C.A. Granville
Director

STATEMENTS OF FINANCIAL POSITION

At 31 December 2020

	Note	Group		Company	
		2020 P000's	2019 P000's	**2020 P000's**	2019 P000's
Assets					
Cash and balances with the Central Bank	23	**419 866**	608 600	**419 866**	608 600
Derivative assets	24.3	**430**	29 142	**430**	29 142
Trading portfolio assets	25	**3 980**	37 808	**3 980**	37 808
Financial investments	26.1	**2 562 223**	2 550 381	**2 562 223**	2 550 381
Loans and advances	27.1	**15 263 715**	12 687 741	**15 263 715**	12 687 741
Loans and advances to banks	27.1	**3 518 567**	4 078 666	**3 518 567**	4 078 666
Loans and advances to customers	27.1	**11 745 148**	8 609 075	**11 745 148**	8 609 075
Other assets	28	**117 507**	101 568	**127 850**	101 445
Current tax asset	32	**49 994**	7 005	**49 629**	5 576
Investment in subsidiaries	29	**-**	-	**1 922**	33
Intangible assets	30	**166 191**	165 004	**166 191**	165 004
Property, equipment and right of use assets	31.1	**174 992**	152 264	**174 992**	152 264
Deferred tax asset	32	**32 148**	64 606	**32 148**	64 606
Total assets		**18 791 046**	16 404 119	**18 802 946**	16 402 600
Liabilities and equity					
Derivative liabilities	24.3	**8 040**	15 491	**8 040**	15 491
Deposits	33	**15 855 480**	13 767 170	**15 892 800**	13 799 074
Deposits from banks	33	**1 077 578**	1 484 980	**1 077 578**	1 484 980
Deposits from customer accounts	33	**14 777 902**	12 282 190	**14 815 222**	12 314 094
Accruals, deferred income and other liabilities	34	**356 103**	321 679	**351 403**	315 197
Debt securities in issue	35	**958 720**	989 500	**958 720**	989 500
Liabilities		**17 178 343**	15 093 840	**17 210 963**	15 119 262
Equity					
Stated capital	36.1	**390 177**	390 177	**390 177**	390 177
Reserves	36.3	**1 222 526**	920 102	**1 201 806**	893 161
Equity - attributable to ordinary shareholders		**1 612 703**	1 310 279	**1 591 983**	1 283 338
Total liabilities and equity		**18 791 046**	16 404 119	**18 802 946**	16 402 600

S.A. Minta
Director

C.A. Granville
Director

STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 December 2020

Group	Note	Stated capital P000's	Statutory credit reserve P000's	Retained earning P000's	Total equity P000's
Balance at 1 January 2020		**390 177**	**110 690**	**809 412**	**1 310 279**
Total comprehensive income for the year		**-**	**-**	**302 424**	**302 424**
Profit for the year		**-**	**-**	**302 424**	**302 424**
Increase in statutory credit reserve	**36.2**	**-**	**28 580**	**(28 580)**	**-**
Balance at 31 December 2020		**390 177**	**139 270**	**1 083 256**	**1 612 703**

Group	Note	Stated capital P000's	Statutory credit reserve P000's	Retained earning P000's	Total equity P000's
Adjusted balance at 1 January 2019		390 177	111 497	668 879	1 170 553
Total comprehensive income for the year		-	-	139 726	139 726
Profit for the year		-	-	139 726	139 726
Increase in statutory credit reserve	36.2	-	(807)	807	-
Balance at 31 December 2019		390 177	110 690	809 412	1 310 279

Company	Note	Stated capital P000's	Statutory credit reserve P000's	Retained earning P000's	Total equity P000's
Balance at 1 January 2020		**390 177**	**110 690**	**782 471**	**1 283 338**
Total comprehensive income for the year		**-**	**-**	**308 645**	**308 645**
Profit for the year		**-**	**-**	**308 645**	**308 645**
Increase in statutory credit reserve	**36.2**	**-**	**28 580**	**(28 580)**	**-**
Balance at 31 December 2020		**390 177**	**139 270**	**1 062 536**	**1 591 983**

Company	Note	Stated capital P000's	Statutory credit reserve P000's	Retained earning P000's	Total equity P000's
Adjusted balance at 1 January 2019		390 177	111 497	646 311	1 147 985
Total comprehensive income for the year		-	-	135 353	135 353
Profit for the year		-	-	135 353	135 353
Increase in statutory credit reserve	36.2	-	(807)	807	-
Balance at 31 December 2019		390 177	110 690	782 471	1 283 338

STATEMENTS OF CASH FLOWS

For the year ended 31 December 2020

	Note	Group 2020 P000's	Group 2019 P000's	Company 2020 P000's	Company 2019 P000's
Net cash flows from operating activities		**(85 320)**	238 103	**(84 320)**	238 103
Cash flows generated from operations		**24 331**	349 027	**23 695**	347 705
Profit before indirect tax		**403 819**	199 457	**407 892**	193 371
Adjusted for:					
Amortisation and impairment of intangible assets	30	**21 008**	20 945	**21 008**	20 945
Credit impairment charges	22.8	**62 830**	413 851	**62 830**	413 851
Depreciation - property and equipment	31.2	**30 442**	16 999	**30 442**	16 999
Depreciation – right of use assets	31.2	**13 805**	13 190	**13 805**	13 190
IFRS 9 day 1 correction		**-**	(4 545)	**-**	(4 545)
Interest expense on lease liabilities	22.2	**1 351**	1 484	**1 351**	1 484
Gain on sale of property and equipment	22.10	**(148)**	(350)	**(148)**	(350)
Increase in income-earning and other assets	39.1	**(2 617 290)**	(2 203 144)	**(2 629 645)**	(2 197 866)
Increase in deposits and other liabilities	39.2	**2 098 730**	1 891 140	**2 106 376**	1 890 626
Preference dividend income-Liberty Holdings	42.6	**(12 116)**	-	**(12 116)**	-
Interest income	22.1	**(941 048)**	-	**(941 048)**	-
Interest expense	22.2	**255 617**	-	**255 632**	-
Interest received		**940 268**	-	**940 268**	-
Interest paid	22.2	**(232 937)**	-	**(232 952)**	-
Indirect tax paid	22.12	**(19 462)**	(22 590)	**(19 439)**	(22 459)
Direct tax paid	39.3	**(90 189)**	(88 334)	**(88 576)**	(87 143)
Net cash flows in investing activities		**(72 634)**	(28 155)	**(73 634)**	(28 155)
Capital expenditure on:					
- property (freehold and leasehold)	31.2, 31.3 and 31.4	**(5 546)**	(5 915)	**(5 546)**	(5 915)
- equipment	31.2, 31.3 and 31.4	**(57 277)**	(23 076)	**(57 277)**	(23 078)
- intangible asset	30	**(22 195)**	-	**(22 195)**	-
Proceeds from disposal of equipment		**268**	836	**268**	838
Investment in subsidiaries–Stanbic Financial Services	29	**-**	-	**(1 000)**	-
Net cash flows in financing activities		**(30 780)**	(98 600)	**(30 780)**	(98 600)
Unsubordinated debt redeemed	39.4	**(281 500)**	(398 600)	**(281 500)**	(398 600)
Unsubordinated debt issued	39.4	**250 720**	300 000	**250 720**	300 000
Net movement in cash and cash equivalents		**(188 734)**	111 348	**(188 734)**	111 348
Cash and cash equivalents at beginning of the year		**608 600**	497 252	**608 600**	497 252
Cash and cash equivalents at end of the year	23	**419 866**	608 600	**419 866**	608 600

ACCOUNTING POLICIES

For the year ended 31 December 2020

Stanbic Bank Botswana Limited is a company incorporated in the Republic of Botswana. The Bank's registration number is BW0000732198. The consolidated financial statements of the Bank for the year ended 31 December 2020 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group and Company are primarily involved in investment, corporate and retail banking, and in providing asset management services.

The financial statements were approved by the Board of directors on 18 March 2021.

The principal accounting policies applied in the presentation of the group and company's financial statements are set out below.

1. Basis of preparation

Statement of compliance

The Group's consolidated and Company's separate financial statements are prepared in accordance with IFRS as issued by the IASB, its interpretations adopted by the IASB, and in the manner required by Banking Act (Cap 46:04) of Botswana. The financial statements have been prepared on the historical cost basis except for the material items in the statement of financial position shown at Basis of measurement below.

Basis of measurement

The following principles and accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies indicated in brackets:

- purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 6)
- commodities acquired principally for the purpose of selling in the near future or generating a profit from fluctuation in price or broker-traders' margin are measured at fair value less cost to sell (accounting policy 6)
- intangible assets, property, equipment and right of use assets are accounted for at cost less accumulated depreciation/amortisation and impairment (accounting policy 7)
- the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy 6)
- investments in associates and joint ventures are initially measured at cost and subsequently accounted for using the equity method in the separate financial statements (accounting policy 2)
- derivatives are initially recognised at fair value (accounting policy 6)
- trading portfolio assets are measured at fair value (accounting policy 6)

Functional and presentation currency

The Group and Company financial statements are presented in Botswana Pula, which is the functional currency of the Stanbic Bank Botswana Limited Group. All amounts are stated in thousands of Pula (P000's), unless indicated otherwise.

Use of estimates and judgments

The preparation of the financial statements in conformity with the IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in note 21.

Changes in accounting policies

Adoption of new standards and interpretations effective for the current financial year

The accounting policies are consistent with those reported in the previous year except as required in terms of the adoption of the following:

Adoption of new and amended standards effective for the current financial year

- IFRS 3 Business Combinations (amendment) (IFRS 3), the amendment clarifies the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendment will be applied prospectively.
- IFRS 7 Financial Instruments: Disclosures (IFRS 7), IFRS 9 Financial Instruments (amendments) (IFRS 9) and IAS 39 Financial Instruments: Recognition and Measurement (IAS 39). Interest Rate Benchmark Reform resulted in amendments to IFRS 9, IAS 39 and IFRS 7 requirements for hedge accounting to support the provision of useful financial information during the year of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendment will be applied retrospectively.
- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors : The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS Standards. In addition, the explanations accompanying the definition have been improved. The amendments ensure that the definition of material is consistent across all IFRS Standards. The amendments will be applied prospectively. The amendment is not expected to have a significant impact on the Group's annual financial statements.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

1. Basis of preparation (continued)

Changes in accounting policies (Continued)

Adoption of new and amended standards effective for the current financial year (continued)

- Conceptual Framework for Financial Reporting (revised) (Conceptual Framework), the revised Conceptual Framework includes a comprehensive set of concepts for financial reporting, replacing the previous version of the Conceptual Framework. These concepts are used by the IASB as the framework for setting IFRS standards.

Early adoption of revised standards:

- IFRS 3 Business Combinations (amendments). This standard requires an entity to refer to the Conceptual Framework for Financial Reporting in determining what constitutes an asset or a liability. The amendments update the reference from the previous version of the Conceptual Framework that existed to the version issued in March 2018 and adds an exception for some types of liabilities and contingent liabilities to refer to IAS 37 instead of the Conceptual Framework. The amendments will be applied prospectively.
- IAS 16 Property, Plant and Equipment (amendments) (IAS 16). Narrow-scope amendments to IAS 16 for the accounting of amounts received when selling items produced while an entity is preparing an asset for its intended use. The amendments clarify the accounting requirements in prohibiting the entity from deducting such amount from the cost of property, plant and equipment and instead recognising such sales proceeds and related cost in profit or loss. The amendments will be applied retrospectively.
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (amendments) (IAS 37). Narrow-scope amendments to IAS 37 in determining which costs to include in estimating the cost of fulfilling a contract for the purposes of assessing whether that contract is onerous. The amendments clarify that the cost of fulfilling the contract includes both the incremental costs of fulfilling the contract and an allocation of costs that relate directly to fulfilling contracts. The amendments will be applied retrospectively. Adjusting prior years is not required, but rather adjusting the opening retained earnings with the cumulative effect of the amendments on transition date.

The adoption of the above new and amended standards on 1 January 2020 did not affect the Group and Company's previously reported financial results, disclosures or accounting policies and did not impact the Group and Company's results upon transition. Accounting policies have been amended as relevant.

2. Basis of consolidation

Separate financial statements

Investments in subsidiaries are accounted for at cost less accumulated impairment losses (where applicable) in the separate financial statements. The carrying amounts of these investments are reviewed annually for impairment indicators and, where an indicator of impairment exists, are impaired to the higher of the investment's fair value less costs to sell or value in use.

Consolidated financial statements

The accounting policies of subsidiaries that are consolidated by the group conform to the group's accounting policies. Intragroup transactions, balances and unrealised gains/(losses) are eliminated on consolidation. Unrealised losses are eliminated in the same manner as unrealised gains, but only to the extent that there is no evidence of impairment. The proportion of comprehensive income and changes in equity allocated to the group and non-controlling interest are determined on the basis of the group's present ownership interest in the subsidiary.

Subsidiaries are consolidated from the date on which the Group acquires control up to the date that control is lost. Control is assessed on a continuous basis.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

2. Basis of consolidation (continued)

Consolidated financial statements (continued)

Type	Description
Acquisitions	The acquisition method of accounting is used to account for the acquisition of subsidiaries by the group. The consideration transferred is measured as the sum of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The consideration includes any asset, liability or equity resulting from a contingent consideration arrangement. The obligation to pay contingent consideration is classified as either a liability or equity based on the terms of the arrangement. The right to a return of previously transferred consideration is classified as an asset. Transaction costs are recognised within profit or loss as and when they are incurred. Where the initial accounting is incomplete by the end of the reporting period in which the business combination occurs (but no later than 12 months since the acquisition date), the group reports provisional amounts. Where applicable, the group adjusts retrospectively the provisional amounts to reflect new information obtained about facts and circumstances that existed at the acquisition date and affected the measurement of the provisional amounts. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess (shortage) of the sum of the consideration transferred (including contingent consideration), the value of non-controlling interest recognised and the acquisition date fair value of any previously held equity interest in the subsidiary over the fair value of identifiable net assets acquired is recorded as goodwill in the statement of financial position (gain on bargain purchase, which is recognised directly in non-trading and capital related items). When a business combination occurs in stages, the previously held equity interest is remeasured to fair value at the acquisition date and any resulting gain or loss is recognised in non-trading and capital related items. Increases in the group's interest in a subsidiary, when the group already has control, are accounted for as transactions with equity holders of the group. The difference between the purchase consideration and the group's proportionate share of the subsidiary's additional net asset value acquired is accounted for directly in equity.
Disposal of a subsidiary	A disposal arises where the group loses control of a subsidiary. When the group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between the fair value of the consideration received (including the fair value of any retained interest in the underlying investee) and the carrying amount of the assets and liabilities and any non-controlling interest. Any gains or losses in OCI that relate to the subsidiary are reclassified to profit or loss at the time of the disposal. when control of the subsidiary is lost: Amounts recognised in OCI which would ordinarily be reclassified to P/L on disposal of the underlying item, will be reclassified to P/L, and the amounts which are not permitted to be reclassified to P/L on disposal will be transferred to retained earnings. On disposal of a subsidiary that includes a foreign operation, the relevant amount in the FCTR is reclassified to profit or loss at the time at which the profit or loss on disposal of the foreign operation is recognised.
Partial disposal of a subsidiary	A partial disposal arises as a result of a reduction in the group's ownership interest in an investee that is not a disposal (i.e. a reduction in the group's interest in a subsidiary while retaining control). Decreases in the group's interest in a subsidiary, where the group retains control, are accounted for as transactions with equity holders of the group. Gains or losses on the partial disposal of the group's interest in a subsidiary are computed as the difference between the sales consideration and the group's proportionate share of the investee's net asset value disposed of and are accounted for directly in equity. On the partial disposal of a subsidiary that includes a foreign operation, a proportionate share of the balance of the FCTR is transferred to non-controlling interest.
Initial measurement of non-controlling interest	The Group elects on each acquisition to initially measure non-controlling interest on the acquisition date at either fair value or at the non-controlling interest's proportionate share of the investees' identifiable net assets.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

2. Basis of consolidation (continued)

Common control transactions

Common control transactions, in which the company is the ultimate parent entity both before and after the transaction, are accounted for at book value.

3. Foreign currency translations

Transactions and balances

Foreign currency transactions are translated into the respective group entities' functional currencies at exchange rates prevailing at the date of the transactions (in certain instances a rate that approximates the actual rate at the date of the transaction is utilised, for example an average rate for a month). Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items.

Foreign currency gains and losses on intragroup loans are recognised in profit or loss except where the settlement of the loan is neither planned nor likely to occur in the foreseeable future. In these cases the foreign currency gains and losses are recognised in the group's FCTR.

4. Funds management

The Group manages and administers assets held in unit trusts and other investment vehicles on behalf of investors. The financial statements of these entities are not included in these consolidated financial statements except when the Group controls the entity.

5. Cash and cash equivalents

Cash and cash equivalents disclosed in the statement of financial position and statement of cash flows consist of cash and balances with the Central Bank. Cash comprises coins and bank notes.

Coins and bank notes and the reserving requirements held with the Central Bank have been classified at fair value through profit or loss - default as the contractual terms do not give rise on specified dates to cash flows that represent solely payments of principal and interest on the principal amount outstanding.

6. Financial instruments

Initial measurement - financial instruments

All financial instruments are measured initially at fair value plus directly attributable transaction costs and fees, except for those financial instruments that are subsequently measured at fair value through profit or loss where such transaction costs and fees are immediately recognised in profit or loss. Financial instruments are recognised (derecognised) on the date the Group and Company commits to purchase (or sell) the instruments (trade date accounting).

6. Financial instruments (continued)

Financial assets

Nature

Type	Description
Amortised cost	A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss): • Held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and • The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment includes determining the objective of holding the asset and whether the contractual cash flows are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are not considered de minimis and are inconsistent with a basic lending arrangement, the financial asset is classified as fair value through profit or loss - default.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

6. Financial instruments (continued)

Financial assets (continued)

Nature (continued)

Type	Description
Held for trading	Financial assets acquired principally for the purpose of selling in the near term (including all derivative financial assets) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Included are commodities that are acquired principally for the purpose of selling in the near future or generating a profit from fluctuations in price or broker-trader margin.
Designated at fair value through profit or loss	Financial assets are designated to be measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch that would otherwise arise.
Fair value through profit or loss – default	Financial assets that are not classified into one of the above mentioned financial asset categories.

Subsequent measurement

Subsequent to initial measurement, financial assets are classified in their respective categories and measured at either amortised cost or fair value as follows:

Type	Description
Amortised cost	Amortised cost using the effective interest method with interest recognised in interest income, less any expected credit impairment losses which are recognised as part of credit impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.
Held for trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value gains and losses (including interest and dividends) on the financial asset recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue.
Fair value through profit or loss – default	**Debt instruments -** Fair value gains and losses (including interest and dividends) on the financial asset recognised in the income statement as part of other gains and losses on financial instruments within non-interest revenue. **Equity instruments -** Fair value gains and losses on the financial asset recognised in the income statement as part of other gains and losses on financial instruments. Dividends received on equity instruments are recognised in other revenue within non-interest revenue.

Impairment

Expected credit loss (ECL) is recognised on debt financial assets classified as at either amortised cost or fair value through OCI, financial guarantee contracts that are not designated at fair value through profit or loss as well as loan commitments that are neither measured at fair value through profit or loss nor are used to provide a loan at a below market interest rate.

The measurement basis of the ECL of a financial asset includes assessing whether there has been a Significant Increase in Credit Risk (SICR) at the reporting date which includes forward-looking information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The measurement basis of the

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

6. Financial instruments (continued)

Impairment (continued)

ECL, which is set out in the table that follows, is measured as the unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and forward-looking information.

Type	Description
Stage 1	A 12-month ECL is calculated for financial assets which are neither credit-impaired on origination nor for which there has been a SICR.
Stage 2	A lifetime ECL allowance is calculated for financial assets that are assessed to have displayed a SICR since origination and are not considered low credit risk.
Stage 3 (credit impaired assets)	A lifetime ECL is calculated for financial assets that are assessed to be credit impaired. The following criteria are used in determining whether the financial asset is impaired: • default • significant financial difficulty of borrower and/or modification • probability of bankruptcy or financial reorganisation • disappearance of an active market due to financial difficulties.
The key components of the impairment methodology are described as follows:	
Significant increase in credit risk (SICR)	At each reporting date the group assesses whether the credit risk of its exposures has increased significantly since initial recognition by considering the change in the risk of default occurring over the expected life of the financial asset. Credit risk of exposures which are overdue for more than 30 days are also considered to have increased significantly.
Low credit risk	Exposures are generally considered to have a low credit risk where there is a low risk of default, the exposure has a strong capacity to meet its contractual cash flow obligations and adverse changes in economic and business conditions may not necessarily reduce the exposure's ability to fulfil its contractual obligations.
Default	The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or Groups of financial assets: • significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower) • a breach of contract, such as default or delinquency in interest and/or principal payments • disappearance of active market due to financial difficulties • it becomes probable that the borrower will enter bankruptcy or other financial reorganisation • where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise consider. Exposures which are overdue for more than 90 days are also considered to be in default.
Forward-looking information	Forward-looking information is incorporated into the Group's impairment methodology calculations and in the group's assessment of SICR. The Group includes all forward-looking information which is reasonable and available without undue cost or effort. The information will typically include expected macro-economic conditions and factors that are expected to impact portfolios or individual counterparty exposures.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

6. Financial instruments (continued)

Impairment (continued)

Write-off	Financial assets are written off when there is no reasonable expectation of recovery. Financial assets which are written off may still be subject to enforcement activities.
ECLs are recognised within the statement of financial position as follows:	
Financial assets measured at amortised cost (including loan commitments)	Recognised as a deduction from the gross carrying amount of the asset (Group of assets). Where the impairment allowance exceeds the gross carrying amount of the asset (Group of assets), the excess is recognised as a loss allowance within other liabilities.
Off-balance sheet exposures (excluding loan commitments)	Recognised as a provision within other liabilities.

Reclassification

Reclassifications of debt financial assets are permitted when, and only when, the Group changes its business model or management of financial assets, in which case all affected financial assets are reclassified. Reclassifications are accounted for prospectively from the date of reclassification as follows:

Financial assets that are reclassified from amortised cost to fair value are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in other gains and losses on financial instruments

- The fair value of a financial asset that is reclassified from fair value to amortised cost becomes the financial asset's new carrying value;
- Financial assets that are reclassified from amortised cost to fair value through OCI are measured at fair value at the date of reclassification with any difference in measurement basis being recognised in OCI;
- The fair value of a financial asset that is reclassified from fair value through OCI to amortised cost becomes the financial asset's new carrying value with the cumulative fair value adjustment recognised in OCI being recognised against the new carrying value;
- The carrying value of financial assets that are reclassified from fair value through profit or loss to fair value through OCI remains at fair value; and

The carrying value of financial assets that are reclassified from fair value through OCI to fair value through profit or loss remains at fair value, with the cumulative fair value adjustment in OCI being recognised in the income statement at the date of reclassification.

Financial liabilities

Nature

Held-for-trading	Those financial liabilities incurred principally for the purpose of repurchasing in the near term (including all derivative financial liabilities) and those that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
Designated at fair value through profit or loss	Financial liabilities are designated to be measured at fair value in the following instances: • to eliminate or significantly reduce an accounting mismatch that would otherwise arise where the financial liabilities are managed, and their performance evaluated and reported on a fair value basis • where the financial liability contains one or more embedded derivatives that significantly modify the financial liability's cash flows.
Amortised cost	All other financial liabilities not included in the above categories.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

6. Financial instruments (continued)

Subsequent measurement

Subsequent to initial measurement, financial liabilities are classified in their respective categories and measured at either amortised cost or fair value as follows:

Held-for-trading	Fair value, with gains and losses arising from changes in fair value (including interest and dividends) recognised in trading revenue.
Designated at fair value through profit or loss	Fair value, with gains and losses arising from changes in fair value (including interest and dividends but excluding fair value gains and losses attributable to own credit risk) are recognised in the other gains and losses on financial instruments as part of non-interest revenue. Fair value gains and losses attributable to changes in own credit risk are recognised within OCI, unless this would create or enlarge an accounting mismatch in which case the own credit risk changes are recognised within trading revenue.
Amortised cost	Amortised cost using the effective interest method recognised in interest expense.

Derecognition and modification of financial assets and liabilities

Financial assets and liabilities are derecognised in the following instances:

Type	Derecognition	Modification
Financial assets	Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the Group has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in the transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability. The Group enters into transactions whereby it transfers assets, recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements. When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.	Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability at fair value, including calculating a new effective interest rate, with the difference in the respective carrying amounts being recognised in other gains and losses on financial instruments within non-interest revenue. The date of recognition of a new asset is consequently considered to be the date of initial recognition for impairment calculation purposes. If the terms are not substantially different for financial assets or financial liabilities, the Group recalculates the new gross carrying amount by discounting the modified cash flows of the financial asset or financial liability using the original effective interest rate. The difference between the new gross carrying amount and the original gross carrying amount is recognised as a modification gain or loss within credit impairments (for distressed financial asset modifications) or in other gains and losses on financial instruments within non-interest revenue (for all other modifications).
Financial liabilities	Financial liabilities are derecognised when the financial liabilities' obligation is extinguished, that is, when the obligation is discharged, cancelled or expires.	

