



Absa Bank Botswana Limited

2020 Annual Report





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Absa at a glance

Absa Bank Botswana Limited is listed on the Botswana Stock Exchange and is one of Botswana's leading financial institutions.

P20.6 billion balance sheet size
(2019: P18.8 billion)

P15.9 billion deposits due to customers
(2019: P14.4 billion)

18.2% Capital Adequacy Ratio
(2019: 19.2%)



33 branches



113 ATMs



1 089 employees



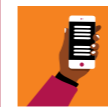
4 147 point-of-sale (PoS) devices



Advancing our **digitally-led** business strategy.

Successfully concluded the **separation** from Barclays within time and budget.

Digital Journey



Chat Banking

We are proud to introduce a first to market, our friendly Chatbot powered by artificial intelligence (AI), Abby.



SkyBranch

We launched SkyBranch, our virtual branch where customers can access a banker at the call centre for enquires, transactions and accessing facilities.



NovoFX App

NovoFX App is suited for customers who need to make international payments on the go. The App simplifies foreign exchange purchase (forex) and facilitates cross border payments from a mobile phone with real time exchange rates.



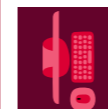
Absa Mobile Banking App

The Absa Mobile Banking App allows customers to conduct financial transactions remotely using their mobile devices. The service is available on a 24-hour basis, offering customers the convenience to transact at anytime, anyplace.



Absa Access

Our newly improved digital platform gives access through a single sign-on to all Corporate and Investment products and services in one place, across various channels.



Contactless payment

We introduced the 'Tap n Go' functionality to our vibrant Vertical Debit and Credit Cards as well as for our point-of-sale (PoS) devices when transacting with our Debit Card at selected stores.

Our purpose

We believe in bringing possibilities to life.

Our values

We drive high performance to achieve sustainable results

Our employees are our strength

We are obsessed with the customer

We have an African heartbeat

**Alfred Majaye Dube**
Interim Board Chairman

Over the last year, the Bank has defended its market share and demonstrated that it is an agile and relevant financial institution.

Chairman's statement

2020 was no doubt an unprecedented year that challenged Absa Bank Botswana Limited's ("the Bank") resilience in the face of a devastating COVID-19 pandemic. Globally, by the end of the first quarter 2021, 123 million people had fallen ill, with 2.7 million recorded deaths directly linked to the pandemic.

Opening remarks

As at 23 March 2021, employees affected by COVID-19 in the Bank were recorded at 48 infections and the loss of employees across Absa Group Limited ("Absa Group or the Group") was at a devastating 34 employees, including the loss of Mr Peter Matlare, the Absa Group Deputy Group Chief Executive Officer and Chief Executive Officer of Absa Regional Operations. As part of the Absa Group, and on behalf of the Bank's Board ("the Board"), who had the opportunity to work with Peter regularly over the last 3 years, I wish to recognize Peter's significant contribution and passion for the African continent. The transition journey that saw the Group separate from Barclays PLC was seamless for the African countries, including Botswana, due to the experienced, empathetic and charismatic leader in Peter, who had a firm grasp on the business landscape and culture of the African continent and embodied Africanity. The Bank conveys deepest sympathies to all families who have been affected by COVID-19 and lost their loved ones.

Tackling the pandemic head-on

The COVID-19 pandemic has damaged economies across the world to an extent not witnessed in the post-war era. The near-halt in global tourism and reduction in traded commodities outside of precious metals, saw Botswana's economy contracting by 8% in 2020 compared to a growth rate of 3% recorded in 2019. The worst performance was recorded in the second quarter of 2020 at a negative 24% as all sectors of the economy performed poorly.

The Bank is acutely aware of the socio-economic strain that the pandemic has placed upon our employees, customers, communities and nation at large.

The Bank has particularly been impacted in relation to:

- How we execute our strategy of supporting various sectors and industries.
- How we operate, interact with and serve our customers.
- How we conduct, govern and regulate ourselves as individuals and the banking industry at large.

The "New Normal" has presented the banking sector with challenges and opportunities and therefore, influenced the way the Bank thinks about the business and its long-term sustainability. While the short-term outlook continues to look challenging, many areas such as digital uptake will experience significant growth. Despite ongoing economic and fiscal challenges, the Bank showed remarkable resilience in a tumultuous year by carefully considering value protection for all stakeholders through urgent and deliberate decisions, keeping the Bank's long-term sustainability as top of mind. Details of the Bank's performance amidst these challenging times can be found in the Managing Director's report and Finance Director's review on page 6 and 18 respectively.

Strategy review

The pandemic is a course-altering event for every business sector and over the last year, the Bank demonstrated that it was dynamic and flexible by pivoting aspects of our strategy in response to changes in the external environment.

Firstly, I take pride in the Bank's COVID-19 response strategy, which the Board approved within a month of the first lockdown. The Board was fully engaged in coining this strategy, which delivered exceptional support to our clients under very challenging circumstances.