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

6. Financial instruments (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the Group (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Financial guarantee contracts (that are not designated at fair value through profit or loss) are subsequently measured at the higher of the:

- ECL calculated for the financial guarantee; or
- unamortised premium.

Derivatives and embedded derivatives

In the normal course of business, the Group enters into a variety of derivative transactions for trading purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation, credit, commodity and equity exposures. Derivative instruments used by the Group in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

Derivatives are initially recognised at fair value. Derivatives that are not designated in a qualifying hedge accounting relationship are classified as held-for-trading with all changes in fair value being recognised within trading revenue. This includes forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle another derivative contract. All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

In terms on IFRS 9 embedded derivatives included in hybrid instruments, where the host is a financial asset, are assessed in terms of the accounting policy for financial assets. In all other instances (being non-financial host contracts and financial liabilities), the embedded derivatives are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The host contract is accounted for and measured applying the relevant group accounting policy.

The method of recognising fair value gains and losses on derivatives designated as a hedging instrument depends on the nature of the hedge relationship.

Foreign currency risk

The Group and Company operate internationally and are exposed to foreign exchange risk and translation risk. Foreign exchange risk arises from recognised assets and liabilities and future highly probable forecast commercial transactions denominated in a currency that is not the functional currency of the group and company. The risk is evaluated by measuring and monitoring the net foreign monetary asset value and the forecast highly probable foreign currency income and expenditures of the relevant group entity for each respective currency. Foreign currency risk is hedged with the objective of minimising the earnings volatility associated with assets, liabilities, income and expenditure denominated in a foreign currency.

Translation risk arises on consolidation from recognised assets and liabilities denominated in a currency that is not the reporting currency of the group and company. The risk is evaluated by measuring and monitoring the net foreign non-monetary asset value of the relevant group entity for each respective currency.

The Group and Company use a combination of currency forwards, swaps and foreign denominated cash balances to mitigate against the risk of changes in the future cash flows and functional currency value on its foreign-denominated exposures. Under the group's policy, the critical terms of these instruments must align with the foreign currency risk of the hedged item and is hedged on a 1:1 hedge ratio or where currency is managed on a portfolio basis the weighted expected foreign cash flows are aligned.

The Group and Company elect for each foreign currency hedging relationship, using either foreign currency forwards and swaps, to either include or exclude the currency forward points (basis) contained in the derivative instrument from the hedging relationship. This election is based on the currency pair involved, the shape of the yield-curve and the direction of the foreign currency hedged risk. Basis is determined using the differential between the contracted forward rate and the spot market exchange rate and is discounted, where material. Where the basis is excluded from the hedging relationship this is deferred in other comprehensive income and recognised in profit or loss as appropriate during the hedging relationship.

Interest rate risk

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (IRRBB) (net interest income and banking book mark-to-market profit or loss) and the economic value of equity. The Group and Company's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the group and company operate. The Group and Company's treasury and capital management team monitors banking book interest rate risk on a monthly basis operating under the oversight of group ALCO. The Group and Company's interest rate risk management is predominantly controlled by a central treasury department (group treasury) under approved policies. Group treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

7. Non - financial assets

Type and initial and subsequent measurement	Useful lives, depreciation/ amortisation method or fair value basis			Impairment
Tangible assets (property, equipment and land and right-of-use assets) Property and equipment items are initially recognised at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Land is measured at cost less accumulated impairment losses. Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised in operating expenses as incurred. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate major components of property and equipment.	Equipment	computer equipment	5 years	These assets are reviewed for impairment at each reporting date and tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in non-trading and capital related items for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is determined as the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest cash generating units (CGUs). Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis. The carrying amount of these other assets may, however, not be reduced below the higher of the CGU's fair value less costs to sell and its value in use. Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through non-trading and capital related items only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.
		office equipment	10 years	
		furniture and fittings	13 years	
	Motor vehicles		5 years	
	Leasehold buildings		Lease period	
	Freehold buildings		40 years	
	Land		Not depreciated	

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

7. Non - financial assets (continued)

Type and initial and subsequent measurement	Useful lives, depreciation/ amortisation method or fair value basis	Impairment
Computer software Costs associated with developing or maintaining computer software programmes and the acquisition of software licenses are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the group and have a probable future economic benefit beyond one year, are recognised as intangible assets. Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses from the date that the assets are available for use. Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates.	Amortisation is recognised in operating expenses on a straight-line basis at rates appropriate to the expected lives of the assets (five to twelve years) from the date that the asset is available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary.	Intangible assets that have an indefinite useful life are tested annually for impairment and additionally when an indicator of impairment exists. The accounting treatment for computer software and other intangible assets is otherwise the same as for tangible assets.
Derecognition Non-financial assets are derecognised on disposal or when no future economic benefits are expected from their use or disposal. The gain or loss on derecognition is recognised in profit or loss and is determined as the difference between the net disposal proceeds and the carrying amount of the non-financial asset.		

8. Provisions, contingent assets and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The Group's provisions typically (when applicable) include the following:

- **Provisions for legal claims**

  Provisions for legal claims are recognised on a prudent basis for the estimated cost for all legal claims that have not been settled or reached conclusion at the reporting date. In determining the provision management considers the probability and likely settlement (if any). Reimbursements of expenditure to settle the provision are recognised when and only when it is virtually certain that the reimbursement will be received.

- **Provision for onerous contracts**

  A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

8. Provisions, contingent assets and contingent liabilities (continued)

- **Contingent assets**

  Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the group, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the group's control.

- **Contingent liabilities**

  Contingent liabilities include certain guarantees (other than financial guarantees) and letters of credit and are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are considered remote.

9. Employee benefits

Type and description	Statement of financial position	Statement of other comprehensive income	Income statement
Defined contribution plans The Group operates a number of defined contribution plans.	Accruals are recognised for unpaid contributions.	No direct impact.	Contributions are recognised as an operating expense in the periods during which services are rendered by the employees.
Short-term benefits Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions.	A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.	No direct impact.	Short-term employee benefit obligations are measured on an undiscounted basis and are expensed in operating expenses as the related service is provided.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

10. Tax

Type	Description, recognition and measurement	Offsetting
Direct taxation: current tax	Current tax is recognised in the direct taxation line in profit or loss except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.	• Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.
Direct taxation: deferred tax	Deferred tax is recognised in direct taxation except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI. Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax is not recognised for the following temporary differences: • the initial recognition of goodwill; • the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses; and • investments in subsidiaries and associates (excluding mutual funds) where the group controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the group is unable to control the reversal of the temporary difference for associates unless there is an agreement in place that gives the group the ability to control the reversal of the temporary difference. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.	

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

10. Tax (continued)

Type	Description, recognition and measurement	Offsetting
Indirect taxation	Indirect taxes, including non-recoverable value added tax (VAT), skills development levies and other duties for banking activities, are recognised in the indirect taxation line in the income statement.	Not applicable
Dividend tax	Taxes on dividends declared by the Group are recognised as part of the dividends paid within equity, as dividend tax represents a tax on the shareholder and not the Group. Dividends tax withheld by the Group on dividends paid to its shareholders and payable at the reporting date to the Botswana Unified Revenue Services (where applicable) is included in 'Other liabilities' in the statement of financial position.	Not applicable

11. Fair value

In terms of IFRS, the Group is either required to or elects to measure a number of its financial assets and financial liabilities at fair value. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at the measurement date.

Fair value hierarchy

The Group's financial instruments that are both carried at fair value and for which fair value is disclosed are categorised by the level of fair value hierarchy. The different levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

Hierarchy levels

The levels have been defined as follows:

Level 1

Fair value is based on quoted market prices (unadjusted) in active markets for an identical financial asset or liability. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2

Fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3

Fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instrument being valued and the similar instrument.

Hierarchy transfer policy

Transfers of financial assets and financial liabilities between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Inputs and valuation techniques

Fair value is measured based on quoted market prices or dealer price quotations for identical assets and liabilities that are traded in active markets, which can be accessed at the measurement date, and where those quoted prices represent fair value. If the market for an asset or liability is not active or the instrument is not quoted in an active market, the fair value is determined using other applicable valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market-related discount rate at the reporting date for an asset or liability with similar terms and conditions.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

11. Fair value (continued)

Inputs and valuation techniques (continued)

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

The Group's valuation control framework governs internal control standards, methodologies, and procedures over its valuation processes, which include the following valuation techniques and main inputs and assumptions per type of instrument:

Item and description	Valuation technique	Main inputs and assumptions
Derivative financial instruments Derivative financial instruments comprise foreign exchange, interest rate, commodity, credit and equity derivatives that are either held-for-trading or designated as hedging instruments in hedge relationships	Standard derivative contracts are valued using market accepted models and quoted parameter inputs. More complex derivative contracts are modelled using more sophisticated modelling techniques applicable to the instrument. Techniques include: • Discounted cash flow model • Black-Scholes model • combination technique models.	For level 2 and 3 fair value hierarchy items: • discount rate* • spot prices of the underlying • correlation factors • volatilities • dividend yields • earnings yield • valuation multiples.
Trading assets and trading liabilities Trading assets and liabilities comprise instruments which are part of the group's underlying trading activities. These instruments primarily include sovereign and corporate debt, commodities, collateral, collateralised lending agreements and equity securities. **Financial investments** Financial investments are trading financial assets and primarily comprise of sovereign and corporate debt, listed and unlisted equity instruments. **Loans and advances to banks and customers** **Loans and advances comprise:** Loans and advances to banks: call loans, loans granted under resale agreements and balances held with other banks. **Loans and advances to customers:** mortgage loans (home loans and commercial mortgages), other asset-based loans, including collateralised debt obligations (instalment sale and finance leases), and other secured and unsecured loans (card debtors, overdrafts, other demand lending, term lending and loans granted under resale agreements).	Where there are no recent market transactions in the specific instrument, fair value is derived from the last available market price adjusted for changes in risks and information since that date. Where a proxy instrument is quoted in an active market, the fair value is determined by adjusting the proxy fair value for differences between the proxy instrument and the financial investment being fair valued. Where proxies are not available, the fair value is estimated using more complex modelling techniques. These techniques include discounted cash flow and Black-Scholes models using current market rates for credit, interest, liquidity, volatility and other risks. Combination techniques are used to value unlisted equity securities and include inputs such as earnings and dividend yields of the underlying entity. For certain loans fair value may be determined from the market price of a recently occurring transaction adjusted for changes in risks and information between the transaction and valuation dates. Loans and advances are reviewed for observed and verified changes in credit risk and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value. Discounted cash flow models incorporate parameter inputs for interest rate risk, foreign exchange risk, liquidity and credit risk, as appropriate. For credit risk, probability of default and loss given default parameters are determined using credit default swaps (CDS) markets, where available and appropriate, as well as the relevant terms of the loan and loan counterparty such as the industry classification and subordination of the loan.	

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

11. Fair value (continued)

Inputs and valuation techniques (continued)

Item and description	Valuation technique	Main inputs and assumptions
Deposits and debt funding Deposits from banks and customers comprise amounts owed to banks and customers, deposits under repurchase agreements, negotiable certificates of deposit, credit-linked deposits and other deposits.	For certain deposits, fair value may be determined from the market price on a recently occurring transaction adjusted for all changes in risks and information between the transaction and valuation dates. In the absence of an observable market for these instruments, discounted cash flow models are used to determine fair value based on the contractual cash flows related to the instrument. The fair value measurement incorporates all market risk factors, including a measure of the group's credit risk relevant for that financial liability. The market risk parameters are valued consistently to similar instruments held as assets stated in the section above. The credit risk of the reference asset in the embedded CDS in credit-linked deposits is incorporated into the fair value of all credit-linked deposits that are designated to be measured at fair value through profit or loss. For collateralised deposits that are designated to be measured at fair value through profit or loss, such as securities repurchase agreements, the credit enhancement is incorporated into the fair valuation of the liability.	For level 2 and 3 fair value hierarchy items: • discount rate*

* Discount rates, where applicable, include the risk-free rate, risk premiums, liquidity spreads, credit risk (own and counterparty as appropriate), timing of settlement, storage/service costs, prepayment and surrender risk assumptions and recovery rates/loss given default.

Portfolio valuations

The Group has elected to adopt the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the group of financial assets and financial liabilities to be measured at fair value on a net basis, with the net fair value being allocated to the financial assets and financial liabilities.

Day one profit or loss

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models that utilise non-observable market data as inputs.

The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

12. Equity

Ordinary shares are classified as equity. Stated capital is recognised at the fair value of consideration received. Incremental costs directly attributable to the issue of new shares or options are deducted from the initial measurement of the equity instrument.

Dividends on ordinary shares

Dividend distribution to ordinary shareholders is recognised within equity upon approval by the Company's directors. Dividends on ordinary shares are charged to equity in the period in which they are declared. Dividends declared after the statement of financial position date are disclosed in the notes to the financial statements.

13. Equity-linked transactions

Equity-settled share-based payments

The ultimate holding company, Standard Bank Group Limited, operates two equity settled share-based compensation plans through which certain key management staff of the Bank are compensated.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

13. Equity-linked transactions (continued)

Equity-settled share-based payments (continued)

The fair value of equity settled share options is determined on the grant date and accounted for as an employee service expense over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. At each statement of financial position, the estimate of the number of options expected to vest is reassessed and adjusted against income over the remaining vesting period.

Cash-settled share based payments

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every reporting date and on settlement. Any changes in the liability are recognised in profit or loss.

14. Leases

Lessee accounting policies

Type	Statement of financial position	Income statement
	IFRS 16 – lessee accounting policies	
Single lessee accounting model All leases are accounted for by recognising a right-of use asset and a lease liability except for: • leases of low value assets; and • leases with a duration of twelve months or less.	**Lease liabilities:** Initially measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate implicit in the lease unless (as is typically the case for the group) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used. The group's internal funding rate is the base on which the incremental borrowing rate is calculated. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate. On initial recognition, the carrying value of the lease liability also includes: • Amounts expected to be payable under any residual value guarantee; • The exercise price of any purchase option granted in favour of the group, should it be reasonably certain that this option will be exercised; • Any penalties payable for terminating the lease, should the term of the lease be estimated on the basis of this termination option being exercised. Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.	**Interest expense on lease liabilities:** A lease finance cost, determined with reference to the interest rate implicit in the lease or the group's incremental borrowing rate, is recognised within interest expense over the lease period.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

14. Leases (continued)

Lessee accounting policies (continued)

Type	Statement of financial position	Income statement
	IFRS 16 – lessee accounting policies (continued)	
Single lessee accounting model (continued)	**Right of use assets:** Initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for: • lease payments made at or before commencement of the lease; • initial direct costs incurred; and • the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset. The Group applies the cost model subsequent to the initial measurement of the right of use assets.	**Depreciation on right of use assets:** Subsequent to initial measurement, the right of use assets are depreciated on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset should this term be shorter than the lease term unless ownership of the underlying asset transfers to the group at the end of the lease term, whereby the right of use assets are depreciated on a straight-line basis over the remaining economic life of the asset. This depreciation is recognised as part of operating expenses.
	Termination of leases: When the group or lessor terminates or cancels a lease, the right of use asset and lease liability are derecognised.	**Termination of leases:** On derecognition of the right of use asset and lease liability, any difference is recognised as a derecognition gain or loss in profit or loss.
All leases that meet the criteria as either a lease of a low value asset or a short term lease are accounted for on a straight-line basis over the lease term.	Accruals for unpaid lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease expense are recognised.	Payments made under these leases, net of any incentives received from the lessor, are recognised in operating expenses on a straight-line basis over the term of the lease. When these leases are terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.
Reassessment and modification of leases	**Reassessment of lease terms and lease modifications that are not accounted for as a separate lease:** When the group reassesses the terms of any lease (i.e. it re-assesses the probability of exercising an extension or termination option) or modifies the terms of a lease without increasing the scope of the lease or where the increased scope is not commensurate with the stand-alone price, it adjusts the carrying amount of the lease liability to reflect the payments to be made over the revised term, which are discounted at the applicable rate at the date of reassessment or modification. The carrying amount of lease liability is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. For reassessments to the lease terms, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, if the carrying amount of the right of use asset is reduced to zero any further reduction in the measurement of the lease liability is recognised in profit or loss. For lease modifications that are not accounted for as a separate lease, an equivalent adjustment is made to the carrying amount of the right of use asset, with the revised carrying amount being depreciated over the revised lease term. However, for lease modifications that decrease the scope of the lease the carrying amount of the right-of-use asset is decreased to reflect the partial or full termination of the lease, with any resulting difference being recognised in profit or loss as a gain or loss relating to the partial or full termination of the lease.	

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

14. Leases (continued)

Lessee accounting policies (continued)

Type	Statement of financial position	Income statement
IFRS 16 – lessee accounting policies (continued)		
Reassessment and modification of leases (continued)	**Lease modifications that are accounted for as a separate lease:** When the Group modifies the terms of a lease resulting in an increase in scope and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in scope, the group accounts for these modifications as a separate new lease. This accounting treatment equally applies to leases which the group elected the short-term lease exemption and the lease term is subsequently modified.	

Lessor accounting policies

Type	Statement of financial position	Income statement
IFRS 16 – lessor accounting policies		
Finance leases Leases, where the group transfers substantially all the risk and rewards incidental to ownership, are classified as finance leases	Finance lease receivable, including initial direct costs and fees, are primarily accounted for as financing transaction in backing activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances.	Finance charges earned within interest income are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. The tax benefits arising from investment allowances on assets leased to clients are accounted for within direct taxation.
Operating leases All leases that do not meet the criteria of a financial lease are classified as operating leases.	The asset underlying the lease continues to be recognised and accounted for in terms of the relevant group accounting policies. Accruals for outstanding lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease income are recognised.	Operating lease income net of any incentives given to lessees, is recognised on the straight-line basis, or a more representative basis where applicable, over the lease term and is recognised in operating income. When an operating lease is terminated before the lease period has expired, any payment received/(paid) by the group by way of a penalty is recognised as income/(expense) in the period in which termination takes place.
Finance leases	When the Group modifies the terms of a lease resulting in an increase in scope and the consideration for the lease increases by an amount commensurate with a stand-alone price for the increase in scope, the group accounts for these modifications as a separate new lease. All other lease modifications that are not accounted for as a separate lease are accounted for in terms of IFRS 9, unless the classification of the lease would have been accounted for as an operating lease had the modification been in effect at inception of the lease. These lease modifications are accounted for as a separate new lease from the effective date of the modification and the net investment in the lease becomes the carrying amount of the underlying asset.	
Operating leases	Modifications are accounted for as a new lease from the effective date of the modification.	

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

14. Leases (continued)

Finance leases – lessor

Leases, where the Group transfers substantially all the risks and rewards incidental to ownership, are classified as finance leases.

Finance leases receivable, including initial direct costs and fees, are primarily accounted for as financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances.

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return. The tax benefits arising from investment allowances on assets leased to clients are accounted for in the direct taxation line.

Operating leases – lessor

All leases that do not meet the criteria of a financial lease are classified as operating leases. The asset underlying the lease continues to be recognised and accounted for in terms of the relevant group accounting policies. Accruals for outstanding lease charges, together with a straight-line lease asset or liability, being the difference between actual payments and the straight-line lease income are recognised. Operating lease income net of any incentives given to lessees, is recognised on the straight-line basis or a more representative basis where applicable over the lease term and is recognised in operating expenses.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as operating expenses in the period in which termination takes place.

15. Revenue and expenditure

Banking activities

Revenue is derived substantially from the business of banking and related activities and comprises interest income, fee and commission revenue, trading revenue and other non-interest revenue.

Net interest income

Interest income and expense (with the exception of borrowing costs that are capitalised on qualifying assets, that is assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value) is recognised in net interest income using the effective interest method for all interest-bearing financial instruments. In terms of the effective interest method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimates of payments or receipts on financial assets or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the adjusted cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income.

Net fee and commission income

Fee and commission income, including transactional fees, account servicing fees, investment management fees, sales commission, placement fees and syndication fees are recognised as the related services are performed.

Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the Group does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income.

The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

Fee and commission expenses included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expense where the expenditure is linked to the production of fee and commission revenue.

Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

Other revenue

Other revenue includes dividends on equity financial assets, underwriting profit from the Group's short-term insurance operations and related insurance activities and re-measurement gains and losses from contingent consideration on disposals and purchases.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

15. Revenue and expenditure (continued)

Other gains/losses on financial instruments

Includes:

- Fair value gains and losses on debt financial assets that are at fair value through profit or loss;
- Gains and losses arising from the derecognition of financial assets and financial liabilities classified as at amortised cost;
- Gains and losses arising from the reclassification of a financial asset from amortised cost to fair value;
- Gains and losses arising from the modification of a financial asset (which is not distressed) and financial liability as at amortised cost.

Dividend income

Dividends are recognised in profit or loss when the right to receive is established.

Offsetting

Income and expenses are presented on a net basis only when permitted by IFRS, or for gains and losses arising from a group of similar transactions.

16. Segment reporting

An operating segment is a component of the Group engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The Group's identification of segments and the measurement of segment results are based on the Group's internal reporting to management.

17. Fiduciary activities

The Group commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these financial statements as they are not assets of the Group. However, fee income earned and fee expenses incurred by the Group relating to the Group's responsibilities from fiduciary activities are recognised in profit or loss.

18. Non-trading and capital related items

Non-trading and capital related items primarily include the following:

- gains and losses on disposal of subsidiaries, joint ventures and associates (including foreign exchange translation gains and losses);
- gains and losses on the disposal of property and equipment and intangible assets;
- impairment and reversals of impairments of joint ventures and associates;
- impairment of investments in subsidiaries, property and equipment, and intangible assets; and
- other items of a capital related nature.

19. Statutory credit risk reserve

The statutory credit risk reserve represents the amount by which local regulatory authorities within the group's African Regions operations require in addition to the IFRS impairment provision. Changes in this reserve are accounted for as transfers to and from retained earnings as appropriate.

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

20. New standards and interpretations not yet adopted

The following new or revised standards and amendments that are applicable to the Group and its subsidiaries are not yet effective for the year ended 31 December 2020 and have not been applied in preparing these financial statements.

Pronouncement	Title	Effective date
IFRS 4, IFRS 7, IFRS 9, IFRS 16, IAS 39	**IFRS 4 Insurance Contracts, IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments, IFRS 16 Leases, IAS 39 Financial Instruments: Recognition and Measurement (amendments)** The second phase of Interest Rate Benchmark Reform resulted in amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 requirements to enable companies to deal with its effect on financial instruments and to continue providing useful information to investors. The amendments require entities to update the effective interest rate to reflect the change to the alternative benchmark rate instead of derecognising or adjusting the carrying amount of financial instruments for changes required by the reform. An entity will not have to discontinue hedge accounting solely because it makes changes required by the reform, if the hedge meets other hedge accounting criteria. In addition, the amendments require companies to provide additional information to investors about new risks arising from the reform and how it manages the transition to alternative benchmark rates. These amendments will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined as an asset acquisition. The amendment is not expected to have a material impact on the Group.	1 January 2021
IFRS 10 and IAS 28	**IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments)** Interest Rate Benchmark Reform resulted in amendments to IFRS 9, IAS 39 and IFRS 7 requirements for hedge accounting to support the provision of useful financial information during the period of uncertainty caused by the phasing out of interest-rate benchmarks such as interbank offered rates (IBORs) on hedge accounting. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments will be applied prospectively and are not expected to have a material impact on the Group's financial statements.	Deferred indefinitely
IFRS 10 and IAS 28 (amendments)	**Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** The amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments will be applied prospectively and are not expected to have a material impact on the Group's financial statements.	Deferred indefinitely

ACCOUNTING POLICIES (continued)

For the year ended 31 December 2020

20. New standards and interpretations not yet adopted (continued)

Pronouncement	Title	Effective date
IFRS 16	**IFRS 16 Leases (amendment)** IFRS 16 requires an entity to account for a change in consideration or term of a lease contract to be accounted for and disclosed as a lease modification. In light of the recent COVID-19 pandemic and resultant rent concessions to be granted by lessors, the amendment permits lessees, as a practical expedient, not to assess whether particular COVID-19 related rent concessions are lease modifications and instead account for those rent concessions as if they were not lease modifications. The amendment permits the application of the practical expedient to rent concessions that meet specific COVID-19 related requirements and requires specified disclosures. An entity shall apply the practical expedient as an accounting policy choice and consistently to contracts with similar characteristics and in similar circumstances. The purpose of the amendment is to provide relief to lessees from the complexity arising in applying the requirements of IFRS 16 to COVID-19 related rent concessions. The amendment will be applied retrospectively and is not expected to have a material impact on the Group.	1 January 2023
IAS 1	**IAS 1 Presentation of Financial Statements (amendments)** The amendment clarifies how to classify debt and other liabilities as current or non-current. The objective of the amendment is aimed to promote consistency in applying the requirements by helping entities determine whether, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendment also includes clarifying the classification requirements for debt an entity might settle by converting it into equity. These are clarifications, not changes, to the existing requirements, and so are not expected to affect entities' financial statements significantly. However, these clarifications could result in reclassification of some liabilities from current to non-current, and vice versa. The amendment will be applied retrospectively. The impact on the annual financial statements has not yet been fully determined.	1 January 2023
Annual improvements 2018-2020 cycle	**Annual improvements 2018-2020 cycle** The IASB has issued various amendments and clarifications to existing IFRS, none of which is expected to have a significant impact on the group's annual financial statements.	1 January 2022

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2020
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21. Key management assumptions

21.1. Credit impairment losses on loans and advances

In preparing the financial statements, estimates and assumptions are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of future events. The estimates and judgements below have remained unchanged unless otherwise stated. The following represents the most material key management assumptions applied in preparing these financial statements. The key management assumptions below apply to Group and Company, unless otherwise stated.

Expected credit loss (ECL) on financial assets

During the current reporting period models have been enhanced however no material changes to assumptions have occurred. Furthermore, while COVID-19 placed considerable strain on our operations specifically retail, wholesale and corporate clients, particularly as a result of South Africa ownership or supply chain linkages, the Group's risk appetite remained unchanged and appropriate for the economic risks that COVID-19 presented. The Group also considered the concentration risk on its financial instruments which turned out to be same as prior year which is skewed on the government sectors and these were considerably considered less risky with regards to the SICR hence why no material changes were applied to the model. As such, the below significant increase in credit risk (SICR) and default assumptions, thresholds and/or triggers were not amended.

For the purpose of determining the ECL:

- The Personal and Business Banking (PBB) portfolios are based on the product categories or subsets of the product categories, with tailored ECL models per portfolio. The impairment provision calculation excludes post-write-off recoveries (PWOR) from the loss given default (LGD) in calculating the ECL. These LGD parameters are aligned to market practice.
- Corporate and Investment Banking (CIB) exposures are calculated separately based on rating models for each of the asset classes.

ECL measurement period

The ECL measurement period for stage 1 exposures is 12 months (or the remaining tenor of the financial asset for CIB exposures if the remaining lifetime is less than 12 months).

- A loss allowance over the full lifetime of the financial asset is required if the credit risk of that financial instrument has increased significantly since initial recognition (stage 2).
- A lifetime measurement period is applied to all credit impaired (stage 3) exposures.
- Lifetimes include consideration for multiple default events, i.e. where defaulted exposures cure and then subsequently re-default. This consideration increases the lifetime periods and the potential ECL.
- The measurement periods for unutilised loan commitments utilise the same approach as on-balance-sheet exposures.

Significant increase in credit risk (SICR) and low credit risk

PBB

In accordance with IFRS9, all exposures are assessed to determine whether there has been SICR at the reporting date, in which case an impairment provision equivalent to the lifetime expected loss is recognised. SICR thresholds, which are behaviour score based, are derived for each portfolio vintage of exposures with similar credit risk and are calibrated over time to determine which exposures reflect deterioration relative to the originated population and consequently reflect an increase in credit risk. Behaviour scorecards are based on a combination of factors which include the information relating to customers, transactions and delinquency behaviour (including the backstop when contractual payments are more than 30 days past due) to provide a quantitative assessment (score), and more specifically, a ranking of customer creditworthiness. The creditworthiness of a customer is summarised by a score, with high scores corresponding to low-risk customers, and conversely, low scores corresponding to high-risk customers. These scores are often taken into account in determining the probability of default (PD) including relative changes in PD. Credit risk has increased since initial recognition when these criteria are met.

The Group and Company determines the SICR threshold by utilising an appropriate transfer rate of exposures that are less than 30 days past due (DPD) to stage 2. This transfer rate is such that the proportion of the 0-29 DPD book transferred into stage 2 is no less than the observed 12-month roll rate of 0-29 days accounts into 30 or more days in arrears.

The SICR thresholds are reviewed regularly to ensure that they are appropriately calibrated to identify SICR by portfolio vintage and to consequently facilitate appropriate impairment coverage.

Where behaviour scores are not available, historical levels of delinquency are applied in determining whether there has been SICR. For all exposures, the rebuttable presumption of 30 days past due as well as exposures classified as either debt review or as 'watch-list' are used to classify exposures within stage 2.

In accordance with the Bank of Botswana (BoB) Circular No 1, refer Bank of Botswana website, a bank shall comply with the accounting treatment of the modified financial instrument as required by the IFRS 9 method. In applying the IFRS 9 a bank should correctly attribute loan quality ranking using its best judgement and understanding of the customer's risk profile and the general economy. A bank shall closely monitor loans that are subject to moratorium. Where the credit quality of the loan clearly changes for reasons not related to COVID-19 pandemic, such loan quality deterioration should not be misclassified as COVID-19 related. All loans meeting the qualifying criteria for the three-month a moratorium shall not be recognized as non-performing. Therefore, for regulatory reporting requirement purposes, a bank shall not raise specific provisions against such loans, except if, for accounting and tax purposes, such a provision is required.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

21. Key management assumptions (continued)

21.1. Credit impairment losses on loans and advances (continued)

CIB (including certain PBB (business banking) exposures)

The Group uses a 25-point master rating scale to quantify the credit risk for each exposure. On origination, each client is assigned a credit risk grade within the Group's 25-point master rating scale. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data for the applicable portfolio. These credit ratings are evaluated at least annually or more frequently as appropriate.

CIB exposures are evaluated for SICR by comparing the credit risk grade at the reporting date to the origination credit risk grade. Where the relative change in the credit risk grade exceeds certain pre-defined ratings' migration thresholds or, when a contractual payment becomes more than 30 days overdue (IFRS 9's rebuttable presumption), the exposure is classified within stage 2. These pre-defined ratings' migration thresholds have been determined based on historic default experience which indicate that higher rated risk exposures are more sensitive to SICR than lower risk exposures. Based on an analysis of historic default experience, exposures that are classified by the Group's master rating scale as investment grade (within credit risk grade 1 - 12 of the group's 25-point master rating scale) are assessed for SICR at each reporting date but are considered to be of a low credit risk customer. To determine whether a client's credit risk has increased significantly since origination, the Group and Company would need to determine the extent of the change in credit risk using the table below.

Standard Bank (SB) master rating scale band	SICR trigger (from origination)
SB 1 – 12	Low credit risk
SB 13 – 20	Medium credit risk
SB 21 – 25	High credit risk

The SICR methodology remains unchanged (comparing the credit risk grading) to determine whether these exposures are classified within Stage 1 or Stage 2. The credit risk grade is assessed at the time of the relief, and subsequently monthly reviews of the status of the request and client's performance are conducted.

COVID-19 impact on SICR and low credit risk

The Bank's response to COVID-19 was to establish dedicated work streams with the key focus being to identify the most impacted sectors to which the Bank has exposure to and provide the affected customers with temporary debt relief measures in the form of capital and/or interest moratorium. It should be noted that this relief was only provided to credit worthy customers on a case by case assessment. As at 31 December 2020 the customers that were still under moratorium was only P70m and the expired moratorium book was sitting at a total of P635m, with clients now being able to meet their instalments. Since the relief measures were only given to credit worth clients (stage 1) the Bank saw no need to adjust its current key assumptions and modelling judgements.

Incorporation of forward-looking information in ECL measurement

The group's macroeconomic outlooks are incorporated in CIB's client rating and include specific forward-looking economic considerations for the individual client. The client rating thus reflects the expected client risk for the group's expectation of future economic and business conditions. Further adjustments, based on point-in-time market data, are made to the PDs assigned to each risk grade to produce PDs and ECL representative of existing market conditions.

Default

The definition of default, which triggers the credit impaired classification (stage 3), is based on the Group's internal credit risk management approach and definitions. Whilst the specific determination of default varies according to the nature of the product, it is compliant to the Basel definition of default, and generally determined as occurring at the earlier of:

- where, in the Group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The Group has not rebutted IFRS 9's 90 days past due rebuttable presumption.

Write off policy

An impaired loan is written off once all reasonable attempts at collection have been made and there is no material economic benefit expected from attempting to recover the balance outstanding. The following criteria must be met before a financial asset can be written off:

- the financial asset has been in default for the period defined for the specific product (i.e. VAF, homes loans, etc.) which is deemed sufficient to determine whether the entity is able to receive any further economic benefit from the impaired loan; and
- at the point of write-off, the financial asset is fully impaired (i.e. 100% allowance) with no reasonable expectations of recovery of the asset, or a portion thereof.

As an exception to the above requirements, where the exposure is secured (or for collateralised structures), the impaired loan can only be written off once the collateral has been realised. Post realisation of the collateral, the shortfall amount can be written off if it meets the second requirement listed above. The shortfall amount does not need to meet the first requirement to be written off.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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21. Key management assumptions (continued)

21.1. Credit impairment losses on loans and advances (continued)

Repossessions

When certain conditions come into effect the Bank may repossess the underlying collateral. Repossessions are initiated by a formal letter of demand. Once the assets have been taken into custody they are valued by approved valuers. All costs charged, for example legal fees and repair costs are booked against the account. A repossessed asset is released on condition that the arrears together with repossession expenses are fully paid. Alternatively the repossessed assets may be sold within 120 days, through a public auction or offer sale. When the Bank takes possession of collateral which is not cash or not readily convertible into cash the Bank determines a minimum sale amount and auctions the asset for the pre-set sale amount.

Events leading to repossession include:

- Voluntary or Custody surrender pending payment of arrears
- Handed in by the administrator/trustee of a deceased or insolvent estate; and
- Where goods have been found abandoned and / or the customer has absconded

Curing

Continuous assessment is required to determine whether the conditions that led to a financial asset being considered to be credit impaired (i.e. stage 3) still exist. Distressed restructured financial assets that no longer qualify as credit impaired remain within stage 3 for a minimum period of six months (i.e. six full consecutive monthly payments per the terms and conditions). In the case of financial assets with quarterly or longer dated repayment terms, the classification of a financial asset out of stage 3 may be made subsequent to an evaluation by the Group's CIB or PBB Credit Risk Management Committee, such evaluation will take into account qualitative factors in addition to compliance with payment terms and conditions of the agreement. Qualitative factors include compliance with covenants and compliance with existing financial asset terms and conditions.

Where it has been determined that a financial asset no longer meets the criteria for significant increase in credit risk, the financial asset will be moved from stage 2 (lifetime expected credit loss model) back to stage 1 (12-month expected credit loss model) prospectively.

Forward-looking economic expectations which were applied in the determination of the ECL at the reporting date:

A range of base, bullish and bearish forward-looking economic expectations were determined, as at 31 December 2020, for inclusion in the Group's forward-looking process and ECL calculation.

Economic expectation

- The pandemic will see Botswana suffer an economic contraction in 2020; projected to contract by 7.7% for the 2020 calendar year, and estimated to rebound by 8.8% in 2021. The government stimulating economic growth via its Economic Recovery and Transformation Plan (ERTP) should boost economic growth.
- Diamond exports should improve now that lockdowns and other forms of economic restrictions have been eased.
- However, we doubt that a recovery will revert to pre-pandemic levels, as luxury spending is likely to remain subdued globally. This would crimp GDP growth and government revenue, as diamond exports comprise over 80% of total exports and the overall mining sector accounts for over 30% of government revenue.
- Moreover, there is no indication that global tourism will recover soon.
- There is no reason to believe that there would be a further sovereign rating downgrade, supported by low public debt levels and adequate FX reserves. But the risk of downgrade remains high due to twin deficit.
- In absence of changes in trade patterns, the exchange rate policy is unlikely to change substantively in the forecast period.
- Despite heightened spending and FX reserve printing at historically low levels, FX reserves still remains adequate at 11-months of import cover, but it is likely to continue the declining trend.
- Inflation pressures remain muted, below the 3.0% y/y – 6.0% y/y objective range. It is now likely to revert within the objective range by H1:21.
- The BOB will likely maintain its accommodative stance.
- The Monetary Policy Committee (MPC) is likely to keep the easing bias in the medium term.

Main macroeconomic factors

The following table shows the main macroeconomic factors used to estimate the allowances for credit losses on loans. For each scenario, namely, the base case, bullish and bearish scenario, the average values of the factors over the next 12 months and over the remaining forecast period are presented below:

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

21. Key management assumptions (continued)

21.1. Credit impairment losses on loans and advances (continued)

Main macroeconomic factors (continued)

2020	Base scenario[3]		Bearish scenario[3]		Bullish scenario[3]	
	Next 12 months[1] (%)	Remaining forecast period[2] (%)	Next 12 months[1] (%)	Remaining forecast period[2] (%)	Next 12 months[1] (%)	Remaining forecast period[2] (%)
Inflation	4.79	3.02	4.21	2.37	5.04	3.27
Real GDP	7.84	4.33	5.22	3.44	10.47	5.09
6 months T-bill	1.78	1.95	1.46	1.66	2.73	2.58
Bank rate	3.75	3.98	3.63	3.50	4.00	4.25
Exchange rate (USD/BWP)	11.03	10.48	12.41	11.48	10.46	9.96

[1] Revised as at 31 December 2020. The 2020 (next 12 months) view disclosed as at 31 December 2019, has been revised due to the changes in the macroeconomic factors including the impact of COVID-19.

[2] The remaining forecast period is 2022 to 2024.

[3] The scenario weighting is: Base at 55.0%, Bull at 25.0% and Bear at 20.0%.

2019	Base scenario		Bearish scenario		Bullish scenario	
	Next 12 months (%)	Remaining forecast period (%)	Next 12 months (%)	Remaining forecast period (%)	Next 12 months (%)	Remaining forecast period (%)
Inflation	2.87	2.98	2.50	2.35	3.43	3.23
Real GDP	3.83	4.89	3.40	4.31	3.99	5.05
6 months T-bill	1.86	1.71	1.66	1.42	2.51	2.42
Bank rate	4.56	4.50	3.75	4.19	5.63	5.50
Exchange rate (USD/BWP)	10.91	10.65	11.72	11.46	10.27	10.07

Sensitivity analysis of CIB forward looking impact on IFRS 9 provision

Management assessed and considered the sensitivity of the IFRS 9 provision against the forward-looking economic conditions at a client level. The reviews and ratings of each client are performed at least annually. This process entails credit analysts completing a credit scorecard and incorporating forward looking information. The weighting is reflected in both the determination of significant increase in credit risk as well as the measurement of the resulting IFRS 9 provision for the individual client. Therefore, the impact of forward-looking economic conditions is embedded into the total IFRS 9 provision for each CIB client and cannot be stressed or separated out of the overall CIB IFRS 9 provision.

Sensitivity analysis of PBB forward looking impact on IFRS 9 provision

The following table shows a comparison of the forward-looking impact on the IFRS 9 provision as at 31 December 2020 based on the probability weightings of the above three scenarios resulting from recalculating each of the scenario using a 100% weighting of the above factors.

Sensitivity Analysis of PBB forward looking impact on IFRS 9

Allowances for credit losses (P000's)		
Forward looking impact on IFRS 9 provision		
Scenarios	**2020**	2019
100% Bear	**461 734**	65 875
100% Base	**168 877**	26 385
100% Bull	**209 750**	47 174

Forward looking expectations

- The Standard Bank Group Economics Research team assists the Group to determine the macroeconomic outlook for commodities over a planning horizon of at least three years. The outlook is provided to the Chief Financial Officer for review and the Asset and Liability Committee (ALCO) for approval.
- Macroeconomic outlooks take into account various variables such as gross domestic product, central bank policy interest rates, inflation, exchange rates and treasury bill rates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

21. Key management assumptions (continued)

21.1. Credit impairment losses on loans and advances (continued)

Forward looking expectations (continued)

- Narratives of economic outlooks, being bear, base and bull cases, are compiled and typically include consideration of the economic background, sovereign risk, foreign exchange risk, financial sector and monetary policy stance.
- Probabilities are assigned to each of the bear, base and bull cases based on primary macroeconomic drivers that are reviewed monthly.
- The forward-looking economic expectations are updated on a bi-annual basis or more regularly when deemed appropriate.

Post-model adjustments

COVID-19 has had a profound impact globally and there remains much uncertainty as to the future economic path and recovery. As mentioned in the sections above in determining the forward-looking impact, from an IFRS 9 perspective, the Group has forecast three possible future macroeconomic scenarios, being the Base, Bear and Bull scenarios and attributed weightings to these three scenarios. The outcome of the COVID-19 pandemic is unpredictable and this makes determining these scenarios and the assumptions underlying them complex. Given this uncertainty, and the fact that the pandemic has impacted clients across all geographies and client segments, the Group has deemed it appropriate to recognise an additional P11 million judgemental credit adjustment on the total loans and advances to customers portfolio. The credit adjustment is based on reasonable and supportable information available at the reporting date and is disclosed as part of other loans and advances.

21.2. Fair value of financial instruments

In terms of IFRS, the Group is either required to or elects to measure a number of its financial assets and financial liabilities at fair value, being the price that would, respectively, be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Regardless of the measurement basis, the fair value is required to be disclosed, with some exceptions, for all financial assets and financial liabilities.

Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset or liability under current market conditions. When determining fair value, it is presumed that the entity is a going concern and is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale. Information obtained from the valuation of financial instruments is used to assess the performance of the group and, in particular, provides assurance that the risk and return measures that the group has taken are accurate and complete.

The Group's valuation control framework governs internal control standards, methodologies and procedures over its valuation processes, which include:

21.3. Valuation process

Prices quoted in an active market: The existence of quoted prices in an active market represents the best evidence of fair value. Where such prices exist, they are used in determining the fair value of financial assets and financial liabilities.

Valuation techniques: Where quoted market prices are unavailable, the group establishes fair value using valuation techniques that incorporate observable inputs, either directly, such as quoted prices, or indirectly, such as those derived from quoted prices, for such assets and liabilities. Parameter inputs are obtained directly from the market, consensus pricing services or recent transactions in active markets, whenever possible. Where such inputs are not available, the group makes use of theoretical inputs in establishing fair value (unobservable inputs). Such inputs are based on other relevant input sources of information and incorporate assumptions that include prices for similar transactions, historic data, economic fundamentals, and research information, with appropriate adjustments to reflect the terms of the actual instrument being valued and current market conditions. Changes in these assumptions would affect the reported fair values of these financial instruments. Valuation techniques used for financial instruments include the use of financial models that are populated using market parameters that are corroborated by reference to independent market data, where possible, or alternative sources, such as, third-party quotes, recent transaction prices or suitable proxies. The fair value of certain financial instruments is determined using industry standard models such as, discounted cash flow analysis and standard option pricing models. These models are generally used to estimate future cash flows and discount these back to the valuation date. For complex or unique instruments, more sophisticated modelling techniques may be required, which require assumptions or more complex parameters such as correlations, prepayment spreads, default rates and loss severity.

Valuation adjustments: Valuation adjustments are an integral part of the valuation process. Adjustments include, but are not limited to:

- credit spreads on illiquid issuers
- implied volatilities on thinly traded instruments
- correlation between risk factors
- prepayment rates
- other illiquid risk drivers.

In making appropriate valuation adjustments, the group applies methodologies that consider factors such as bid-offer spreads, liquidity, counterparty and own credit risk. Exposure to such illiquid risk drivers is typically managed by:

- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver;

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

21. Key management assumptions (continued)

21.3. Valuation process (continued)

Valuation adjustments: (continued)

- raising day one profit provisions in accordance with IFRS;
- quantifying and reporting the sensitivity to each risk driver; and
- limiting exposure to such risk drivers and analysing the exposure on a regular basis.

Validation and control: All financial instruments carried at fair value, regardless of classification, and for which there are no quoted market prices for that instrument, are fair valued using models that conform to international best practice and established financial theory. These models are validated independently by the group's model validation unit and formally reviewed and approved by the Group market risk methodologies committee. This control applies to both off-the-shelf models, as well as those developed internally by the group. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the group's market risk unit. Such price validation is performed on at least a monthly basis, but daily where possible given the availability of the underlying price inputs. Independent valuation comparisons are also performed and any significant variances noted are appropriately investigated. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to model, are carefully validated and tabled at the monthly price validation forum to ensure that these are reasonable and used consistently across all entities in the group. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis at the market risk and asset and liability committees.

Portfolio exception: The Group has, on meeting certain qualifying criteria, elected the portfolio exception which allows an entity to measure the fair value of certain groups of financial assets and financial liabilities on a net basis similar to how market participants would price the net risk exposure at the measurement date. Other financial instruments, not at level 3, are utilised to mitigate the risk of these changes in fair value.

The fair value of financial instruments, such as Treasury Bills, Corporate and Government Bonds which are not actively traded on open markets but are purchased via an auction process are determined by using valuation techniques. Wherever possible, models use only observable market data such as bid prices and market yields. Changes in assumptions could affect the reported fair values of financial instruments.

21.4. Consolidation of entities

The Group controls and consolidates an entity where the Group has power over the entity's relevant activities; is exposed to variable returns from its involvement with the investee; and has the ability to affect the returns through its power over the entity, including structured entities (SEs). Determining whether the Group controls another entity requires judgement by identifying an entity's relevant activities, being those activities that significantly affect the investee's returns, and whether the Group controls those relevant activities by considering the rights attached to both current and potential voting rights, de facto control and other contractual rights, including whether such rights are substantive. Interests in unconsolidated SEs that are not considered to be a typical customer-supplier relationship are required to be identified and disclosed. The Group regards an interest to be a typical customer-supplier relationship where the level of risk inherent in that interest in the SE exposes the Group to a similar risk profile to that found in standard market-related transactions. The Group sponsors an SE where it provides financial support to the SE when not contractually required to do so. Financial support may be provided by the group to an SE for events such as litigation, tax and operational difficulties.

21.5. Income taxes

The Group is subject to direct and indirect taxation. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty in the ordinary course of business. The Group and Company recognise provisions for tax based on objective estimates of the amount of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in note 22.12 and note 32, respectively, in the period in which such determination is made.

Uncertain tax positions, which do not meet the probability criteria defined within IFRS, are not provided for but are rather disclosed as contingent liabilities or assets as appropriate. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The most significant management assumption is the forecasts that are used to support the probability assessment that sufficient taxable profits will be generated by the entities in the group in order to utilise the deferred tax assets.

21.6. Computer software intangible asset

The Group reviews its assets under construction and assets brought into use for impairment at each reporting date and tests the carrying value for impairment whenever events or changes in circumstances indicate that the carrying amount (or components of the carrying amount) may not be recoverable. These circumstances include, but are not limited to, new technological developments, obsolescence, changes in the manner in which the software is used or is expected to be used, changes in discount rates, significant changes in macroeconomic circumstances or changes in estimates of related future cash benefits. The impairment tests are performed by comparing an asset's recoverable amount to its carrying amount.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

21. Key management assumptions (continued)

21.6. Computer software intangible asset (continued)

The recoverable amount is determined as the higher of an asset's fair value less the cost of disposal and its value in use. The value in use is calculated by estimating future cash benefits that will result from each asset and discounting those cash benefits at an appropriate discount rate.

The review and testing of assets for impairment inherently requires significant management judgement as it requires management to derive the estimates of the identified assets' future cash flows in order to derive the asset's recoverable amount. No indication of impairment was observed.

21.7. Provisions

The principal assumptions taken into account in determining the value at which provisions are recorded, include determining whether there is an obligation, as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the obligation. For legal provisions, management assesses the probability of the outflow of resources by taking into account historical data and the status of the claim in consultation with the Group's legal counsel. In determining the amount and timing of the obligation once it has been assessed to exist, management exercises its judgement by taking into account all available information, including that arising after the reporting date up to the date of the approval of the financial results.

22. Statements of profit or loss and other comprehensive income information

22.1. Interest income

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Interest on loans and advances	**890 909**	862 493	**890 909**	862 493
Interest on financial investments	**50 139**	51 418	**50 139**	51 418
	941 048	913 911	**941 048**	913 911

22.2. Interest expense

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Interest on deposits - current and savings accounts	**6 122**	5 548	**6 137**	5 562
Interest on deposits - call, term and debt securities in issue	**243 998**	189 865	**243 998**	189 865
Interest on lease liabilities	**1 351**	1 484	**1 351**	1 484
Interest on deposits with banks	**4 146**	35 346	**4 146**	35 346
	255 617	232 243	**255 632**	232 257

22.3. Fee and commission income

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Documentation and admin fees	**59 933**	50 130	**59 933**	50 130
Electronic banking transaction fees	**19 361**	19 319	**19 361**	19 320
Point of presentation transaction fees	**9 762**	12 664	**9 762**	12 664
Guarantee fees	**8 973**	11 888	**8 973**	11 889
Insurance commissions	**11 497**	10 032	**-**	-
Card based commission	**98 186**	96 249	**98 186**	96 249
Foreign currency service fees	**7 913**	19 420	**7 913**	19 420
Service and penalty fees on current accounts	**13 505**	19 750	**13 505**	19 750
ATM fees	**7 515**	8 156	**7 515**	8 156
Script and security fees	**11 674**	9 883	**11 674**	9 883
Other	**14 540**	11 338	**14 548**	11 342
	262 859	268 829	**251 370**	258 803

NOTES TO THE FINANCIAL STATEMENTS (continued)

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22. Statements of profit or loss and other comprehensive income information (continued)

22.3. Fee and commission income (continued)

Performance obligations and revenue recognition policies

The principal assumptions taken into account fee and commission income from contracts with customers is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition
Documentation and admin fees	This relates to fee and commission income related to the loans and advances to customers.	Revenue from commitment fees is recognised on a straight-line basis over the commitment period. The amounts to be recognised in future months are recognised as other liabilities.
Transaction-based fees - electronic banking fees, point of presentation fees, guarantee fees, ATM fees and script and security fees and Other fees	Transaction-based fees such as electronic banking fees, point of presentation fees, and guarantee fees, are charged to the customer's account when the transaction takes place.	Revenue related to transactions is recognised at the point in time when the transaction takes place.
Account servicing fees – foreign currency service fees, service and penalty fees on current accounts	Servicing fees are charged on a monthly basis.	The fees are recognised as the services are performed and received.
Insurance and card based commissions	Commission income relating to relate to insurance and card activities.	The fees are recognised as the services are performed and received.

22.4. Fee and commission expense

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Card based expenses	**55 500**	51 609	**55 501**	51 609
Other fees	**222**	661	**222**	664
Fee and commission expense	**55 722**	52 270	**55 723**	52 273

The net fee and commission income above excludes amounts included in determining the effective interest rate on financial assets and financial liabilities that are not at fair value through profit or loss but includes income of P262.859 million for Group and P251.370 million for Company (2019: P268.829 million, P258.803 million respectively) and expense of P55.722 million for Group and P55.723 million for Company (2019: P52.270 million, P52.273 million respectively) relating to such financial assets and financial liabilities.

22.5. Net trading income

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Gain on items measured at amortised cost	**175 866**	216 990	**175 866**	216 990
Net (loss)/ gain on financial instruments held for trading	**(1 375)**	5 058	**(1 375)**	5 058
	174 491	222 048	**174 491**	222 048

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

22. Statements of profit or loss and other comprehensive income information (continued)

22.6. Other income

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Preference dividend (41.6)	**12 116**	9 929	**12 116**	9 929
Ordinary dividend (41.6)	**-**	-	**13 203**	-
Sundry income	**4 303**	12 048	**7 563**	12 692
Management fees (41.6)	**-**	-	**729**	3 058
	16 419	21 977	**33 611**	25 679

22.7. Other income gains and losses on financial instruments

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Other gains and (losses) on financial instruments	**294**	(237)	**294**	(237)
	294	(237)	**294**	(237)

22.8. Credit impairment charges

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Net expected credit loss raised and released	**62 830**	413 851	**62 830**	413 851
Financial investments (note 26.5)	**1 870**	35	**1 870**	35
Loans and advances	**64 988**	414 316	**64 988**	414 316
Letters of credit, guarantees and commitments	**(4 028)**	(500)	**(4 028)**	(500)
Recoveries on loans and advances previously written off	**(22 847)**	(24 805)	**(22 847)**	(24 805)
	39 983	389 046	**39 983**	389 046

22.9. Staff costs

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Salaries and allowances	**277 766**	268 382	**277 766**	268 382
Retirement benefit costs	**24 617**	23 469	**24 617**	23 469
	302 383	291 851	**302 383**	291 851

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

22. Statements of profit or loss and other comprehensive income information (continued)

22.10. Other operating expenses

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Amortisation – intangible assets (note 30)	**21 008**	20 945	**21 008**	20 945
Auditor's remuneration	**3 215**	2 757	**3 215**	2 757
- Audit fees (current year)	**3 005**	2 757	**3 005**	2 757
- Audit fees under/(over)provision prior year	**210**	-	**210**	-
Depreciation property plant and equipment (note 31.2)	**44 247**	30 190	**44 247**	30 190
- Property - Freehold	**1 183**	794	**1 183**	794
- Property - Leasehold	**2 887**	(4 412)	**2 887**	(4 412)
- Equipment – Computers and office equipment	**21 311**	15 875	**21 311**	15 875
- Equipment – Motor vehicles	**1 705**	1 498	**1 705**	1 498
- Equipment – Furniture and fittings	**3 356**	3 245	**3 356**	3 245
- Right of use of assets	**13 805**	13 190	**13 805**	13 190
- Leases of low value assets and short-term leases	**2 340**	1 526	**2 340**	1 526
-Expenses relating to leases of low-value items	**2 182**	216	**2 182**	216
-Expenses related to short-term leases	**158**	1 310	**158**	1 310
Information technology[1]	**70 963**	27 905	**70 963**	27 905
Communication, marketing and advertising	**33 161**	32 518	**33 161**	32 518
Repairs and maintenance	**10 783**	8 994	**10 783**	8 994
Professional fees	**14 299**	10 563	**14 299**	10 563
Head office franchise fee	**32 281**	34 212	**32 281**	34 212
Profit/(Loss) on sale of plant and equipment	**(148)**	(350)	**(148)**	(350)
Travel and entertainment	**5 893**	15 275	**5 893**	15 275
Training expenses	**2 219**	6 265	**2 219**	6 265
Administration and general expenses	**97 326**	70 860	**98 940**	70 606
	337 587	261 660	**339 201**	261 406

The net gain from foreign exchange included in other operating expenses amounts to P7.862 million.

[1] Information technology includes cost of systems upgrades, security and system stability, change the bank and maintenance.

22.11. Directors' emoluments

Remuneration report

The table below presents the remuneration received by key management as required by King IV Code.

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Short term benefits	**4 765**	5 218	**4 765**	5 218
Non-Executive Directors				
Craig Anthony Granville	**707**	738	**707**	738
Dr Tebogo TK Matome	**714**	753	**714**	753
Jennifer Mary Marinelli	**707**	697	**707**	697
Dale Ter Haar	**621**	641	**621**	641
Orefitlhetse Masire	**609**	773	**609**	773
Mohamed Ismail	**585**	676	**585**	676
Rudie De Wet	**499**	501	**499**	501
Derick Finlayson	**151**	439	**151**	439
Bokete Mthabisi	**86**	-	**86**	-
Mythri Sambasivan-George	**86**	-	**86**	-
	4 765	5 218	**4 765**	5 218

Refer to Note 41.8 for remuneration received by executive management.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

22. Statements of profit or loss and other comprehensive income information (continued)

22.12. Taxation

(a) Amounts recognised in profit or loss

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Indirect taxation				
- Value added tax	**19 462**	22 590	**19 439**	22 459
Direct taxation				
Total direct taxation	**81 933**	37 142	**79 808**	35 559
- Current year	**83 249**	37 142	**81 124**	35 559
- current tax	**43 844**	72 105	**41 719**	70 522
- deferred tax (note 22.12)	**38 415**	(34 963)	**38 415**	(34 963)
-withholding tax on dividends	**990**	-	**990**	-
- Prior year	**(1 316)**	-	**(1 316)**	-
- current tax	**1 434**	-	**1 434**	-
- deferred tax (note 22.12)	**(2 750)**	-	**(2 750)**	-

(b) Botswana tax rate reconciliation (%)

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Direct taxation charge for the year as a percentage of profit after indirect tax:	**21**	21	**21**	21
The charge for the year has been reduced as a consequence of:				
- preference dividends	**1**	1	**1**	1
Statutory tax rate	**22**	22	**22**	22

23. Cash and cash balances with the Central Bank

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Coins and bank notes	**135 413**	128 091	**135 413**	128 091
Balances with the Central Bank	**284 453**	480 509	**284 453**	480 509
	419 866	608 600	**419 866**	608 600

Coins and bank notes and the reserving requirements held with the Central Bank have been classified at fair value through profit or loss - default as the contractual terms do not give rise on specified dates to cash flows that represent solely payments of principal and interest on the principal amount outstanding. Included in this balance is P280.517 million (2019: P416.000 million) that is not available for use by the Group. These balances primarily comprise of reserving requirements held with the Central Bank and are available for use by the Group subject to certain restrictions and limitations levied by the Central Bank. These balances are held at fair value.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

24. Derivative financial instruments

All derivatives are classified as derivatives held for trading.

24.1. Fair values

The fair value of a derivative financial instrument, for quoted instruments is the quoted market price and for unquoted instruments the present value of the positive or negative cash flows and is based on those which would have occurred if the rights and obligations arising from that instrument were closed out in an orderly marketplace transaction at year end.

24.2. Notional amount

The gross notional amount is the sum of the absolute value of all bought and sold contracts. The amount should be used only as a means of assessing the Group's participation in derivative contracts.

24.3. Derivative assets and liabilities

	Maturity analysis of net fair value						
2020 Group	Within 1 year P000's	After 1 year, within 5 years P000's	After 5 years P000's	Net fair value P000's	Fair value of assets P000's	Fair value of liabilities P000's	Net notional amount P000's[1]
Derivatives held for trading							
Foreign exchange derivatives	**(7 610)**	-	-	**(7 610)**	**430**	**(8 040)**	**11 565**
- Forwards and swaps	**(7 610)**	-	-	**(7 610)**	**430**	**(8 040)**	**11 565**
2020 Company							
Derivatives held for trading							
Foreign exchange derivatives	**(7 610)**	-	-	**(7 610)**	**430**	**(8 040)**	**11 565**
- Forwards and swaps	**(7 610)**	-	-	**(7 610)**	**430**	**(8 040)**	**11 565**

	Maturity analysis of net fair value						
2019 Group	Within 1 year P000's	After 1 year, within 5 years P000's	After 5 years P000's	Net fair value P000's	Fair value of assets P000's	Fair value of liabilities P000's	Net notional amount P000's[1]
Derivatives held for trading							
Foreign exchange derivatives	13 651	-	-	13 651	29 142	(15 491)	9 159
- Forwards and swaps	13 651	-	-	13 651	29 142	(15 491)	9 159
2019 Company							
Derivatives held for trading							
Foreign exchange derivatives	13 651	-	-	13 651	29 142	(15 491)	9 159
- Forwards and swaps	13 651	-	-	13 651	29 142	(15 491)	9 159

[1] The notional amount is the sum of the absolute value of all bought and sold contracts for both derivative assets and liabilities. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the Group's participation in derivative contracts.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

24. Derivative financial instruments (continued)

24.4. Use and measurement of derivative instruments

In the normal course of business, the Group enters into a variety of derivative transactions for trading that include swaps and forwards.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

The fair value of all derivatives is recognised on the statement of financial position and is only netted to the extent that a legal right of set-off exists and there is an intention to settle on a net basis.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. The major type of swap transactions undertaken by the Group are cross currency interest rate swaps.

Cross currency interest rate swaps involve the exchange of interest payments based on two different currency principle balances and interest reference rates and generally also entail exchange of principal amounts at the start and / or end of the contract.

Forwards are contractual obligations to buy or sell financial instruments on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the market.

24.5. Derivatives held for trading

The Bank trades derivative instruments on behalf of customers and for its own positions. The Group transacts derivative contracts to address customer demands both as a market maker in the wholesale market and in structuring tailored derivatives for customers. The Group also takes proprietary positions for its own accounts. Trading derivative products include foreign exchange derivatives. Foreign exchange derivatives consist of forward exchange contracts and swaps.

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Listed – Government bonds	**3 980**	37 808	**3 980**	37 808
Unlisted – other	-	-	-	-
	3 980	37 808	**3 980**	37 808
Bank of Botswana Certificates (BOBCs)	**3 980**	37 808	**3 980**	37 808
Placement with banks	-	-	-	-
	3 980	37 808	**3 980**	37 808
Maturity analysis:				
Maturing within 1 month	-	-	-	-
Maturing after 1 month but within 6 months	-	-	-	-
Maturing after 6 months but within 12 months	-	-	-	-
Maturing after 12 months	**3 980**	37 808	**3 980**	37 808
	3 980	37 808	**3 980**	37 808

a. Redemption value

Dated trading assets had a redemption value at 31 December 2020 of P3 980 (2019: P37 808) for the Group and Company.

b. Valuation

The fair value of unlisted investments is equal to the carrying value. All unlisted investments were fair valued at 31 December 2020. Refer to note 37.2 for the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

26. Financial investments

26.1. Classification

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Listed – Government bonds	**547 637**	132 842	**547 637**	132 842
Unlisted – other	**2 014 586**	2 417 539	**2 014 586**	2 417 539
	2 562 223	2 550 381	**2 562 223**	2 550 381
Comprising:				
Government bonds	**547 637**	132 842	**547 637**	132 842
Corporate bonds	**216 670**	220 852	**216 670**	220 852
Bank of Botswana Certificates	**1 797 916**	2 196 687	**1 797 916**	2 196 687
	2 562 223	2 550 381	**2 562 223**	2 550 381

Maturity analysis

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
The maturities represent periods to contractual redemption of the investment securities recorded.				
Maturing within 1 month	**999 805**	1 598 365	**999 805**	1 598 365
Maturing after 1 month but within 6 months	**796 778**	598 322	**796 778**	598 322
Maturing after 6 months but within 12 months	**-**	12 076	**-**	12 076
Maturing after 12 months	**765 640**	341 618	**765 640**	341 618
	2 562 223	2 550 381	**2 562 223**	2 550 381
Net financial investments measured at amortised cost	**2 562 223**	2 550 381	**2 562 223**	2 550 381
Gross financial investments measured at amortised cost	**2 564 137**	2 550 425	**2 564 137**	2 550 381
Less: Expected credit loss for financial investments measured at amortised cost	**(1 914)**	(44)	**(1 914)**	(44)
	2 562 223	2 550 381	**2 562 223**	2 550 381

26.2. Redemption value

Dated investment securities had a redemption value at 31 December 2020 of P2 562 223 000 (2019: P2 550 381 000) for the Group and for the Company. Included in these amounts are dated pledged assets with a redemption value at 31 December 2020 of P472 000 000 (2019: P416 000 000) for the Group and Company (refer to note 26.6 for further details).

26.3. Investment registers

Registers of the investment securities are available for inspection by members, or their authorised agents at the registered offices of the Group and its subsidiaries.

26.4. Fair value

The fair value of unlisted investments is equal to the carrying value. All unlisted investments were fair valued at 31 December 2020 based on ruling prices at reporting date. Refer to note 37.2 for the fair value hierarchy.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

26. Financial investments (continued)

26.5. Reconciliation of expected credit losses for debt financial investments measured at amortised cost

		Income statement movements					
Group and Company	Opening ECL 1 January 2020 P000's	ECL on new exposure raised P000's	Change in ECL due to modifications P000's	Subsequent changes in ECL P000's	Change in ECL due to derecognition P000's	Net ECL raised/ (released)[1] P000's	Closing ECL 31 December 2020 P000's
Corporate	**20**	**-**	**-**	**-**	**(21)**	**(21)**	**(1)**
Stage 1	**20**	**-**	**-**	**-**	**(21)**	**(21)**	**(1)**
Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Sovereign	**18**	**1 910**	**-**	**-**	**(17)**	**1 893**	**1 911**
Stage 1	**18**	**1 910**	**-**	**-**	**(17)**	**1 893**	**1 911**
Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 3	**-**	**-**		**-**	**-**	**-**	**-**
Bank	**6**	**-**	**-**	**-**	**(2)**	**(2)**	**4**
Stage 1	**6**	**-**	**-**	**-**	**(2)**	**(2)**	**4**
Stage 2	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Stage 3	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**44**	**1 910**	**-**	**-**	**(40)**	**1 870**	**1 914**

		Income statement movements					
Group and Company	Opening ECL 1 January 2019 P000's	ECL on new exposure raised P000's	Change in ECL due to modifications P000's	Subsequent changes in ECL P000's	Change in ECL due to derecognition P000's	Net ECL raised/ (released)[1] P000's	Closing ECL 31 December 2019 P000's
Corporate	1	-	-	-	-	-	1
Stage 1	1	19	-	-	-	19	20
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Sovereign	8	17	-	(7)	-	10	18
Stage 1	8	17	-	(7)	-	10	18
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Bank	-	6	-	-	-	6	6
Stage 1	-	6	-	-	-	6	6
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total	9	42	-	(7)	-	35	44

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer credit impairment charges note).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

26. Financial investments (continued)

26.6. Pledged assets and assets not derecognised

Assets are pledged as collateral under repurchase agreements with the Central Bank. Mandatory reserve deposits are also held with the Central Bank in accordance with statutory requirements.

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Fair value of trading assets pledged as security	**472 000**	416 000	**472 000**	416 000
Maturity analysis				
Maturing within 1 month	**472 000**	416 000	**472 000**	416 000

The carrying amount of total financial assets that have been pledged as collateral for liabilities (including amounts reflected above) at 31 December 2020 is P472 million (2019: P416 million) for the Group and Company. The assets pledged comprises Bank of Botswana certificates.

The assets pledged by the Group are strictly for the purpose of providing collateral to the counterparty. The counterparty is permitted to sell and/or re-pledge the assets to the extent reflected above. These transactions are conducted under terms that are usual and customary to security lending, securities borrowing and lending activities.

27. Loans and advances

The Group and Company extends advances to the personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment credit, overdrafts and credit card borrowings. A significant portion of the Groups advances to commercial and corporate borrowers consist of advances made to companies engaged in manufacturing, finance, mining and service industries.

27.1. Loans and advances net of impairment and interest in suspense

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Loans and advances to banks*	**3 518 567**	4 078 666	**3 518 567**	4 078 666
- Balances with banks	**3 519 028**	4 082 374	**3 519 028**	4 082 374
- Expected credit loss for unimpaired loans	**(461)**	(3 708)	**(461)**	(3 708)
Net loans and advances to banks	**3 518 567**	4 078 666	**3 518 567**	4 078 666
Loans and advances to customers	**11 745 148**	8 609 075	**11 745 148**	8 609 075
Gross loans and advances to customer	**12 185 920**	9 260 983	**12 185 920**	9 260 983
- Mortgage lending	**1 945 188**	2 149 721	**1 945 188**	2 149 721
- Instalment sales and finance leases (note 27.2)	**847 578**	908 239	**847 578**	908 239
- Overdrafts and other demand lending	**896 525**	748 407	**896 525**	748 407
- Medium-term advances	**8 079 395**	4 809 417	**8 079 395**	4 809 417
- Card debtors	**40 140**	41 615	**40 140**	41 615
- Other loans	**377 094**	603 584	**377 094**	603 584
Credit impairments for loans and advances to customers	**(440 772)**	(651 908)	**(440 772)**	(651 908)
Net loans and advances	**15 263 715**	12 687 741	**15 263 715**	12 687 741
Comprising:				
Gross loans and advances	**15 704 948**	13 343 357	**15 704 948**	13 343 357
Less: credit impairments (note 27.3 and 27.4)	**(441 233)**	(655 616)	**(441 233)**	(655 616)
Net loans and advances	**15 263 715**	12 687 741	**15 263 715**	12 687 741

*Included in the loans and advances to banks are related party balances further disclosed under note 41.7.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

27. Loans and advances (continued)

27.1. Loans and advances net of impairment and interest in suspense (continued)

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Maturity analysis:				
The maturities represent periods to contractual redemption of the loans and advances recorded.				
Redeemable on demand	**3 619 352**	1 427 277	**3 619 352**	1 427 277
Maturing within 1 month	**6 494**	1 773 420	**6 494**	1 773 420
Maturing after 1 month but within 6 months	**189 521**	1 634 771	**189 521**	1 634 771
Maturing after 6 month but within 12 months	**415 431**	293 475	**415 431**	293 475
Maturing after 12 months	**11 032 917**	7 558 798	**11 032 917**	7 558 798
	15 263 715	12 687 741	**15 263 715**	12 687 741

27.2. Instalment sale and finance leases

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Gross investment in instalment finance lease	**992 984**	1 059 598	**992 984**	1 059 598
Unearned finance charges deducted	**(145 406)**	(151 359)	**(145 406)**	(151 359)
Net investment in instalment finance lease	**847 578**	908 239	**847 578**	908 239
Receivable within 1 year	**52 999**	64 715	**52 999**	64 715
Receivable after 1 year and within 5 years	**662 564**	727 915	**662 564**	727 915
Receivable after 5 years	**132 015**	115 609	**132 015**	115 609

Leases entered into are at market-related terms. Under the terms of the lease agreement, no contingent rentals are payable. Moveable assets are leased or sold to customers under finance leases and instalment sale agreements for periods varying between 12 and 72 months. Depending on the terms of the agreement, the lessee may have the option to purchase the asset at the end of the lease term.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

27. Loans and advances (continued)

27.3. Credit impairments for loans and advances

Reconciliation of expected credit losses for loans and advances measured at amortised cost

A reconciliation of the expected credit loss for loans and advances, by class: In the current year a significant increase in ECL was largely seen under the retail book. Total bank ECL charge was reduced by huge recoveries from large corporate clients including Schachter Botswana Pty Ltd which had a huge impact. The increase in PBB ECL numbers was muted by material recoveries in CIB.

Group and Company	Opening ECL 1 January 2020 P000's	(To)/From Stage 1	From/(To) Stage 2	From/(To) Stage 3	Total Transfer between stages P000's Stage3	ECL on new exposure raised P000's	Change in ECL due to modifi-cations P000's	Subsequent changes in ECL P000's	Changes in ECL due to de-recognition P000's	New impair-ments raised/ (released) P000's	Impaired accounts written-off P000's	Exchange and other move-ments P000's	Closing ECL 31 December 2020 P000's
Mortgages	**(89 894)**	**777**	**-**	**(777)**	**-**	**(1 518)**	**-**	**(30 441)**	**-**	**-**	**14 841**	**-**	**(107 012)**
Stage 1	(6 583)	1 322	(10)	(20)	1 292	(1 206)	-	(2 100)	-	-	-	-	(7 305)
Stage 2	(14 235)	(525)	13	(47)	(559)	(312)	-	(8 982)	-	-	-	-	(24 647)
Stage 3	(69 076)	(20)	(3)	(710)	(733)	-	-	(19 359)	-	-	14 841	-	(75 060)
Vehicle and Asset Finance	**(34 786)**	**422**	**422**	**(844)**	**-**	**(3 199)**	**-**	**(14 729)**	**-**	**-**	**8 499**	**-**	**(44 215)**
Stage 1	(8 663)	463	(41)	(376)	46	(1 817)	-	4 535	-	-	-	-	(5 853)
Stage 2	(10 123)	(41)	463	(468)	(46)	(1 283)	-	(6 011)	-	-	-	-	(17 509)
Stage 3	(16 000)	-	-	-	-	(99)	-	(13 253)	-	-	8 499	-	(20 853)
Card Debtors	**(5 547)**	**1 285**	**(967)**	**(318)**	**-**	**(509)**	**-**	**(13 199)**	**-**	**-**	**6 611**	**-**	**(12 644)**
Stage 1	(1 609)	144	(967)	(130)	(953)	(489)	-	1 182	-	-	-	-	(2 822)
Stage 2	(2 781)	1 232	(6)	(318)	908	-	-	(7 634)	-	-	-	-	(8 599)
Stage 3	(1 157)	(91)	6	130	45	(20)	-	(6 747)	-	-	6 611	-	(1 223)
Corporate	**(316 676)**	**98 264**	**(98 264)**	**-**	**-**	**(12 535)**	**-**	**24 685**	**108 755**	**-**	**212 454**	**-**	**16 683**
Stage 1	(7 199)	98 264	-	-	98 264	(9 210)	-	3 355	2 552	-	-	-	186 026
Stage 2	(34 380)	-	(98 264)	-	(98 264)	(3 325)	-	21 330	3 517	-	60	-	(209 326)
Stage 3	(275 097)	-	-	-	-	-	-	-	102 686	-	212 394	-	39 983
Sovereign	-	-	-	-	-	-	-	-	-	-	-	-	-
Stage 1	-	-	-	-	-	-	-	-	-	-	-	-	-
Stage 2	-	-	-	-	-	-	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-	-	-	-	-	-	-
Other instruments	**(208 713)**	**16 743**	**(14 079)**	**(2 664)**	**-**	**(78 623)**	**-**	**(18 216)**	**-**	**-**	**51 490**	**-**	**(254 062)**
Stage 1	(58 393)	23 399	(2 490)	(20)	20 889	(51 898)	-	4 041	-	-	-	-	(64 472)
Stage 2	(59 760)	(6 980)	(4 911)	(24 276)	(36 167)	(19 835)	-	(146)	-	-	-	-	(152 075)
Stage 3	(90 560)	324	(6 678)	21 632	15 278	(6 890)	-	(22 111)	-	-	51 490	-	(37 515)
TOTAL	(655 616)	117 491	(112 888)	(4 603)	-	(96 384)	-	(51 900)	108 755	-	293 895	-	(401 250)

NOTES TO THE FINANCIAL STATEMENTS (continued)

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27. Loans and advances (continued)

27.3. Credit impairments for loans and advances (continued)

Reconciliation of expected credit losses for loans and advances measured at amortised cost (continued)

A reconciliation of the expected credit loss for loans and advances, by class:

Group and Company	Opening ECL 1 January 2019 P000's	Total Transfer between stages P000's	ECL on new exposure raised P000's	Change in ECL due to modifications P000's	Subsequent changes in ECL P000's	Changes in ECL due to de-recognition P000's	New impair-ments raised/ (released) P000's	Impaired accounts written-off P000's	Exchange and other move-ments P000's	Closing ECL 31 December 2019 P000's
Mortgages	(91 956)	-	1 474	(560)	(23 719)	(2)	(22 807)	18 042	(1 205)	(97 926)
Stage 1	(7 986)	(7 226)	1 019	-	7 610	(2)	8 627	-	2	(6 583)
Stage 2	(20 150)	7 191	455	(108)	(1 624)	-	(1 277)	-	1	(14 235)
Stage 3	(63 820)	35	-	(452)	(29 705)	-	(30 157)	18 042	(1 208)	(77 108)
Vehicle and Asset Finance	(31 959)	-	5 113	(78)	(12 049)	-	(7 014)	3 803	-	(34 786)
Stage 1	(8 878)	5 251	4 114	-	(9 149)	-	(5 035)	-	-	(8 662)
Stage 2	(10 167)	(3 625)	999	(79)	2 748	-	3 668	-	-	(10 124)
Stage 3	(12 914)	(1 626)	-	1	(5 648)	-	(5 647)	3 803	384	(16 000)
Card Debtors	(5 954)	-	1 402	-	(5 424)	-	(4 022)	3 651	779	(5 546)
Stage 1	(1 821)	(329)	884	-	(343)	-	541	-	-	(1 609)
Stage 2	(3 227)	116	327	-	4	-	331	-	-	(2 780)
Stage 3	(906)	213	191	-	(5 085)	-	(4 894)	3 651	779	(1 157)
Corporate	(13 215)	-	(283 586)	-	(21 280)	3 998	(300 868)	-	-	(314 083)
Stage 1	(6 149)	133	(4 713)	-	839	3 539	(335)	-	-	(6 351)
Stage 2	(7 066)	(133)	(3 776)	-	(22 119)	459	(25 436)	-	-	(32 635)
Stage 3	-	-	(275 097)	-	-	-	(275 097)	-	-	(275 097)
Sovereign	(1 074)	-	(69)	-	(2 476)	92	(2 453)	-	-	(3 527)
Stage 1	(1 074)	433	-	-	(125)	92	(33)	-	-	(674)
Stage 2	-	(433)	(69)	-	(2 351)	-	(2 420)	-	-	(2 853)
Other instruments	(167 296)	-	62 919	119	(140 190)	-	(77 152)	61 939	(17 239)	(199 748)
Stage 1	(42 567)	(16 899)	37 024	(55)	(35 609)	-	1 360	-	-	(58 106)
Stage 2	(53 301)	23 946	20 341	197	(49 432)	-	(28 894)	-	-	(58 249)
Stage 3	(71 428)	(7 047)	5 554	(23)	(55 149)	-	(49 618)	61 939	(17 239)	(83 393)
TOTAL	(311 454)	-	(212 747)	(519)	(205 138)	4 088	(414 316)	87 435	(17 281)	(655 616)

[1] Net impairments raised/(released) less recoveries of amounts written off in previous years equals income statement impairment charge (refer note 22.8 on credit impairment charges note)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

27. Loans and advances (continued)

27.4. Credit impairments for loans and advances (continued)

Modifications on loans and advances measured at amortised cost

2020	Group and Company			
	Stage 2		Stage 3	
	Gross amortised cost before modification P000's	Net modification gain or loss P000's	Gross amortised cost before modification P000's	Net modification gain or loss P000's
Mortgage loans	-	-	-	-
Vehicle and asset finance	-	-	-	-
Other loans and advances	430 718	-	-	-
Total	430 718	-	-	-

The gross carrying amount for restructures, that were not a result of COVID-19, during the reporting year is P7.4 billion. These resulted in no economic gain or loss (i.e. no net modification gain or loss).

The Group had no loan facilities for modification under IFRS 9 requirement, however, facilities with a net carrying amount of P706 million in PBB and P101 million in CIB were provided relief in the form of moratorium as a response to the impact of COVID-19.

2019	Group and Company			
	Stage 2		Stage 3	
	Gross amortised cost before modification P000's	Net modification gain or loss P000's	Gross amortised cost before modification P000's	Net modification gain or loss P000's
Mortgage loans	14 235	(108)	69 076	(452)
Vehicle and asset finance	10 123	(79)	16 000	1
Other loans and advances	62 541	197	91 717	(23)
Total	86 899	10	176 793	(474)

P86 899 is the gross carrying amount for modifications during the reporting period that resulted in no economic loss (i.e. no net modification gain or loss) to the Group.

Industry Segmental Analysis

2020	Group and Company			
	Stage 1	Stage 1	Stage 3	Total
	P000's	P000's	P000's	P000's
Agriculture	7 778	18 036	7 902	33 716
Construction	1 055	2 588	5 144	8 787
Finance, real estate and other business services	11 848	28 459	23 873	64 180
Individuals	90 599	89 905	147 683	328 187
Manufacturing	69	3 792	2 502	6 363
	111 349	142 780	187 104	441 233

2019	Group and Company			
	Stage 1	Stage 1	Stage 3	Total
	P000's	P000's	P000's	P000's
Agriculture	1 393	15 881	14 203	31 477
Construction	1 192	2 313	3	3 508
Finance, real estate and other business services	14 057	50 367	29 471	93 895
Individuals	64 711	51 672	130 641	247 024
Manufacturing	1 094	1 046	277 572	279 712
	82 447	121 278	451 890	655 616

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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28. Other assets

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Items in the course of collection	85 837	58 007	96 180	57 884
Prepayments and other debtors	31 670	43 561	31 670	43 561
	117 507	101 568	127 850	101 445

Maturity analysis

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Receivable within 12 months	117 507	101 568	127 850	101 445
	117 507	101 568	127 850	101 445

29. Investment in subsidiaries

	Company	
	2020 P000's	2019 P000's
Investment in subsidiaries:		
- Stanbic Insurance Services (Pty) Ltd	919	30
- Stanbic Nominees Botswana (Pty) Ltd	3	3
-Stanbic Financial Services (Pty) Ltd*	1 000	-
Carrying value at end of the year	1 922	33

*During the financial year the Bank set up a new subsidiary in line with regulations stipulated by NBFIRA, whose requirements were to separate investment advisory and market marker activities from the Bank's activities.

30. Intangible assets

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Computer software				
Cost at beginning of year	253 269	253 269	253 269	253 269
Additions/Transfers	22 195	-	22 195	-
Cost at end of the year	275 464	253 269	275 464	253 269
Accumulated amortisation at beginning of the year	(88 265)	(67 320)	(88 265)	(67 320)
Amortisation	(21 008)	(20 945)	(21 008)	(20 945)
Accumulated amortisation at end of the year	(109 273)	(88 265)	(109 273)	(88 265)
Balance at end of the year	166 191	165 004	166 191	165 004

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

31. Property, equipment and right of use assets

31.1. Summary 2020

Group and Company	2020 Cost P000's	2020 Accumulated depreciation P000's	2020 Net book value P000's	2019 Cost P000's	2019 Accumulated depreciation P000's	2019 Net book value P000's
Property						
Freehold	49 519	(9 626)	39 893	44 136	(8 444)	35 576
Leasehold	31 997	(23 787)	8 210	31 835	(20 900)	11 034
Right of use of assets	47 609	(26 994)	20 615	43 338	(13 190)	30 149
	129 125	**(60 407)**	**68 718**	119 309	(42 534)	76 759
Equipment						
Computer and office equipment	191 492	(118 648)	72 844	144 506	(97 335)	47 174
Motor vehicles	11 350	(7 155)	4 195	11 088	(6 303)	4 779
Furniture and fittings	52 829	(23 594)	29 235	43 872	(20 339)	23 552
	255 671	**(149 397)**	**106 274**	199 466	(123 977)	75 505
Total property, equipment and right of use assets	**384 796**	**(209 804)**	**174 992**	318 775	(166 511)	152 264

31.2. Movement 2020

Group and Company	2019 Net book value P000's	2020 Additions / transfers P000's	2020 Net book value of disposals P000's	2020 Depreciation P000's	2020 Net book value P000's
Property					
Freehold	35 576	5 384	-	(1 183)	39 777
Leasehold	11 034	162	-	(2 887)	8 309
Right of use of assets	30 149	4 272	-	(13 805)	20 616
	76 759	**9 818**	**-**	**(17 875)**	**68 702**
Equipment					
Computer and office equipment	47 174	46 984	-	(21 311)	72 847
Motor vehicles	4 779	1 214	(99)	(1 705)	4 189
Furniture and fittings	23 552	9 079	(21)	(3 356)	29 254
	75 505	**57 277**	**(120)**	**(26 372)**	**106 290**
Total property, equipment and right of use assets	152 264	**67 095**	**(120)**	**(44 247)**	**174 992**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

31. Property, equipment and right of use assets (continued)

31.3. Summary 2019

Group and Company	2019 Cost P000's	2019 Accumulated depreciation P000's	2019 Net book value P000's	2018 Cost P000's	2018 Accumulated depreciation P000's	2018 Net book value P000's
Property						
Freehold	44 136	(8 444)	35 692	46 272	(7 767)	38 505
Leasehold	31 835	(20 900)	10 935	23 785	(17 783)	6 002
Right of use of assets	43 338	(13 190)	30 148	-	-	-
Total property, equipment and right of use assets	119 309	(42 534)	76 775	70 057	(25 550)	44 507
Equipment						
Computer and office equipment	144 506	(97 335)	47 171	128 503	(81 457)	47 046
Motor vehicles	11 088	(6 303)	4 785	8 791	(5 812)	2 979
Furniture and fittings	43 872	(20 339)	23 533	40 426	(17 094)	23 332
	199 466	(123 977)	75 489	177 720	(104 363)	73 357
Total property, equipment and right of use assets	318 775	(166 511)	152 264	247 777	(129 913)	117 864

31.4. Movement 2019

Group and Company	2018 Net book value P000's	2019 Additions / transfers P000's	2019 Net book value of disposals P000's	2019 Depreciation P000's	2019 Net book value P000's
Property					
Freehold	38 505	(2 135)	-	(794)	35 576
Leasehold	6 002	620	-	4 412	11 034
Right of use of assets	-	43 338	-	(13 190)	30 148
	44 507	41 823	-	(9 572)	76 759
Equipment					
Computer and office equipment	47 046	16 003	-	(15 875)	47 174
Motor vehicles	2 979	3 602	(304)	(1 498)	4 779
Furniture and fittings	23 332	3 471	(6)	(3 245)	23 552
	73 357	23 076	(310)	(20 617)	75 505
Total property, equipment and right of use assets	117 864	64 900	(310)	(30 190)	152 264

31.5. Leasehold property

The leasehold property at Lot 14437, Gaborone is occupied under a fifty year fixed period state grant lease commencing 8 August 1986.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

31. Property, equipment and right of use assets (continued)

31.6. Leases

Leases as lessee

The Group leases properties for its branches and ATMs. These leases typically run for a period of 5 years with an option to renew the lease at the end of the lease term. Lease payments are negotiated at the end of every lease term to align with market rentals.

Information about leases for which the Group is a lessee is presented below:

a) Right of use assets

Right of use assets refer to leased properties that do not meet the definition of investment property are presented as property, plant and equipment (see note 31.1)

Group and Company	Land and buildings P000's	Total P000's
Balance at 1 January 2020	**30 148**	**30 148**
Depreciation charge for the year	**(13 805)**	**(13 805)**
Additions to the right of use assets	**4 825**	**4 825**
Terminations	**(553)**	**(553)**
Balance 31 December 2020	**20 615**	**20 615**

Group and Company	Land and buildings P000's	Total P000's
Balance at 1 January 2019	29 828	29 828
Depreciation charge for the year	(13 190)	(13 190)
Additions to the right of use assets	13 510	13 510
Terminations	-	-
Balance 31 December 2019	30 148	30 148

b) Amounts recognised in profit or loss

Group and Company Land and buildings

Group and Company	2020 P000's	2019 P000's
Leases under IFRS 16		
Interest on lease liabilities	**(1 351)**	(1 484)
Expenses relating to short term leases	**(158)**	(1 310)
Expenses relating to low value assets, excluding short term leases of low value assets	**(2 182)**	(216)
Total expenses under IFRS 16	**(3 691)**	(3 010)

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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31. Property, equipment and right of use asset (continued)

31.6. Leases (continued)

c) Amounts recognised in profit or loss

Group and Company	2020 P000's	2019 P000's
Total cash outflow for leases	**(13 941)**	(12 699)

32. Deferred and Current tax

Deferred tax analysis

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Property and equipment timing differences	**(8 630)**	(9 562)	**(8 630)**	(9 562)
Fair value adjustments of financial instruments	**1 310**	(344)	**1 310**	(344)
Deferred income	**10 703**	7 328	**10 703**	7 328
Royalties accrued	**7 588**	1 664	**7 588**	1 664
Bonuses accrued	**976**	1 155	**976**	1 155
Credit impairment charges	**-**	43 852	**-**	43 852
IFRS 9 transition adjustment: Remaining temporary differences	**20 291**	21 753	**20 291**	21 753
IFRS 16-Right of use of asset	**708**	(138)	**708**	(138)
Other differences	**(798)**	(1 102)	**(798)**	(1 102)
Deferred tax asset	**32 148**	64 606	**32 148**	64 606

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Deferred tax balance at beginning of the year	**64 606**	29 643	**64 606**	29 643
PPE timing difference and IFRS 9 adjustment	**2 750**	-	**2 750**	-
Various categories of (reversing) / originating temporary differences for the year:	**(35 208)**	34 963	**(35 208)**	34 963
- Depreciation	**1 172**	(2 567)	**1 172**	(2 567)
- Excess on 1.5% cap on credit impairment charges	**(47 146)**	43 852	**(47 146)**	43 852
- Unwinding of IFRS Day 1 tax asset	**1 150**	(4 541)	**1 150**	(4 541)
- Fair value adjustments of financial instruments	**1 653**	1 163	**1 653**	1 163
- Other differences	**7 963**	(2 944)	**7 963**	(2 944)
Deferred tax balance at end of the year	**32 148**	64 606	**32 148**	64 606

The deferred tax asset is recognised for all temporary differences on the basis that it is probable that taxable profits will be available against which these deductible temporary differences will be utilised in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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32. Deferred and Current tax (continued)

Current tax analysis

		Group		Company	
		2020 P000's	2019 P000's	2020 P000's	2019 P000's
Opening balance- refundable/ (payable)		**7 005**	(10 753)	**5 576**	(11 391)
Current charge	22.12	**(45 278)**	(72 105)	**(43 153)**	(70 522)
Less: tax paid for the year	39.3	**90 189**	88 334	**88 576**	87 143
Other adjustments		**(1 922)**	1 529	**(1 370)**	346
Closing balance		**49 994**	7 005	**49 629**	5 576

33. Customer and bank deposits

Deposit products include cheque accounts, savings accounts, call and notice deposits, fixed deposits and negotiable certificates of deposit.

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Deposits from banks	**1 077 578**	1 484 980	**1 077 578**	1 484 980
Deposits from customers	**14 777 902**	12 282 190	**14 815 222**	12 314 094
- Current and savings accounts	**3 063 264**	2 641 405	**3 100 584**	2 673 309
- Call, term and negotiable certificates of deposits	**11 714 638**	9 640 785	**11 714 638**	9 640 785
Customer and bank deposits	**15 855 480**	13 767 170	**15 892 800**	13 799 074

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Maturity analysis:				
The maturity analysis is based on the remaining periods to contractual maturity from year end.				
Redeemable on demand	**11 610 338**	10 090 552	**11 647 658**	10 122 456
Maturing within 1 month	**1 448 215**	1 960 511	**1 448 215**	1 960 511
Maturing after 1 month but within 6 months	**2 178 193**	1 123 419	**2 178 193**	1 123 419
Maturing after 6 months but within 12 months	**612 809**	89 886	**612 809**	89 886
Maturing after 12 months	**5 925**	502 802	**5 925**	502 802
	15 855 480	13 767 170	**15 892 800**	13 799 074

34. Accruals, deferred income and other liabilities

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Items in process of clearing	**171 197**	150 882	**166 497**	144 400
Provisions [1]	**6 966**	10 044	**6 966**	10 044
Expected credit loss for off-balance sheet exposures	**1 239**	2 867	**1 239**	2 867
Deferred income	**48 651**	33 311	**48 651**	33 311
Other liabilities and accruals	**104 215**	92 422	**104 215**	92 422
Lease liability	**23 835**	32 153	**23 835**	32 153
	356 103	321 679	**351 403**	315 197

[1] Included in provisions are IT costs and accruals on card fees

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

34. Accruals, deferred income and other liabilities (continued)

Maturity analysis

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Payable within 1 year	**315 425**	277 548	**310 725**	271 066
Payable after 1 year but before 5 years	**40 679**	44 082	**40 679**	44 082
Payable after 5 years	**-**	49	**-**	49
	356 104	321 679	**351 404**	315 197

Provisions

The following table sets out a reconciliation of provisions

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Balance at beginning of the year	**10 044**	7 315	**10 044**	7 315
Provisions made during the year	**2 606**	3 834	**2 606**	3 834
Provisions used during the year	**(5 684)**	(1 105)	**(5 684)**	(1 105)
Balance at end of the year	**6 966**	10 044	**6 966**	10 044

Reconciliation of expected credit losses for off-balance sheet exposures

Group and Company	Opening balance P000's	Net ECL released/ (raised) P000's	Exchange and other movements P000's	Closing balance P000's
Letters of credit, bank acceptances and guarantees				
2020				
Stage 1	**(1 721)**	**1 313**	**-**	**(408)**
Stage 2	**(1 116)**	**315**	**-**	**(801)**
Stage 3	**(30)**	**-**	**-**	**(30)**
Total	**(2 867)**	**1 628**	**-**	**(1 239)**
2019				
Stage 1	(1 532)	(912)	723	(1 721)
Stage 2	(2 700)	1 441	143	(1 116)
Stage 3	-	(30)	-	(30)
Total	(4 231)	500	866	(2 867)

The Group has entered into various non-cancellable lease agreements in respect of rented premises. Leases are contracted up to periods of 5 years, some with renewal options. Rental charges under these contracts escalate at fixed percentages of 5.0% to 10.0% per annum and include minimum monthly payments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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34. Accruals, deferred income and other liabilities (continued)

Reconciliation of lease liabilities

	Balance at 1 January 2020 P000's	Additions/ modification P000's	Terminations/ modifications and/or cancellations	Interest expense[1] P000's	Payments[2] P000's	Exchange and other movements P000's	Balance at 31 December 2020 P000's
GROUP							
Buildings	**32 153**	**4 825**	**(553)**	**1 351**	**(13 941)**	**-**	**23 835**
Total	**32 153**	**4 825**	**(553)**	**1 351**	**(13 941)**	**-**	**23 835**
COMPANY							
Buildings	**32 153**	**4 825**	**(553)**	**1 351**	**(13 941)**	**-**	**23 835**
Total	**32 153**	**4 825**	**(553)**	**1 351**	**(13 941)**	**-**	**23 835**

[1] As at 31 December 2020, P1.4 million of this interest expense was included in income from banking activities
[2] These amounts relate to the principal lease payments as disclosed in the cash flow statement.

	Balance at 1 January 2019 P000's	Additions/ modification P000's	Terminations/ modifications and/or cancellations	Interest expense[1] P000's	Payments[2] P000's	Exchange and other movements P000's	Balance at 31 December 2019 P000's
GROUP							
Buildings	29 828	4 783	8 727	1 484	(12 669)	-	32 153
Total	29 828	4 783	8 727	1 484	(12 669)	-	32 153
COMPANY							
Buildings	29 828	4 783	8 727	1 484	(12 669)	-	32 153
Total	29 828	4 783	8 727	1 484	(12 669)	-	32 153

[1] As at 31 December 2019, P1.4 million of this interest expense was included in income from banking activities
[2] These amounts relate to the principal lease payments as disclosed in the cash flow statement.

Maturity analysis

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Within 1 year	**1 357**	496	**1 357**	496
More than 1 year but less than 5 years	**22 478**	31 657	**22 478**	31 657
More than 5 years	**-**	-	**-**	-
Total lease liabilities	**23 835**	32 153	**23 835**	32 153

35. Debt securities in issue

Unsecured subordinated redeemable bonds qualifying as secondary capital in terms of applicable banking legislation:

	Redeemable Date	Start date	Group		Company	
			2020 P000's	2019 P000's	2020 P000's	2019 P000's
SBBL 066	**15-Jun-27**	**15-Jun-17**	**140 000**	140 000	**140 000**	140 000
SBBL 067	**15-Jun-27**	**15-May-17**	**60 000**	60 000	**60 000**	60 000
SBBL 068	**28-Nov-29**	**28-Nov-19**	**212 000**	212 000	**212 000**	212 000
SBBL 069	**28-Nov-29**	**28-Nov-19**	**88 000**	88 000	**88 000**	88 000
Total subordinated debt			**500 000**	500 000	**500 000**	500 000

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35. Debt securities in issue (continued)

	Redeemable Date	Start date	Group		Company	
			2020 P000's	2019 P000's	2020 P000's	2019 P000's
SBBL 059	**12-Dec-22**	**12-Dec-12**	**84 000**	84 000	**84 000**	84 000
SBBL 060	**12-Mar-23**	**12-Mar-13**	**24 000**	24 000	**24 000**	24 000
SBBL 061	**11-Mar-23**	**11-Mar-13**	**100 000**	100 000	**100 000**	100 000
SBBL 064	**18-Jun-20**	**18-Jun-15**	**-**	128 400	**-**	128 400
SBBL 065	**18-Jun-20**	**18-Jun-15**	**-**	153 100	**-**	153 100
SBBL 070	**09-Oct-25**	**09-Oct-20**	**132 520**	-	**132 520**	-
SBBL 071	**09-Oct-25**	**09-Oct-20**	**118 200**	-	**118 200**	-
Total unsubordinated debt			**458 720**	489 500	**458 720**	588 100
Total debt			**958 720**	989 500	**958 720**	989 500

Subordinated liabilities

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
More than 1 year but less than 5 years	**-**	-	**-**	-
More than 5 years	**500 000**	500 000	**500 000**	500 000
Total subordinated debt	**500 000**	500 000	**500 000**	500 000

Unsubordinated liabilities

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Within 1 year	**-**	281 500	**-**	281 500
More than 1 year but less than 5 years	**250 720**	208 000	**250 720**	208 000
More than 5 years	**208 000**	-	**208 000**	-
Total unsubordinated debt	**458 720**	489 500	**458 720**	489 500

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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35. Debt securities in issue (continued)

Debt securities in issue and subordinated liabilities are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue. Subsequently they are measured at amortised cost using the effective interest method.

The Group and Company did not default on principal or interest and there were no breaches with respect to their liabilities during the current and prior periods.

The bonds constitute direct subordinated and unsecured obligations of the Group and Company and are subordinated to the un-subordinated, unsecured claims of general creditors of the Group and Company and claims of depositors. The notes are not subordinated to any categories of share capital or other subordinated obligations of the Group and Company. They rank pari passu among themselves.

The subordinated bonds form part of the Tier II Capital for the purpose of calculating capital adequacy.

36. Stated capital and other reserves

36.1. Stated capital

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
31 936 205 (2019: 31 936 205) ordinary shares of no par value	**390 177**	390 177	**390 177**	390 177
	390 177	390 177	**390 177**	390 177

Stated capital comprises the total amount authorised and subscribed for 31.936 million issued and fully paid ordinary shares of no par value (2019: 31.936 million).

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

36.2. Statutory credit risk reserve

Local legislation requires the Bank to make appropriation to a general banking reserve for unforeseeable risks and future losses. The general provisions eligible for inclusion in Tier II is limited to a maximum of 1.25 percentage points of credit risk weighted assets, this is the amount that is also considered as the statutory credit reserve.

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Opening balance	**110 690**	111 497	**110 690**	111 497
Movement	**28 580**	(807)	**28 580**	(807)
Closing balance	**139 270**	110 690	**139 270**	110 690

36.3. Reserves

Share-based payment reserve

Standard Bank Group has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the Standard Bank Group share price at the date the option is granted. The Equity Growth Scheme was implemented in 2005 and represents appreciation rights allocated to employees. The eventual value of the right is settled by the issue of shares equivalent, in value, to the value of rights.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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36. Stated capital and other reserves (continued)

36.3. Reserves (continued)

Share-based payment reserve (continued)

The two schemes have five different sub-types of vesting categories as illustrated by the following table:

Vesting category	Year	% vesting	Expiry
Type A	3, 4, 5	50, 75, 100	10 years
Type B	5, 6, 7	50, 75, 100	10 years
Type C	2, 3, 4	50, 75, 100	10 years
Type D	2, 3, 4	33, 67, 100	10 years
Type E	3, 4, 5	33, 67, 100	10 years

A reconciliation of the movement of share options and appreciation rights is detailed below. Since the share based schemes are managed and administrated in the Republic of South Africa the amounts are shown in Rands:

Group Share Incentive Scheme	Option price range (Rands) 2020	Number of options 2020	2019
Options outstanding at the beginning of the year	-	4 000	4 000
Net Transfers	-	(4 000)	-
Exercised	-	-	-
Lapsed	-	-	-
Options outstanding at the end of the year		-	4 000

The weighted average share price for the year was R116.16 (2019: R183.51).

The amounts presented in the functional currency are presented below. The BWP/ZAR exchange rate used is 1.358 at 31 December 2020.

Group Share Incentive Scheme	Option price range (P) 2020	Number of options 2020	2019
Options outstanding at the beginning of the year	-	4 000	4 000
Net Transfers	-	(4 000)	-
Exercised	-	-	-
Lapsed	-	-	-
Options outstanding at the end of the year		-	4 000

The weighted average share price for the year was P85.54.

Number of ordinary shares	Option price range (Rands)	Weighted average price (Rands)	Option expiry period
-	98.80	98.80	Year to 31 December 2021
-			

The amounts presented in the functional currency are presented below.

Number of ordinary shares	Option price range (P)	Weighted average price (P)	Option expiry period
-	72.75	72.75	Year to 31 December 2021
-			

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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36. Stated capital and other reserves (continued)

36.3. Reserves (continued)

Share-based payment reserve (continued)

The following options granted to employees, including executive directors, had not been exercised as at 31 December 2019:

Number of ordinary shares	Option price range (Rands)	Weighted average price (Rands)	Option expiry period
4 000	98.80	98.80	Year to 31 December 2021
4 000			

Group Equity Growth Scheme	Average price range (Rands) 2020	Number 2020	Number 2019
Rights outstanding at the beginning of the year	-	**6 000**	6 000
Net Transfers	-	-	-
Exercised[1]	-	**(6000)**	-
Rights outstanding at the end of the year [2]		-	6 000

The amounts presented in the functional currency are presented below.

Group Equity Growth Scheme	Average price range (P) 2020	Number 2020	Number 2019
Rights outstanding at the beginning of the year	-	**6 000**	6 000
Net Transfers	-	-	-
Exercised1[1]	-	**(6000)**	-
Rights outstanding at the end of the year [2]		-	6 000

Notes:
1 During the year, Standard Bank Group shares (SBG) Nil (2019: Nil) were issued to settle the appreciated rights value.
2 At the end of the year the Group would need to issue Nil (2019: 2 010) SBG shares to settle the outstanding appreciated rights value.

The following rights granted to employees, including executive directors, had not been exercised as at 31 December 2019:

Number of rights	Award price range (Rands)	Weighted average price (Rands)	Rights expiry period
6 000	111.94	111.94	Year to 31 December 2020
6 000			

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

36. Stated capital and other reserves (continued)

36.3. Reserves (continued)

Share-based payment reserve (continued)

The net financial movement on share-based payment reserves in Pula is reflected below.

	Group 2020 P000's	Group 2019 P000's	Company 2020 P000's	Company 2019 P000's
Opening balance	-	-	-	-
Shares options exercised	-	-	-	-
Share-based payment reserve	-	-	-	-
Closing balance	-	-	-	-

Summary total reserves

	Group 2020 P000's	Group 2019 P000's	Company 2020 P000's	Company 2019 P000's
Statutory credit risk reserve	**139 270**	110 690	**139 270**	110 690
Retained earnings	**1 083 256**	809 412	**1 062 536**	782 471
Closing total reserves	**1 222 526**	920 102	**1 201 806**	893 161

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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37. Classification of assets and liabilities

37.1. Accounting classification and fair values

All financial assets and liabilities have been classified according to their measurement category per IFRS 9, with disclosure of the fair values provided.

Group		Fair value through profit or loss					
31 December 2020	Note	Held for trading P000's	Fair value through profit / loss – default P000's	Amortised cost P000's	Non-financial assets / liabilities P000's	Total carrying amount P000's	Fair value P000's
Assets							
Cash and balances with the central bank	23	-	284 453	135 413	-	419 866	419 866
Derivative assets	24.3	430	-	-	-	430	430
Trading assets	25	3 980	-	-	-	3 980	3 980
Financial investments	26.1	-	-	2 562 223	-	2 562 223	2 562 223
Loans and advances to banks	27.1	-	-	3 518 567	-	3 518 567	3 518 567
Loans and advances to customers	27.1	-	-	11 745 148	-	11 745 148	11 745 148
Other assets		-	-	78 127	462 706	540 833	607 253
		4 410	284 453	18 039 478	462 706	18 791 047	18 857 467
Liabilities							
Derivative liabilities	24.3	8 040	-	-	-	8 040	8 040
Deposits from banks	33	-	-	1 077 578	-	1 077 578	1 077 578
Deposits from customers	33	-	-	14 777 902	-	14 777 902	14 777 902
Debt securities in issue	35	-	-	958 720	-	958 720	1 086 876
Other liabilities		-	-	32 379	323 724	356 103	356 103
		8 040	-	16 846 579	323 724	17 178 343	17 306 499

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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37. Classification of assets and liabilities (continued)

37.1. Accounting classification and fair values (continued)

All financial assets and liabilities have been classified according to their measurement category per IFRS 9, with disclosure of the fair values provided.

Group		Fair value through profit or loss					
31 December 2019	Note	Held for trading P000's	Fair value through profit / loss – default P000's	Amortised cost P000's	Non-financial assets / liabilities P000's	Total carrying amount P000's	Fair value P000's
Assets							
Cash and balances with the central bank	23	-	601 649	6 951	-	608 600	608 600
Derivative assets	24.3	29 142	-	-	-	29 142	29 142
Trading assets	25	37 808	-	-	-	37 808	37 808
Financial investments	26.1	-	-	2 550 381	-	2 550 381	2 550 381
Loans and advances to banks	27.1	-	-	4 078 666	-	4 078 666	4 031 340
Loans and advances to customers	27.1	-	-	8 609 075	-	8 609 075	8 609 075
Other assets		-	-	54 558	435 889	490 447	510 015
		66 950	601 649	15 299 631	435 889	16 404 119	16 376 361
Liabilities							
Derivative liabilities	24.3	15 491	-	-	-	15 491	15 491
Deposits from banks	33	-	-	1 484 980	-	1 484 980	1 484 980
Deposits from customers	33	-	-	12 282 190	-	12 282 190	12 282 190
Debt securities in issue	35	-	-	989 500	-	989 500	1 096 520
Other liabilities		-	-	51 211	270 486	321 679	321 679
		15 491	-	14 807 881	270 486	15 093 840	15 200 860

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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37. Classification of assets and liabilities (continued)

37.1. Accounting classification and fair values (continued)

All financial assets and liabilities have been classified according to their measurement category per IFRS 9, with disclosure of the fair values provided.

Company		Fair value through profit or loss					
31 December 2020	**Note**	**Held for trading P000's**	**Fair value through profit / loss – default P000's**	**Amortised cost P000's**	**Non-financial assets / liabilities P000's**	**Total carrying amount P000's**	**Fair value P000's**
Assets							
Cash and balances with the central bank	23	-	284 453	135 413	-	419 866	419 866
Derivative assets	24.3	430	-	-	-	430	430
Trading assets	25	3 980	-	-	-	3 980	3 980
Financial investments	26.1	-	-	2 562 223	-	2 562 223	2 562 223
Loans and advances to banks	27.1	-	-	3 518 567	-	3 518 567	3 518 567
Loans and advances to customers	27.1	-	-	11 745 148	-	11 745 148	11 745 148
Other assets				78 127	474 606	552 733	619 153
		4 410	284 453	18 039 478	474 606	18 802 947	18 869 367
Liabilities							
Derivative liabilities	24.3	8 040	-	-	-	8 040	8 040
Deposits from banks	33	-	-	1 077 578	-	1 077 578	1 077 578
Deposits from customers	33	-	-	14 815 222	-	14 815 222	14 815 222
Debt securities in issue	35	-	-	958 720	-	958 720	1 086 876
Other liabilities		-	-	36 840	314 563	351 403	351 403
		8 040	-	16 888 360	314 563	17 210 963	17 339 119

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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37. Classification of assets and liabilities (continued)

37.1. Accounting classification and fair values (continued)

All financial assets and liabilities have been classified according to their measurement category per IFRS 9, with disclosure of the fair values provided.

Company		Fair value through profit or loss					
31 December 2019	**Note**	**Held for trading P000's**	**Fair value through profit / loss – default P000's**	**Amortised cost P000's**	**Non-financial assets / liabilities P000's**	**Total carrying amount P000's**	**Fair value P000's**
Assets							
Cash and balances with the central bank	23	-	601 649	6 951	-	608 600	608 600
Derivative assets	24.3	29 142	-	-	-	29 142	29 142
Trading assets	25	37 808	-	-	-	37 808	37 808
Financial investments	26.1	-	-	2 550 381	-	2 550 381	2 550 381
Loans and advances to banks	27.1	-	-	4 078 666	-	4 078 666	4 031 340
Loans and advances to customers	27.1	-	-	8 609 075	-	8 609 075	8 609 075
Other assets				54 434	434 494	488 928	508 626
		66 950	601 649	15 299 507	434 494	16 402 600	16 374 972
Liabilities							
Derivative liabilities	24.3	15 491	-	-	-	15 491	15 491
Deposits from banks	33	-	-	1 484 980	-	1 484 980	1 484 980
Deposits from customers	33	-	-	12 314 094	-	12 314 094	12 314 094
Debt securities in issue	35	-	-	989 500	-	989 500	1 096 520
Other liabilities		-	-	51 211	263 986	315 197	315 197
		15 491	-	13 850 285	263 986	15 119 262	15 226 282

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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37. Classification of assets and liabilities (continued)

37.2. Financial assets and liabilities measured at fair value - Fair value hierarchy

Group	2020 Level 1 P000's	2020 Level 2 P000's	2020 Level 3 P000's	2020 Total P000's	2019 Level 1 P000's	2019 Level 2 P000's	2019 Level 3 P000's	2019 Total P000's
Assets								
Cash and balances with central bank	419 866	-	-	419 866	601 649	-	-	601 649
Trading assets	3 980	-	-	3 980	37 808	-	-	37 808
Derivative assets	-	430	-	430	-	29 142	-	29 142
Total assets at fair value	423 846	430	-	424 276	639 457	29 142	-	668 599
Liabilities								
Derivative liabilities	-	8 040	-	8 040	-	15 491	-	15 491
Total liabilities at fair value	-	8 040	-	8 040	-	15 491	-	15 491

- The above table reflects all assets and liabilities measured at fair value. All other assets and liabilities measured at amortised cost approximate their fair values, with the exception of debt securities in issue as per note 37.1 above.
- Recurring fair value measurements of assets or liabilities are those assets and liabilities that IFRS require or permit to be carried at fair value in the statement of financial position at the end of each reporting period.

Company	2020 Level 1 P000's	2020 Level 2 P000's	2020 Level 3 P000's	2020 Total P000's	2019 Level 1 P000's	2019 Level 2 P000's	2019 Level 3 P000's	2019 Total P000's
Assets								
Cash and balances with central bank	419 866	-	-	419 866	601 649	-	-	601 649
Trading assets	3 980	-	-	3 980	37 808	-	-	37 808
Derivative assets	-	430	-	430	-	29 142	-	29 142
Total assets at fair value	423 846	430	-	424 276	639 457	29 142	-	668 599
Liabilities								
Derivative liabilities	-	8 040	-	8 040	-	15 491	-	15 491
Total liabilities at fair value	-	8 040	-	8 040	-	15 491	-	15 491

- The above table reflects all assets and liabilities measured at fair value. All other assets and liabilities measured at amortised cost approximate their fair values, with the exception of property and equipment and debt securities in issue as per note 37.1 above.
- Recurring fair value measurements of assets or liabilities are those assets and liabilities that IFRS require or permit to be carried at fair value in the statement of financial position at the end of each reporting period.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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37. Classification of assets and liabilities (continued)

37.3. Assets and liabilities not measured at fair value - Fair value hierarchy

Group	2020 Level 1 P000's	2020 Level 2 P000's	2020 Level 3 P000's	2020 Total P000's	2019 Level 1 P000's	2019 Level 2 P000's	2019 Level 3 P000's	2019 Total P000's
Assets								
Financial assets	2 562 223	-	-	2 562 223	2 550 381	-	-	2 550 381
Loans and advances to banks	-	-	3 518 567	3 518 567	-	-	4 031 340	4 031 340
Loans and advances to customers	-	-	11 745 148	11 745 148	-	-	8 609 075	8 609 075
Total	2 562 223	-	15 263 715	17 825 938	2 550 381	-	12 640 415	15 190 796
Liabilities								
Deposits from banks	-	1 077 578	-	1 077 578	-	1 484 980	-	1 484 980
Deposits from customers	-	14 777 902	-	14 777 902	-	12 282 190	-	12 282 190
Debt securities in issue	-	1 086 876	-	1 086 876	-	1 096 520	-	1 096 520
Total	-	16 942 356	-	16 942 356	-	14 863 690	-	14 863 690

- All other assets and liabilities measured at amortised cost approximate their fair values, with the exception of debt securities in issue as per note 37.1 above.

Company	2020 Level 1 P000's	2020 Level 2 P000's	2020 Level 3 P000's	2020 Total P000's	2019 Level 1 P000's	2019 Level 2 P000's	2019 Level 3 P000's	2019 Total P000's
Assets								
Financial assets	2 562 223	-	-	2 562 223	2 550 381	-	-	2 550 381
Loans and advances to banks	-	-	3 518 567	3 518 567	-	-	4 031 340	4 031 340
Loans and advances to customers	-	-	11 745 148	11 745 148	-	-	8 609 075	8 609 075
Total	2 562 223	-	15 263 715	17 825 938	2 550 381	-	12 640 415	15 190 796
Liabilities								
Deposits from banks	-	1 077 578	-	1 077 578	-	1 484 980	-	1 484 980
Deposits from customers	-	14 815 222	-	14 815 222	-	12 314 094	-	12 314 094
Debt securities in issue	-	1 086 876	-	1 086 876	-	1 096 520	-	1 096 520
Total	-	16 979 676	-	16 979 676	-	14 895 594	-	14 895 594

- All other assets and liabilities measured at amortised cost approximate their fair values, with the exception of property and equipment and debt securities in issue as per note 37.1 above.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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38. Commitments and contingencies

38.1. Contingent liabilities

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Letters of credit	29 826	72 891	29 826	72 891
Guarantees	1 140 951	1 173 048	1 140 951	1 173 048
Irrevocable unutilised facilities	366 762	510 799	366 762	510 799
Revocable unutilised facilities	321 007	295 088	321 007	295 088
	1 858 546	2 051 826	1 858 546	2 051 826

Expected credit losses of P1 239 000 were recognised in respect of off-balance sheet items at the reporting date (2019:2 867 000).

These are commitments which the Bank would only be liable to settle upon satisfaction of certain requirements, however, if the requirements are deemed successful the Bank would be liable to a total cost of P1 491 785 which is fully collateralised. Management assessment of the expected credit losses in relation to the above mentioned liabilities and the credit risk associated with the customers, indicates that it is highly unlikely that the Bank would incur such a liability.

38.2. Capital commitments

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Capital expenditure authorised	10 338	3 103	10 338	3 103
	10 338	3 103	10 338	3 103

Capital expenditure will be funded from internal resources.

38.3. Lease liabilities

The Group has entered into various non-cancellable lease agreements in respect of rented premises. Leases are contracted up to periods of 5 years, some with renewal options. Rental charges under these contracts escalate at fixed percentages of 5.0% to 10.0% per annum and include minimum monthly payments.

38.4. Legal proceedings defended

In the ordinary course of business, the Group and Company is involved as a defendant in litigation, lawsuits and other proceedings. Management recognises the inherent difficulty of predicting the outcome of defended legal proceedings. Nevertheless, based on management's knowledge from investigation, analysis and after consulting with legal counsel, management believes that there are no individual legal proceedings that are currently assessed as being 'likely to succeed and material' or 'unlikely to succeed but material should they succeed'. The Group is also the defendant in some legal cases for which the Group is fully indemnified by external third parties, none of which are individually material. Management is accordingly satisfied that the legal proceedings currently pending against the Group should not have a material adverse effect on the Group's financial position and the directors are satisfied that the Group has adequate insurance programmes and, where required in terms of IFRS for claims that are probable, provisions in place to meet claims that may succeed.

39. Statements of cash flows information

39.1. Movement in income-earning and other assets

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Financial assets	(13 756)	(1 108 432)	(13 756)	(1 108 432)
Trading assets	33 828	594 986	33 828	594 986
Loans and advances	(2 638 024)	(1 596 024)	(2 638 024)	(1 596 024)
Net derivative assets/(liabilities)	21 261	1 835	21 261	1 835
Other assets	(20 599)	(95 507)	(32 954)	(90 231)
	(2 617 290)	(2 203 144)	(2 629 645)	(2 197 866)

NOTES TO THE FINANCIAL STATEMENTS (continued)

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39. Statements of cash flows information (continued)

39.2. Increase in deposits and other liabilities

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Customers' current, savings, other deposit accounts and deposits from banks	2 088 310	1 815 384	2 093 726	1 815 778
Other liabilities	10 420	75 756	12 650	74 848
	2 098 730	1 891 140	2 106 376	1 890 626

39.3. Direct taxation paid

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Current and deferred tax at beginning of the year	(71 388)	(18 890)	(70 182)	(18 252)
Add income statement charge	80 943	37 142	78 818	35 559
Current tax adjustment	(1 508)	-	(1 837)	-
Less tax paid for the year	(90 189)	(88 334)	(88 576)	(87 143)
Current and deferred tax at end of the year	(82 142)	(71 611)	(81 777)	(70 182)

39.4. Reconciliation of unsubordinated debt

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Balance at beginning of the year	489 500	588 100	489 500	588 100
Unsubordinated debt issued	250 720	300 000	250 720	300 000
Unsubordinated debt redeemed	(281 500)	(398 600)	(281 500)	(398 600)
Balance at end of the year	458 720	489 500	458 720	489 500

40. Third party funds under management

The Group provides discretionary and non-discretionary investment management services to institutional investors. Commissions and fees earned in respect of trust management activities performed are included in profit or loss.

Assets managed on behalf of third parties include:

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Fund management				
- Unit trusts	10 291 105	9 926 260	10 291 105	9 926 260
	10 291 105	9 926 260	10 291 105	9 926 260
Geographical are				
- Domestic	9 932 959	9 097 514	9 932 959	9 097 514
- Foreign	358 146	828 746	358 146	828 746
	10 291 105	9 926 260	10 291 105	9 926 260

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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41. Related party transactions

41.1. Parent

Stanbic Bank Botswana Limited is a wholly owned subsidiary Stanbic Africa Holdings Limited. The ultimate holding company is Standard Bank Group Limited.

41.2. Fellow subsidiaries

Details of effective interest and investments in subsidiaries are disclosed in note 29.

In addition, the following are also subsidiaries and fellow subsidiaries of the holding company:

- Standard Bank South Africa
  - o Standard Lesotho Bank
  - o Standard Bank Namibia
  - o Standard Bank Swaziland
  - o Standard Bank Properties
- Stanbic Africa Holdings
  - o CFC Stanbic Holdings, Kenya
  - o Stanbic Bank Ghana
  - o Stanbic Bank Tanzania
  - o Stanbic Bank Uganda
  - o Stanbic Bank Zambia
  - o Stanbic Bank Zimbabwe
  - o Stanbic IBTC Bank, Nigeria
  - o Standard Bank Malawi
  - o Standard Bank Mauritius
  - o Standard Bank Mozambique
  - o Standard Bank RDC
- Standard International Holdings
  - o Standard Bank plc
- Standard Bank Group International
  - o Stanbic International Insurance, Isle of Man
- Standard Bank Offshore Group
  - o Standard Bank Isle of Man

41.3. Subsidiaries of Stanbic Bank Botswana

- Refer to note 29 for details of subsidiaries of Stanbic Bank Botswana Limited.

41.4. Entities which are controlled by key management personnel

The following entities are controlled by one or more directors of the Stanbic Bank Botswana Limited Group and have facilities with the Group:

- Sesarona GWest Filling Station (Pty) Ltd
- Ditso Filling Station (Pty) Ltd

41.5. Entities under common control

- Liberty Holdings Botswana
- Liberty General Insurance
- Liberty Life Botswana
- Stanlib Investment Management Services (SIMS).

Liberty Holdings Botswana sold its stake in SIMS during the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

41. Related party transactions (continued)

41.6. Related party transactions

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Interest income				
- Standard Bank Isle of Man	**23 458**	60 430	**23 458**	60 430
- Standard Bank South Africa	**18 503**	37 682	**18 503**	37 682
Management fee income				
- Stanbic Insurance Services	**-**	-	**4 004**	3 058
- Stanlib Investment Management Services	**293**	866	**293**	866
Preference dividend income				
- Liberty Holdings Botswana	**12 116**	9 929	**12 116**	9 929
Interest expense				
- Standard Bank South Africa	**676**	28 963	**676**	28 963
IT charges				
- Standard Bank South Africa - Africa Division	**39 080**	9 829	**39 080**	9 829
IC expenses				
- Standard Bank South Africa	**1 817**	2 526	**1 817**	2 526
Travel and Training				
- Standard Bank South Africa	**181**	499	**181**	499
Franchise fees				
- Standard Bank South Africa - Africa Division	**32 281**	34 212	**32 281**	34 212
Dividend income				
- Stanbic Insurance Services	**-**	-	**13 202**	-
Fees and commission income				
- Stanbic Insurance Services	**-**	-	**8**	2

The Bank has relationships with the following entities:

- Liberty Holdings Botswana – The Bank owns preference shares in Liberty Holdings Botswana through which a preference dividend is earned equivalent to a share in the profits of Liberty Life Botswana at the back of the Bank's loan book that is underwritten by Liberty Life Botswana.
- Stanlib Investment Management Services - Partnership agreement where Stanbic Bank Botswana Limited develops a package of banking benefits for the employees of Stanlib Investment Management Services. The agreement came to an end on 31 August 2020.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

41. Related party transactions (continued)

41.7. Related party balances

	Group		Company	
	2020 P000's	2019 P000's	2020 P000's	2019 P000's
Derivative assets				
- Standard Bank South Africa	**8 572**	13 523	**8 572**	13 523
Trading assets				
- Standard Bank South Africa	**5**	5	**5**	5
- Standard Bank Isle of Man	**7**	7	**7**	7
Loans and advances				
- Standard Bank South Africa	**307 362**	677 861	**307 362**	677 861
- Standard Bank Isle of Man	**1 697 492**	1 935 725	**1 697 492**	1 935 725
- Stanbic Bank Zambia	**29**	-	**29**	-
- Stanbic Bank Zimbabwe	**548**	2 592	**548**	2 592
- Standard Bank Malawi	**-**	390	**-**	390
- Standard Bank Swaziland	**-**	1	**-**	1
- Standard Bank Namibia	**-**	461	**-**	461
- Stanbic Bank Kenya	**27**	-	**27**	-
Deposits and current accounts				
- Stanbic Africa Holdings	**(272 799)**	(247 925)	**(272 799)**	(247 925)
- Stanbic Bank Zambia	**(1 226)**	(4 674)	**(1 226)**	(4 674)
- Stanbic Bank Zimbabwe	**(191)**	(91)	**(191)**	(91)
- Stanbic Bank Kenya	**(0.4)**	(612)	**(317)**	(612)
- Standard Lesotho Bank	**(34)**	(23)	**(34)**	(23)
- Standard Bank Namibia	**(397)**	(26)	**(397)**	(26)
- Stanbic Insurance Services	**-**	-	**(37 319)**	31 904
- Standard Bank Swaziland	**(5)**	-	**(5)**	-
- Standard Bank Mauritius	**(409)**	-	**(409)**	-
- Standard Bank Malawi	**(2)**	-	**(2)**	-
Other receivables				
- Stanbic Insurance Services	**-**	-	**765**	822
- Stanlib Investment Management Services	**-**	1 134	**-**	1 134
- Standard Bank Malawi	**6 490**	6 490	**6 490**	6 490
- Stanbic Bank Zambia	**374**	1 174	**374**	1 174
- Standard Bank Swaziland	**397**	397	**397**	397
- Standard Bank South Africa	**17**	958	**17**	958
- Stanbic Insurance Services	**-**	-	**889**	-
- Stanbic Financial Services	**-**	-	**1 000**	-
- Standard Bank South Africa	**16**	-	**16**	-
- Stanbic Bank Kenya	**1**	-	**1**	-
- Standard Bank Eswatini	**167**	-	**167**	-
Preference dividends receivable				
- Liberty Holdings Botswana	**10 963**	8 610	**10 963**	8 610
Other liabilities				
- Standard Bank South Africa	**30 023**	17 766	**30 023**	17 766
- Stanbic Bank Ghana Limited	**-**	30	**-**	30
- Stanbic Bank Zambia	**438**	932	**438**	932
- Stanbic Insurance Services	**4 461**	-	**4 461**	-
- Stanbic Bank Uganda	**1**	-	**1**	-
- Stanbic IBTC Holdings	**12**	-	**12**	-
Derivative liabilities				
- Standard Bank South Africa	**424**	4 939	**424**	4 939
Dividend receivable				
- Stanbic Insurance Services	**-**	-	**12 087**	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

41. Related party transactions (continued)

41.8. Key management personnel

Key management personnel for the Group and Company of Stanbic Bank Botswana Limited have been defined as the Board of Directors and the executive committee of Stanbic Bank Botswana Limited active for 2020 and 2019. The definition of key management includes the close members of family of key management personnel and any entity over which key management exercise control. Close members of family are those family members who may be expected to influence or be influenced by that individual in their dealings with Stanbic Bank Botswana Limited. They may include the individual's domestic partner and children, the children of the individual's domestic partner and dependents of the individual or the individual's domestic partner.

Interest rates charged on balances outstanding from key management are at 3.25%-4.37% (2019: 4.25%-4.75%), 4.37%-7.00% (2019: 4.75%-8.25%) and 4.37%-25.50% (2019: 4.75%-25.50%) for mortgage loans, vehicle and asset finance and other loans respectively. The loans are repayable monthly over a maximum of 20 years, 72 months and 72 months for mortgage loans, vehicle and asset finance and other loans respectively. The mortgage loans and vehicle and asset finance loans are secured over property of the respective borrowers. Other loans are not secured.

41.8. Key management personnel transactions and balances

	2020 P000's	2019 P000's
Short-term employee benefits	**36 954**	31 290
Post-employment benefits	**2 507**	1 830
Salaries and other short-term benefits	**39 461**	33 120
Mortgage loans		
- Loans outstanding at beginning of year	**24 144**	21 077
- Loans granted during the year	**3 800**	3 870
- Loan repayments during the year	**(3 633)**	(1 993)
- Interest earned	**1 332**	1 190
Loans outstanding at the end of the year	**25 643**	24 144
Interest rate range for the year		**3.25% - 4.37%**
Mortgage loans are repayable monthly over a maximum of 20 years. These loans are secured by properties whose fair value is above the outstanding balances.		
Vehicle and asset finance		
- Loans outstanding at beginning of year	**4 069**	3 688
- Loans granted during the year	**-**	1 977
- Loan repayments during the year	**(2 316)**	(1 801)
- Interest earned	**130**	205
Loans outstanding at the end of the year	**1 883**	4 069
Interest rate range for the year		**4.37% - 7.00%**
Other loans		
- Loans outstanding at beginning of year	**2 486**	1 806
- Loans granted during the year	**300**	500
- Loan repayments during the year	**(1 438)**	(9)
- Interest earned	**114**	189
Loans outstanding at the end of the year	**1 462**	2 486
Interest rate range for the year		**4.37 - 25.5%**
Interest income earned	**2 189**	3 450

The loans disclosed in this note are for management in their capacity as employees. Exposures with entities which are controlled by key management personnel have been disclosed in note 41.4. No impairment has been recognised in respect of loans granted to key management (2019: Nil).

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management

42.1. Strategy in using financial instruments

By their nature, the Group and Company's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at both fixed and floating rates of interest and for various periods and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group and Company's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management is carried out by a central treasury department under policies approved by the Board. The Treasury identifies, evaluates and hedges financial risk in close co-operation with the Group and Company's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

The Group and Company also seek to raise their interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the Group and Company also enter into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Group and Company also trade in financial instruments where they take positions in traded and over-the-counter instruments to take advantage of short-term market movements in equities and bonds and in currency, interest rate and commodity prices. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Foreign exchange and interest rate exposures associated with derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

42.2. Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position are:

- To comply with the capital requirements set by the regulators of the banking markets within which entities of the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

The Group monitors the adequacy of its capital using ratios established by the Bank of Botswana, which ratios are broadly in line with those for the Bank for International Settlements (BIS). Risk-weighted assets (RWA) represent an aggregated measure of different risk factors affecting the evaluation of financial products and transactions in a bank. The aggregation considers credit, market and operational risk. These ratios measure capital adequacy by comparing the Bank's eligible capital with its balance sheet assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0 percent, 20 percent, 50 percent and 100 percent) are applied; for example cash and Bank of Botswana Certificates have a zero-risk weighting which means no capital is required to support the holding of these assets. Property, plant and equipment carries a 100 percent risk weighting, meaning that it must be supported by capital equal to 15 percent of the carrying amount. Certain asset categories have intermediate weightings.

The Group is required at all times to maintain a core capital (Tier I) of not less than 6.25 percent (2019: 7.5 percent) of the total risk adjusted assets plus risk adjusted off balance sheet items and a total capital (Tier I + Tier II) of not less than 12.5 percent (2019: 15.0 percent) of its total risk adjusted assets plus risk adjusted off balance sheet items. There were no breaches of this requirement during the current or previous year.

Off-balance-sheet credit related commitments and forwards are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as the balance sheet assets.

Tier I capital consists of shareholders' equity comprising paid up share capital, share premium and retained earnings less intangible assets and investments in financial companies, not consolidated. Tier II capital includes the Bank's eligible long-term loans, mark-to-market adjustment on available for sale securities and general provisions. Subordinated term debt eligible for Tier II capital is limited to 50 percent of authorised core capital.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.2. Capital management (continued)

Capital adequacy

	Company	
	2020 P000's	2019 P000's
Capital base:		
- Shareholders' equity	1 504 599	1 203 716
- Statutory credit risk reserve add/(less)	110 690	110 690
- Intangibles	(165 004)	(148 759)
Tier I Capital	1 450 285	1 165 647
General provisions	139 270	110 690
Subordinated debt instrument	500 000	500 000
Tier II Capital	639 270	610 690
Sum of Tier I and Tier II capital (a)	2 089 555	1 776 337
Risk adjusted exposure:		
- Credit risk	11 141 640	8 855 208
- Operational risk	1 025 257	919 535
- Market risk	180 815	261 384
Total risk adjusted exposure (b)	12 347 712	10 036 127
Capital adequacy ratio (a/b x 100)	16.92%	17.70%
Bank of Botswana recommended ratio	12.5%	15.0%

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.3. Credit risk

Definition

Credit risk is the risk of loss arising out of the failure of obligors to meet their financial or contractual obligations when due. It is composed of obligor risk (including borrowers and trading counterparties), concentration risk and country risk.

Approach to managing and measuring credit risk

The Group's credit risk is a function of its business model and arises from wholesale and retail loans and advances, underwriting and guarantee commitments, as well as from the counterparty credit risk arising from derivative and securities financing contracts entered into with our customers and trading counterparties. The management of credit risk is aligned to the Group's three lines of defence framework. The business functions own the credit risk assumed by the Group and, as the first line of defence, are primarily responsible for its management, control and optimisation in the course of business generation.

The Credit function acts as the second line of defence and is responsible for providing independent and objective approval and oversight for the credit risk-taking activities of business, to ensure the process of procuring revenue, while assuming risk, is undertaken with integrity. Further second-line oversight is provided by the Group risk function through independent credit risk assurance.

The third line of defence is provided by internal audit, under its mandate from the Board audit committee.

Credit risk is managed through:

- maintaining a culture of responsible lending and a robust risk policy and control framework;
- identifying, assessing and measuring credit risk across the Group, from an individual facility level through to an aggregate portfolio level;
- defining, implementing and continually re-evaluating risk appetite under actual and stressed conditions;
- monitoring the group's credit risk exposure relative to approved limits;
- ensuring that there is expert scrutiny and approval of credit risk and its mitigation independently of the business functions.

A credit portfolio limit framework has been defined to monitor and control the credit risk profile within the Group's approved risk appetite. All primary lending credit limits are set and exposures measured on the basis of risk weighting in order to best estimate exposure at default (EAD). Pre-settlement counterparty credit risk (CCR) inherent in trading book exposures is measured on a potential future exposures (PFE) basis, modelled at a defined level of confidence, using approved methodologies and models, and controlled within explicit approved limits for the counterparties concerned.

Credit risk mitigation

Wherever warranted, the group will attempt to mitigate credit risk, including CCR to any counterparty, transaction, sector, or geographic region, so as to achieve the optimal balance between risk, cost, capital utilisation and reward. Risk mitigation may include the use of collateral, the imposition of financial or behavioural covenants, the acceptance of guarantees from parents or third parties, the recognition of parental support, and the distribution of risk.

Collateral, parental guarantees, credit derivatives and on- and off-balance sheet netting are widely used to mitigate credit risk. Credit risk mitigation policies and procedures ensure that risk mitigation techniques are acceptable, used consistently, valued appropriately and regularly, and meet the risk requirements of operational management for legal, practical and timely enforcement. Detailed processes and procedures are in place to guide each type of mitigation used.

In the case of collateral where the Group has an unassailable legal title, the Group's policy is such that collateral is required to meet certain criteria for recognition in loss given default (LGD) modelling, including that it:

- is readily marketable and liquid;
- is legally perfected and enforceable;
- has a low valuation volatility;
- is readily realisable at minimum expense;
- has no material correlation to the obligor credit quality;
- has an active secondary market for resale.

The main types of collateral obtained by the Group for its banking book exposures include:

- mortgage bonds over residential, commercial and industrial properties;
- cession of book debts;
- pledge and cession of financial assets;
- bonds over plant and equipment;
- the underlying movable assets financed under leases; and
- instalment sales.

Reverse repurchase agreements and commodity leases to customers are collateralised by the underlying assets.

Guarantees and related legal contracts are often required, particularly in support of credit extension to groups of companies and weaker obligors. Guarantors include banks, parent companies, shareholders and associated obligors. Creditworthiness is established for the guarantor as for other obligor credit approvals.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.3. Credit risk (continued)

For trading and derivative transactions where collateral support is considered necessary, the Group typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure (CSA).

Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if the mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

Wrong-way risk arises in transactions where the likelihood of default (i.e. the probability of default (PD) by a counterparty) and the size of credit exposure (as measured by EAD) to that counterparty tend to increase at the same time. This risk is managed both at an individual counterparty level and at an aggregate portfolio level by limiting exposure to such transactions, taking adverse correlation into account in the measurement and mitigation of credit exposure and increasing oversight and approval levels. The Group has no appetite for wrong-way risk arising where the correlation between EAD and PD is due to a legal, economic, strategic or similar relationship (i.e. specific wrong-way risk). General wrong-way risk, which arises when the correlation between EAD and PD for the counterparty, due mainly to macro factors, is closely managed within existing risk frameworks.

To manage actual or potential portfolio risk concentrations in areas of higher credit risk and credit portfolio growth, the Group implements hedging and other strategies from time-to-time. This is done at individual counterparty, sub-portfolio and portfolio levels through the use of syndication, distribution and sale of assets, asset and portfolio limit management, credit derivatives and credit protection.

Credit portfolio characteristics and metrics

Maximum exposure to credit risk

Debt financial assets at amortised cost as well as off-balance sheet exposure subject to an ECL are analysed and categorised based on credit quality using the Group's master rating scale. Exposures within Stage 1 and 2 are rated between 1 to 25 in terms of the Group's master rating scale. The Group uses a 25-point master rating scale to quantify the credit risk for each borrower (corporate asset classes) or facility (specialised lending and retail asset classes), as illustrated in the table below. These ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable PBB portfolios. The Group distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making, managing credit risk exposures and measuring impairments against credit exposures. Exposures which are in default are not considered in the 1 to 25-point master rating scale.

Default

The Group's definition of default has been aligned to its internal credit risk management definitions and approaches. Whilst the specific determination of default varies according to the nature of the product, it is generally determined (aligned to the BASEL definition) as occurring at the earlier of:

- where, in the Group's view, the counterparty is considered to be unlikely to pay amounts due on the due date or shortly thereafter without recourse to actions such as the realisation of security; or
- when the counterparty is past due for more than 90 days (or, in the case of overdraft facilities in excess of the current limit).

The Group did not rebut IFRS 9's 90 days past due rebuttable presumption.

A financial asset is considered to be in default when there is objective evidence of impairment. The following criteria are used in determining whether there is objective evidence of impairment for financial assets or groups of financial assets:

- significant financial difficulty of borrower and/or modification (i.e. known cash flow difficulties experienced by the borrower);
- a breach of contract, such as default or delinquency in interest and/or principal payments;
- disappearance of active market due to financial difficulties;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- where the group, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the Group would not otherwise consider.

Exposures which are overdue for more than 90 days are also considered to be in default.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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42. Financial risk management (continued)

42.3 Credit risk (continued)

iv) Maximum exposure to credit risk before collateral held or other credit enhancements 2020

		SB 1 -12		SB 13-20		SB 21-25		Default						
	Total	Stage 1	Slage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Total gross carrying amount of default	Securities and expected recoveries on specially impaired	Interest in suspense	Balance sheet expected credit loss	Gross default coverage	Non-performing loans
	P000's	P000's	P000's	P000's	P000's	P000's	P000's	P000's	P000's	P000's	P000's	P000's	%	%
Loans and advances at amortised cost														
Personal & Business Banking	**9 410 117**	**-**	**-**	**8 594 951**	**-**	**-**	**456 362**	**358 804**	**358 804**	**151 028**	**20 673**	**187 103**		
Mortgage loans	1 945 188	-	-	1 610 817	-	-	151 611	182 760	193 926	108 346	11 166	74 415	44	9
Vehicle and asset finance	847 578	-	-	741 079	-	-	76 221	30 278	19 112	(2 613)	-	21 725	114	4
Card debtors	40 140	-	-	25 843	-	-	11 573	2 724	2 724	1 139	-	1 585	58	7
Other loans and advances	**6 577 211**	**-**	**-**	**6 217 212**	**-**	**-**	**216 957**	**143 042**	**143 042**	**44 157**	**9 507**	**89 378**	**69**	**0.02**
Personal unsecured lending	5 774 316	-	-	5 592 770	-	-	85 872	95 674	95 674	11 541	11 622	72 511	1	-
Business and other lending	802 895	-	-	624 442	-	-	131 085	47 368	47 368	32 616	2 115	16 867	-	-
Corporate & Investment Banking	**6 294 831**	**5 865 843**	**-**	**196 130**	**232 618**	**-**	**240**	**-**	**-**	**-**	**-**	**-**	-	-
Corporate	2 711 557	2 602 094	-	10 379	98 844	-	240	-	-	-	-	-	-	-
Sovereign	64 247	255 278	-	185 751	133 774	-	-	-	-	-	-	-	-	-
Banking	3 519 027	3 519 027	-	-	-	-	-	-	-	-	-	-	-	-
Other services	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Gross carrying amount of loans and advances at amortised cost	**15 704 948**	**5 865 843**	**-**	**8 791 081**	**232 618**	**-**	**456 602**	**358 804**	**358 804**	**151 028**	**20 673**	**187 103**		
Less: Total expected credit loss for loans and advances	(441 233)													
Net carrying amount of loans and advances at amortised cost	**15 263 715**													

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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42. Financial risk management (continued)

42.3 Credit risk (continued)

iv) Maximum exposure to credit risk before collateral held or other credit enhancements 2020 (continued)

IFRS: MAXIMUM EXPOSURE TO CREDIT RISK BY CREDIT QUALITY (continued)		SB 1-12		SB 13-20		SB 21-25		Default
	Total	Stage 1	Slage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3
	P000's	P000's	P000's	P000's	P000's	P000's	P000's	P000's
Net carrying amount of loans and advances at amortised cost	**15 263 716**							
Financial assets at amortised cost								
Corporate	218 584	218 584						
Sovereign	2 345 553	2 345 553						
Gross carrying amount of financial assets	**2 564 137**							
Less: Total expected credit loss for financial assets	(1 914)							
Net carrying amount of financial assets	**2 562 223**							
Letters of credit and bankers' acceptances	29 826	29 826	-	-	-	-	-	
Guarantees	1 140 951	1 140 951	-	-	-	-	-	
Irrevocable and revocable unutilised facilities	687 769	687 769	-	-	-	-	-	
Total exposure to off-balance sheet credit risk	**1 858 546**	**1 858 546**	-	-	-	-	-	
Expected credit loss for off balance Sheet exposures	(1 239)							
Net carrying amount of off balance sheet	**1 857 307**							
Total exposure to credit risk on a financial assets subject to an expected credit loss	19 683 246							
Exposure not subject to ECL:								
Cash and balances with central banks	284 453							
Derivative assets	430							
Trading assets	3 980							
Other financial assets	66 369							
Total exposure to credit risk	**20 038 478**							

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.3 Credit risk (continued)

iv) Maximum exposure to credit risk before collateral held or other credit enhancements 2019

		SB 1 -12		SB 13-20		SB 21-25		Default						
	Total	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3	Total gross carrying amount of default	Securities and expected recoveries on specially impaired	Interest in suspense	Balance sheet expected credit loss	**Gross default coverage**	**Non-performing loans**
	P000's	P000's	P000's	P000's	P000's	P000's	P000's	P000's	P000's	P000's	P000's	P000's	%	%
Loans and advances at amortised cost														
Personal & Business Banking	6 914 871	-	-	6 226 401	-	-	368 260	320 210	327 490	143 417	7 280	176 793		
Mortgage loans	1 905 010	-	-	1 598 411	-	-	121 087	185 512	183 213	116 436	(2 299)	69 076	36	10
Vehicle and asset finance	908 240	-	-	796 098	-	-	88 452	21 690	21 690	5 690	-	16 000	74	2
Card debtors	41 615	-	-	28 611	-	-	10 674	2 330	2 330	1 173	-	1 157	50	6
Other loans and advances	4 060 006	-	-	3 801 281	-	-	148 047	110 678	120 257	20 118	9 578	90 660	83	3
Personal unsecured lending	3 238 822	-	-	3 144 982	-	-	34 557	59 283	65 901	(1 376)	6 618	60 659	102	2
Business and other lending	821 184	-	-	656 299	-	-	113 490	51 395	54 356	21 494	2 961	29 901	60	7
Corporate & Investment Banking	6 428 486	4 345 729	109 950	1 411 717	111 424	-	190 273	259 393	259 393	(15 704)	-	276 097	106	4
Corporate	2 102 885	263 354	-	1 300 794	89 071	-	190 273	259 393	259 393	(15 704)	-	276 097	106	4
Sovereign	243 226	-	109 950	110 923	22 353	-	-	-	-	-		-	-	-
Banking	4 082 375	4 082 375	-	-	-	-	-	-	-	-	-	-	-	-
Other services			-			-								
Gross carrying amount of loans and advances at amortised cost	13 343 367	4 345 729	109 950	7 638 118	111 424	-	558 533	579 603	586 883	127 713	7 280	451 890		
Less: Total expected credit loss for loans and advances	(655 616)													
Net carrying amount of loans and advances at amortised cost	12 687 741													

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.3. Credit risk (continued)

iv) Maximum exposure to credit risk before collateral held or other credit enhancements 2019 (continued)

IFRS: MAXIMUM EXPOSURE TO CREDIT RISK BY CREDIT QUALITY (continued)		SB 1 -12		SB 13-20		SB 21-25		Default
	Total	Stage 1	Stage 2	Stage 1	Stage 2	Stage 1	Stage 2	Stage 3
	P000's	P000's	P000's	P000's	P000's	P000's	P000's	P000's
Net carrying amount of loans and advances at amortised cost	12 687 741							
Financial assets at amortised cost								
Corporate	220 852	220 852						
Sovereign	2 329 529	2 329 529						
Gross carrying amount of financial assets	2 550 381							
Less: Total expected credit loss for financial assets	(44)							
Net carrying amount of financial assets	2 550 337							
Letters of credit and bankers' acceptances	72 891	72 891	-	-	-	-	-	
Guarantees	1 173 048	998 984	-	55 845	117 462	-	758	
Irrevocable and revocable unutilised facilities	805 887	491 311	-	241 118	73 458	-	-	
Total exposure to off-balance sheet credit risk	2 051 826	1 563 186	-	296 963	190 920	-	758	
Expected credit loss for off balance Sheet exposures	(2 867)							
Net carrying amount of off balance sheet	2 048 959							
Total exposure to credit risk on a financial assets subject to an expected credit loss	17 287 037							
Exposure not subject to ECL:								
Cash and balances with central banks	480 509							
Derivative assets	29 142							
Trading assets	37 808							
Other financial assets	10 045							
Total exposure to credit risk	17 844 541							

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.3. Credit risk (continued)

v) Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Group	Maximum exposure 2020 P000's	2019 P000's
Credit risk exposures relating to on-balance sheet assets excluding interest in suspense and Impairments are as follows:		
Loans and advances to banks	3 519 028	4 082 374
Financial investments		
- Other unlisted instruments	1 797 916	2 196 687
- Government bonds	547 637	132 842
- Corporate bond	218 584	220 852
Loans and advances to customers (gross)	12 206 593	9 260 983
Loans to individuals and SME's		
- Mortgage lending	1 430 388	1 905 010
- Instalment sale and finance leases	401 388	784 351
- Overdrafts and other demand lending	37 368	208 505
- Medium-term advances	5 756 880	3 990 164
- Revolving credit accounts and card debtors	40 139	41 615
Loans to corporate entities		
- Mortgage lending	514 799	244 711
- Instalment sale and finance leases	446 191	123 888
- Overdrafts and other demand lending	155 207	539 902
- Medium-term advances	3 424 233	1 422 837
Trading assets		
- Government bonds	3 980	37 808
- Due from related parties	-	-
Net derivative assets	-	13 651
Cash and balances with central banks	419 866	608 600
Other financial assets	203 390	173 179
Credit risk exposures relating to off-balance sheet assets are as follows:		
Financial guarantees	1 140 951	1 173 048
Letters of credit	29 827	72 891
Irrevocable unutilised facilities	366 762	510 799
Revocable unutilised facilities	321 007	295 088
As at 31 December	20 775 541	18 778 802

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.3. Credit risk (continued)

v) Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2020 and 2019, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

As shown above, 71 percent of the total maximum exposure is derived from loans and advances to banks and customers (2019: 71 percent); 12 percent represents investments in Bank of Botswana securities (2019: 12 percent).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- Mortgage loans, which are 16 percent (2019: 16 percent) of loans and advances to customers are backed by collateral;
- 91 percent of the loans and advances to customers portfolio are considered to be neither past due nor impaired (2019: 91 percent)

Description of collateral held as security and other credit enhancements, in respect of the exposure above is as follows:

	2020 P000's	2019 P000's
For loans and advances, the Group holds the following collateral:		
Property bonds and other collateral	10 527	10 544
	10 527	10 544

Description of collateral held as security and other credit enhancements, in respect of the exposure to off balance sheet assets as per above table is as follows:

	2020 P000's	2019 P000's
Cash cover	230 700	208 469
Sundry securities (properties, government guarantees and others)	666 313	879 806
	897 013	1 088 275

The Group holds collateral against loans and advances to customers in the form of mortgage interest over property, other registered securities over assets and guarantees. The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. The main types of collateral are as follows:

- for securities lending and reverse repurchase transactions, cash or securities;
- for commercial lending, charges over real estate properties, inventory and trade receivables; and
- for retail lending, mortgages over residential properties.

Further information of the impairment allowance for loans and advances to banks and to customers is provided in Note 22.8.

The special mention category above incorporates all the past due but not impaired financial assets. The assets within this category fall within the 30-90 day overdue period.

The balance of repossessed assets is as follows:

	Group 2020 P000's	Group 2019 P000's	Company 2020 P000's	Company 2019 P000's
	Loan balance outstanding		Forced sale value	
Property bonds and other collateral	2 324	8 889	1 604	7 347

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.3. Credit risk (continued)

a) Loans and advances individually impaired

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group and Company using internal credit ratings. The table below shows the credit quality by class of financial asset for credit risk related items, based on the Group's credit rating system.

Credit quality	2020 Impaired P000's	2020 Security against impaired loans P000's	2020 Net impaired loans P000's	2019 Impaired P000's	2019 Security against impaired loans P000's	2019 Net impaired loans P000's
Loans and advances to banks	-	-	-	-	-	-
Loans and advances to customers	358 804	151 028	187 103	327 490	143 417	176 793
Personal and Business Banking	358 804	151 028	187 103	327 490	143 417	176 793
- Mortgage lending	182 760	108 345	74 415	183 213	116 436	69 076
- Instalment sales and finance leases	30 278	(2 613)	21 725	21 690	5 690	16 000
- Card debtors	2 724	1 139	1 585	2 330	1 173	1 157
- Other loans and advances	143 042	44 157	89 378	120 257	20 118	90 560
Corporate and Investment Banking						
- Corporate lending	-	-	-	259 393	(15 704)	275 097
Total recognised financial instruments	358 804	151 028	187 103	586 883	127 713	451 890

b) Loans and advances to banks

The total gross amount of individually impaired loans and advances to banks as at 31 December 2020 was Nil (2019: Nil). No collateral is held by the Bank in respect of these balances.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.3. Credit risk (continued)

vi) Loans and advances (continued)

c) Concentrations of risk of financial assets with credit risk exposure

The following table breaks down the Group and Company's main credit exposure at their carrying amounts, as categorised by the industry sectors of our counterparties:

2020	Financial institutions P000's	Manufacturing and agriculture P000's	Transport, energy and mining P000's	Trade and business services P000's	Individuals P000's	Others P000's	Total P000's
Loans and advances to banks	3 519 028	-	-	-	-	-	3 519 028
Financial investments							
- Bank of Botswana Certificates	1 797 916	-	-	-	-	-	1 797 916
- Corporate bond	218 584	-	-	-	-	-	218 584
- Government bonds	547 637	-	-	-	-	-	547 637
Loans and advances to customers (Gross)	2 673 103	360 488	158 440	1 078 285	7 679 520	256 757	12 206 593
Trading assets							
- Bank of Botswana Certificates	3 980	-	-	-	-	-	3 980
Derivative assets	430	-	-	-	-	-	430
As at 31 December 2020	8 760 678	360 488	158 440	1 078 285	7 679 520	256 757	18 294 168
As at 31 December 2019	9 971 370	342 634	539 435	373 584	3 413 910	1 316 047	15 956 980

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.3. Credit risk (continued)

vi) Loans and advances (continued)

c) Concentrations of risk of financial assets with credit risk exposure (continued)

2019	Financial institutions P000's	Manufacturing and agriculture P000's	Transport, energy and mining P000's	Trade and business services P000's	Individuals P000's	Others P000's	Total P000's
Loans and advances to banks	4 078 666	-	-	-	-	-	4 078 666
Financial assets							
- Bank of Botswana Certificates	2 196 687	-	-	-	-	-	2 196 687
- Corporate bond	220 852	-	-	-	-	-	220 852
- Government bonds	132 842	-	-	-	-	-	132 842
Loans and advances to customers (Gross)	3 275 373	342 634	539 435	373 584	3 413 910	1 316 047	9 260 983
Trading assets							
- Bank of Botswana Certificates	37 808	-	-	-	-	-	37 808
Derivative assets	29 142	-	-	-	-	-	29 142
As at 31 December 2019	9 971 370	342 634	539 435	373 584	3 413 910	1 316 047	15 956 980
As at 31 December 2018	7 337 167	1 332 116	82 475	843 183	3 964 699	356 121	13 915 761

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.3. Credit risk (continued)

vi) Loans and advances (continued)

c) Concentrations of risk of financial assets with credit risk exposure (continued)

	Group		Company	
Segmental analysis - industry net of impairments and interest in suspense (IIS):	**2020 P000's**	**2019 P000's**	**2020 P000's**	**2019 P000's**
Agriculture	**253 739**	298 411	**253 739**	298 411
Construction	**247 970**	167 623	**247 970**	167 623
Electricity	**15 853**	22 506	**15 853**	22 506
Finance, real estate and other business services	**6 154 024**	6 702 132	**6 154 024**	6 702 132
Individuals	**7 330 660**	3 413 910	**7 330 660**	3 413 910
Manufacturing	**66 671**	44 223	**66 671**	44 223
Mining	**69 885**	409 619	**69 885**	409 619
Other services	**672 984**	1 148 423	**672 984**	1 148 423
Transport	**67 629**	107 310	**67 629**	107 310
Wholesale	**384 300**	373 584	**384 300**	373 584
	15 263 715	12 687 741	**15 263 715**	12 687 741

42.4. Foreign exchange risk

The Group and Company are exposed to foreign exchange movements. The Asset and Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The Group had the following significant foreign currency exposure positions (all amounts expressed in thousands of Botswana Pula):

As at 31 December 2020	EUR P000's	USD P000's	ZAR P000's	Other P000's	Total P000's
Assets					
Cash and balances with Central Bank	**3 428**	**13 065**	**4 423**	**3 778**	**24 694**
Loans and advances	**301 220**	**3 319 138**	**461 585**	**50 685**	**4 132 628**
Loans and advances to banks	**301 220**	**2 493 839**	**209 429**	**50 674**	**3 055 162**
Loans and advances to customers	**-**	**825 299**	**252 156**	**11**	**1 077 466**
Other assets	**14 486**	**132 827**	**173 085**	**266**	**320 664**
Total assets	**319 134**	**3 465 030**	**639 093**	**54 729**	**4 477 986**
Liabilities					
Deposit and current accounts	**236 144**	**3 112 946**	**296 821**	**123 445**	**3 769 356**
Deposits from customers	**236 102**	**2 937 043**	**296 358**	**118 123**	**3 587 626**
Other liabilities	**43**	**175 903**	**463**	**5 322**	**181 731**
Net off-balance sheet financial position	**12 398**	**(235 965)**	**(393 675)**	**(11 393)**	**(628 635)**
Net on-balance sheet position	**71 535**	**251 231**	**169 380**	**(68 777)**	**423 369**
Overall net position	**83 993**	**15 266**	**(110 732)**	**(80 170)**	**(205 266)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.4. Foreign exchange risk (continued)

As at 31 December 2019	EUR P000's	USD P000's	ZAR P000's	Other P000's	Total P000's
Assets					
Cash and balances with Central Bank	3 483	19 999	4 918	1 173	29 573
Loans and advances	128 482	3 664 038	644 690	119 937	4 557 147
Loans and advances to banks	128 482	2 671 268	446 979	119 870	3 366 598
Loans and advances to customers	-	992 770	197 711	67	1 190 548
Other assets	7 599	266 968	59 619	3 701	337 887
Total assets	139 564	3 951 005	709 227	124 811	4 924 607
Liabilities					
Deposit and current accounts	136 960	3 050 910	474 899	117 075	3 779 844
Deposits from customers	130 748	2 657 129	318 269	110 305	3 216 451
Other liabilities	6 212	393 781	156 630	6 770	563 393
Net off-balance sheet financial position	(15 294)	(785 696)	(291 342)	(7 350)	(1 099 682)
Net on-balance sheet position	(34)	700 203	180 610	7 693	888 472
Overall net position	(15 328)	(85 493)	(110 732)	343	(211 210)

42.5. Market risk

The Group and Company takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Interest rate risk

The Group and Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Asset and Liability Committee (ALCO) sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Group and Company exposure to interest rate risks and effects to both P&L and equity as at the reporting date. Included in the table are the Group and Company assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Group and Company does not bear an interest rate risk on off balance sheet items.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.5. Market risk (continued)

Interest rate risk (continued)

Group As at 31 December 2020	Up to 1 month P000's	1 – 6 months P000's	6 – 12 months P000's	Over 1 year P000's	Non-interest bearing P000's	Total P000's
Assets						
Cash and balances with Central Bank	-	-	-	-	419 866	419 866
Derivative assets	-	-	-	-	430	430
Trading assets	3 980	-	-	-	-	3 980
Financial investments	999 861	792 095	-	770 267	-	2 562 223
Loans and advances to banks	3 518 567	-	-	-	-	3 518 567
Loans and advances to customers	11 745 148	-	-	-	-	11 745 148
Other assets	-	-	-	-	117 507	117 507
Total assets	16 267 556	792 095	-	770 267	537 803	18 367 721
Liabilities and shareholders' equity						
Derivative liabilities	-	-	-	-	8 040	8 040
Deposits from banks	1 077 578	-	-	-	-	1 077 578
Deposits from customers	11 175 786	2 381 708	738 228	482 180	-	14 777 902
Other liabilities	-	-	-	-	356 104	356 104
Subordinated debt	-	-	-	958 720	-	958 720
Shareholders' equity	-	-	-	-	1 611 983	1 611 983
Total equity and liabilities	12 253 364	2 381 708	738 228	1 440 900	1 976 127	18 790 327
Total interest repricing gap	4 014 192	(1 589 613)	(738 228)	(670 633)	(1 438 324)	

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.6. Market risk (continued)

Interest rate risk (continued)

Group As at 31 December 2019	Up to 1 month P000's	1 – 6 months P000's	6 – 12 months P000's	Over 1 year P000's	Non-interest bearing P000's	Total P000's
Assets						
Cash and balances with Central Bank	-	-	-	-	608 600	608 600
Derivative assets	-	-	-	-	29 142	29 142
Trading assets	37 808	-	-	-	-	37 808
Financial investments	1 598 365	598 322	12 076	341 618	-	2 550 381
Loans and advances to banks	4 078 666	-	-	-	-	4 078 666
Loans and advances to customers	8 609 075	-	-	-	-	8 609 075
Other assets	-	-	-	-	173 179	173 179
Total assets	14 323 914	598 322	12 076	341 618	810 921	16 086 851
Liabilities and shareholders' equity						
Derivative liabilities	-	-	-	-	15 491	15 491
Deposits from banks	1 484 980	-	-	-	-	1 484 980
Deposits from customers	10 566 083	1 123 419	89 886	502 802	-	12 282 190
Other liabilities	-	-	-	-	321 679	321 679
Subordinated debt	-	-	-	989 500	-	989 500
Shareholders' equity	-	-	-	-	1 310 279	1 310 279
Total equity and liabilities	12 051 063	1 123 419	89 886	1 492 302	1 647 449	16 404 119
Total interest repricing gap	2 272 851	(525 097)	(77 810)	(1 150 684)	(836 528)	

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.6. Market risk (continued)

Interest rate risk (continued)

The effective interest rates by major currency for monetary financial instruments not carried at fair value through profit or loss at 31 December 2020 and 31 December 2019 were in the following ranges:

2020	EUR	USD	GBP	ZAR	BWP
Assets	-	-	-	-	-
Bank of Botswana Certificates	-	-	-	-	**1.03**
Financial investments – Corporate	-	-	-	-	**5.57**
Loans and advances to banks	-	**0.81**	**0.11**	**5.58**	**3.00**
Loans and advances to customers	-	**5.78**	-	**5.13**	**16.26**
Liabilities					
Deposits from banks	-	**0.95**	-	**3.46**	**1.94**
Deposits from customers	-	**0.07**	-	**2.50**	**1.03**
Subordinated unsecured capital notes	-	-	-	-	**7.27**
NCDs	-	-	-	-	**3.60**

2019	EUR	USD	GBP	ZAR	BWP
Assets					
Bank of Botswana Certificates	-	-	-	-	1.53
Financial investments – Corporate	-	-	-	-	6.41
Loans and advances to banks	-	2.28	-	7.36	1.25
Loans and advances to customers	-	5.86	-	9.136	11.53
Liabilities					
Deposits from banks	-	0.86	-	-	1.24
Deposits from customers	0.10	0.20	0.18	2.22	1.03
Subordinated unsecured capital notes	-	-	-	-	9.07
NCDs	-	-	-	-	7.79

Interest rate sensitivity analysis

Interest rate sensitivity tests are performed on the Group's statements of financial position and reviewed by the ALCO. The table below presents the potential effects to both P&L and equity that could arise if interest rates rise or fall by 200 basis points at the reporting date

	2020 P000's
200 basis points parallel increase – gains	**211 405**
200 basis points parallel increase – losses	**(211 405)**

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.6. Liquidity risk

Liquidity risk is the risk that the Group and Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are overdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfil commitments to lend.

The Group is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

The Asset and Liability Committee (ALCO) sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Group's liquidity management process, as carried out within the Group and monitored by a separate team in Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Group maintains an active presence in global money markets to enable this to happen.
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow.
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements.
- Managing the concentration and profile of debt maturities.
- Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management.
- The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

The table following analyses assets and liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The figures on the table below do not carry any effect of discounting.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.6. Liquidity risk (continued)

Group As at 31 December 2020	Up to 1 month P000's	1 – 6 months P000's	6 – 12 months P000's	Over 1 year P000's	Illiquid P000's	Total P000's
Assets						
Cash and balances with Central Bank	419 866	-	-	-	-	419 866
Derivative assets	(12 154)	12 566	18	-	-	430
Trading assets	-	-	-	3 980	-	3 980
Financial investments	999 861	792 095	-	770 267	-	2 562 223
Loans and advances to banks	3 086 219	432 348	-	-	-	3 518 567
Loans and advances to customers	1 004 398	1 313 492	1 005 816	8 004 835	416 607	11 745 148
Other assets	-	-	-	-	117 507	117 507
Deferred and current tax asset	-	-	-	-	82 142	82 142
Intangible assets	-	-	-	-	166 192	166 192
Property and equipment	-	-	-	-	174 992	174 992
Total assets	5 498 190	2 550 501	1 005 834	8 779 082	957 439	18 791 046
Liabilities						
Derivative liabilities	7 345	695	-	-	-	8 040
Deposits from banks	675 902	-	-	401 676	-	1 077 578
Deposits from customers	11 175 786	2 381 708	738 228	482 180	-	14 777 902
Deferred and current tax liability	-	-	-	-	-	-
Debt securities in issue	-	-	-	958 720	-	958 720
Other liabilities	-	-	-	356 103	-	356 103
Total liabilities	11 859 033	2 382 403	738 228	2 198 679	-	17 178 343
Net liquidity gap	(6 360 843)	168 098	267 606	6 580 403	957 439	1 612 703

Managing liquidity risk

The Bank manages liquidity in accordance with applicable regulations and within the Bank's risk appetite framework. The liquidity risk management governance framework supports the measurement of liquidity across both the corporate and retail sectors to ensure that the payment obligations can be met at all times under both normal and stressed conditions. Further, liquidity risk management ensures that the Bank has appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.6. Liquidity risk (continued)

Managing liquidity risk (continued)

As at 31 December 2019	Up to 1 month P000's	1 – 6 months P000's	6 – 12 months P000's	Over 1 year P000's	Illiquid P000's	Total P000's
Assets						
Cash and balances with Central Bank	608 600	-	-	-	-	608 600
Derivative assets	29 142	-	-	-	-	29 142
Trading assets	37 808	-	-	-	-	37 808
Financial assets	1 598 365	598 322	12 076	341 618	-	2 550 381
Loans and advances to banks	4 078 666	-	-	-	-	4 078 666
Loans and advances to customers	877 969	1 634 771	293 475	7 558 798	-	8 609 075
Other assets	-	-	-	-	101 568	101 568
Deferred and current tax asset	-	-	-	-	71 611	71 611
Intangible assets	-	-	-	-	165 004	165 004
Property and equipment	-	-	-	-	152 264	152 264
Total assets	7 230 570	2 233 093	305 551	7 900 416	490 447	16 404 119
Liabilities						
Derivative liabilities	15 491	-	-	-	-	15 491
Deposits from banks	1 484 980	-	-	-	-	1 484 980
Deposits from customers	10 566 083	1 123 419	89 886	502 802	-	12 282 190
Deferred and current tax liability	-	-	-	-	-	-
Debt securities in issue	-	-	-	989 500	-	989 500
Other liabilities	-	-	277 548	44 131	-	321 679
Total liabilities	12 066 554	1 123 419	367 434	1 536 433	-	15 093 840
Net liquidity gap	(4 883 330)	1 109 674	(61 883)	6 363 983	490 447	1 310 279

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

42. Financial risk management (continued)

42.6. Liquidity risk (continued)

COVID-19 impact on risk management

The Group's results for the twelve months ended 31 December 2020 reflect the very difficult operating environment. COVID-19 placed considerable strain on our retail, business and corporate clients. The Group's strong capital position, going into the crisis, enabled us to respond quickly and significantly.

Risk management is a cornerstone of the Group's response to the COVID-19 crisis, enabling fast, targeted and responsible support of our clients, at the same time protecting our people while preserving the group's financial position. Our response to the pandemic was swift and purposeful, and a testament to our operational resilience. As we executed our business continuity measures on an unprecedented scale across the group, we put our people, our customers and our communities front and centre of our response efforts to this public health emergency. We provided extensive client relief programmes while carefully monitoring and managing our capital, liquidity and impairment risk metrics. We helped ease the liquidity crisis facing many clients, and maintained the collections activity by enabling employees to work from home. We continue to manage portfolio concentrations, including concentrations in specific client sectors, such as agriculture and real estate.

Client relief programmes comprised of assisting client with temporary liquidity constraints as a result of the impact of COVID-19, as well as increased liquidity facilities, loan restructuring in the form of covenant relaxations and payment holidays. These relief programmes resulted in no change in the present value of the estimated future cash flows resulting in no economic gain or loss (i.e. no net modification gain or loss).

At the end of 2020 Government relaxed most of the restrictions, but still maintained movement restrictions by introducing curfews which have extended into 2021 including trading restrictions in the entertainment industry which have continued to impact a number of businesses. This has been exacerbated by the emerging and spreading the new variant called N501Y which is more infectious.

The relief measures provided by the Central Bank minimised the potential liquidity and capital pressures. Following the reduction of CAR to 12.5%, the bank also reduced the internal risk appetite to 15% from 16.5% . This increased the Bank's capacity to hold growing capital demand by allowing the balance growth during the pandemic.

The Bank is currently well capitalised and projected to remain above the internal risk appetite in 2021. The risk that the Bank faces during COVID-19 is the possible increased capital demand due to growth in impairments should the economic activity fail to pick. To address this stress testing as part of ICAAP is being conducted focused on the prolonged effects of COVID -19 on the general economy.

The Bank has incorporated the prolonged effects of COVID-19 into its going concern assessment and is confident that the Bank will be able to continue as a going concern into the foreseeable future. As markets re-open globally due to the development and rollout of vaccines, expected in Botswana at the beginning of Q2 2021, economic activity seems to be improving considerably and is expected to gradual improve further going forward. Based on the stress tests performed subsequent to 31 December 2020, management is of the view that the uncertainties related to the pandemic do not result in material uncertainty that may cast doubt into the Bank's ability to continue as a going concern. The Bank continues to be liquid and well capitalised to efficiently execute plans and operations for the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
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43. Subsidiaries

Subsidiary	Nature of operation	Stated capital P000's	Effective holding 2020 %	Effective holding 2019 %	Book value of shares 2020 P000's	Book value of shares 2019 P000's
Stanbic Insurance Services (Proprietary) Limited	Insurance agency	919	**100**	100	**919**	30
Registered Office	Plot 50672 Fairgrounds Office Park Gaborone					
Business Address	Plot 50672 Fairgrounds Office Park Gaborone					
Stanbic Nominees Botswana (Proprietary) Limited	Custodial services	3	**100**	100	**3**	3
Registered Office	Plot 50672 Fairgrounds Office Park Gaborone					
Business Address	Plot 50371 Fairgrounds Office Park Gaborone					
Stanbic Financial Services (Proprietary) Limited	Market Maker	1 000	**100**	-	**1 000**	-
Registered Office	Plot 50672 Fairgrounds Office Park Gaborone					
Business Address	Plot 50371 Fairgrounds Office Park Gaborone					

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

44. Segment reporting

The segmentation has been prepared in accordance with the Group business units explained below. The divisions offer different products and services and are managed separately because they require different expertise. The segments are presented to the Group chief executive officer and shared with all business heads.

The principal business units for the Group are as follows:

Business units	Scope of operations
Corporate & Investment Banking	Commercial and investment banking services to larger corporate, financial institutions and international counterparties. Global markets – includes foreign exchange, commodities, debt securities and equities trading. Transactional products and services – includes transactional banking and investor services. Investment banking – includes equity investment, advisory, project finance, structured finance, structured trade finance, corporate lending, primary markets, acquisition and black economic empowerment finance, property finance and the asset and wealth management units.
Personal & Business Banking	Banking and other financial services to individual customers, commercial and small-to-medium-sized enterprises. Mortgage lending – provides residential and commercial loans to individual and business customers. Instalment sale and finance leases – comprises two main areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business and agricultural markets. Card and Acquiring products – provides debit and credit card facilities to individuals and businesses. Also provide point of sale and merchant acquiring solutions. Transactional accounts and other lending products – enable local and foreign payments and collection of transactions in products associated with the various points of contact channels such as ATMs, Internet, telephone banking, mobile banking and branches. This includes deposit taking activities, savings and investments, electronic banking, cheque accounts and other lending products such as personal unsecured loans and business working capital facilities. Bancassurance – provides short-term and long-term insurance products, mainly through third parties, and provides financial planning services to clients.
Corporate functions	Support functions to business units and advisory services whose costs have been allocated to Personal and Business Banking and Corporate and Investment Banking on a consistent basis.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

44. Segment reporting (continued)

Group 2020	Corporate & Investment Banking P000's	Personal & Business Banking P000's	Corporate functions P000's	Total P000's
Net interest income	240 479	457 763	(12 811)	685 431
Non-interest income	175 174	223 132	35	398 341
Net fee and commission income	(897)	208 042	(8)	207 137
Net trading income	174 491	-	-	174 491
Other income	1 580	15 090	43	16 713
Total income	415 653	680 895	(12 776)	1 083 772
Credit impairment charges	96 403	(136 386)	-	(39 983)
Income after credit impairment charges	512 056	544 509	(12 776)	1 043 789
Total operating expenses	(182 189)	(478 363)	20 582	(639 970)
Staff costs	(40 576)	(113 106)	(148 701)	(302 383)
Other operating expenses	(141 613)	(365 257)	169 283	(337 587)
Net income before indirect tax	329 867	66 146	7 806	403 819
Indirect tax	(1 574)	(8 364)	(9 524)	(19 462)
Profit / (loss) before direct tax	328 293	57 782	(1 718)	384 357
Direct tax	(72 852)	(9 452)	371	(81 933)
Profit / (loss) after tax	255 441	48 330	(1 347)	302 424
Operating information				
Total assets	9 175 268	9 401 193	214 585	18 791 046
Total liabilities	8 541 283	8 465 591	171 469	17 178 343
Other information				
Depreciation and amortisation	332	24 009	40 913	65 254

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 December 2020
In Pula (thousands)

44. Segment reporting (continued)

Group 2019	Corporate & Investment Banking P000's	Personal & Business Banking P000's	Corporate functions P000's	Total P000's
Net interest income	278 069	413 425	(9 826)	681 668
Non-interest income	223 727	236 823	(203)	460 347
Net fee and commission income	(4 866)	221 515	(90)	216 559
Net trading income	222 048	-	-	222 048
Other income	6 545	15 308	(113)	21 740
Total income	501 796	650 248	(10 029)	1 142 015
Credit impairment charges	(301 943)	(87 103)	-	(389 046)
Income after credit impairment charges	199 853	563 145	(10 029)	752 969
Total operating expenses	(172 958)	(398 834)	18 281	(553 511)
Staff costs	(42 006)	(108 361)	(141 484)	(291 851)
Other operating expenses	(130 952)	(290 473)	159 765	(261 660)
Net income before indirect tax	26 895	164 311	8 252	199 458
Indirect tax	(3 195)	(9 531)	(9 864)	(22 590)
Profit / (loss) before direct tax	23 700	(154 780)	(1 612)	176 868
Direct tax	(3 624)	(33 860)	342	(37 142)
Profit / (loss) after tax	20 076	120 920	(1 270)	139 726
Operating information				
Total assets	9 177 807	6 919 879	306 433	16 404 119
Total liabilities	8 588 235	6 139 525	366 080	15 093 840
Other information				
Depreciation and amortisation	327	22 358	28 423	51 135

45. Subsequent events

CORE BANKING SYSTEM UPGRADE

The Bank made a significant upgrade to its core banking system (Finacle), from Finacle version 2 to version 3, which went live on the 8th February 2021. The upgrade to Finacle version 3, comes with a number of new functionalities that allows for greater digitization of products (through application programming interface (API's)) and ability to interface with Fintechs. Some of the new functionalities are: customer remote onboarding, digital lending, improved payment and clearing solution and improved processing and stability.

An investment of more than P26 million was made on the upgrade which included acquisition of high capacity servers to accommodate the resource demand for new functionalities and processing speed as well as the software upgrade. P22 million of these costs is included in these Financial Statements under note 30 as work in progress, mainly for servers acquired in 2020 to facilitate testing. These will be capitalised on the go-live date and depreciated over 6 years in line with the policy outlined in accounting policies note 7.

The core banking system upgrade is considered a significant non-adjusting post reporting event that is expected to improve overall customer experience and consequently the Bank's profitability going forward.

Stanbic Bank