Chairman's statement continued

As part of essential services, the Bank's first consideration was to ensure that our workforce was safe while serving customers and promoting a safe environment for stakeholders visiting the Bank's premises. To this end, the Bank deployed a range of strategies, underpinned by the following pillars:

- Adhering to the Government of Botswana guidelines and protocols
- Keeping our customers and employees safe
- Sustaining and keeping our customers afloat
- Supporting the community at large

These pillars underpinned the following strategic actions:

- Adjusting our ways of operating and serving our customers by intensifying digitisation, enabling safer transacting at home and self-service.
- Mitigation measures, which included providing Personal Protective Equipment for our people and customers, installing sanitiser dispensers at our ATMs and corporate buildings, and introducing screening processes as necessary.
- Facilitation of debt relief measures for impacted individuals and entities.
- And finally, providing support to government efforts in fighting the pandemic by contributing to the national relief fund.

Further details on the development and implementation of our strategy are on the Managing Director's report. As the Board, we are satisfied that the strategy remains relevant and will continue to support the investment in strategic capabilities and technology for the Bank to continue on the sustainable growth trajectory.

Transition journey

Over the last few years, a key focus area for the Group, Bank and Board, has been the separation from Barclays PLC, which came with as many risks as opportunities. As at the end of 2020, the separation programme was fully completed across all the different workstreams. This was done on time and within budget and is a testament to the commitment of all stakeholders that supported a project of such complexity and size. The combination of oversight and guidance measures, efforts of all our people and the support of regulators, has ensured that the Bank delivered this programme seamlessly and successfully.

The success of the name launch in February 2020, and subsequent brand transition reinforcements was primarily due to support from crucial stakeholders, including the government and our regulators. A single Group brand has enabled the Bank to build on existing brand-value and increase consumer brand awareness, ensuring a consistent identity across operations. Furthermore, the Bank has galvanised behind a common purpose and growth strategy.

Citizenship

The Bank continues to play an important role in the economy and communities in which we operate. Whilst our Citizenship Agenda and our ambition to play a Shaping Role in Society remains a priority, we have had to align our activities to address the challenges created by the pandemic. Therefore, our focus has been to support our government's efforts and to this end, the Bank donated P 1.5 million to the COVID-19 Relief Fund and other initiatives.

The Bank's commitment to education has continued through the F.G Mogae sponsorship and the Nelson Mandela Scholarship Fund, the latter being funded through the Group. The last phase of the renowned Madi Majwana Tour impacted fourteen schools, reaching over 5000 students and their teachers engaged in Ghanzi, Maun, Palapye, Gaborone and Good Hope.

Despite its largely negative impact, the COVID-19 pandemic allowed us to appreciate technology better, enabling us to continue with some of our work unperturbed. Our ReadytoWork online learning program remains critical to our Citizenship mandate and is available for individuals transitioning from school to the world of work.

I must also mention our inaugural "Women in Business" webinar in the last quarter of 2020, under the theme "Re-imagining Business for Women Entrepreneurs". This platform enabled panelists to discuss the role of technology in improving business practices and offer practical solutions in this regard.

We remain proud of our employees who continue to offer their time and services as volunteers for a wide variety of organisations across our nation.

Board matters

The Board remains dedicated to retaining and elevating core governance principles as guided by King IV Code on Corporate Governance ("King IV"), with all Board members dedicated to delivering our business strategy through a fiduciary oversight role.

The Board underwent substantial change during the period under review. In March 2020, we welcomed three new members to the Board - Mr Cosmas Moapare, Mr Benjamin Kodisang and Ms Sari Nikka, whose appointments were approved by shareholders at the AGM on 29 June 2020. However, we also bade farewell to three of our Board Members during 2020 with the resignation of our former Board Chair, Mr Oduetse Motshidisi, on 12 August 2020. Mr Kenneth Molosi resigned on 11 September 2020 and Mr Mohamed Osman resigned on 2 October 2020. I would like to take this opportunity to thank them for their contribution to the Bank, particularly during the transition. Despite the reduction in capacity, the Board continued to execute its mandate and continued its search to strengthen the Board composition with experienced, highly talented individuals with a wide range of skills that can add value.



Chairman's statement *continued*

Consequently, the Board reviewed and approved its Board Skills Matrix in November 2020 and began a vigorous exercise of fully capacitating our Board with the relevant skill complement that will ensure oversight of a future-fit Bank. We in particular, sought expertise and energy that can move the business forward, and at the time of writing, the Board was in the process of appointing new Non-Executive Directors. This process will ensure further diversity concerning the composition of board committees, better equipping them to carry out their essential mandates in support of the Bank.

Enhancing more robust corporate governance practices and following recommendations from our regulator, the Bank of Botswana, the Board established the Credit Committee in August 2020, with Mr Benjamin Kodisang appointed as Chairman. This committee has enhanced the Board's oversight on credit risk management across the various sectors in the Bank.

Having been on the Board since November 2009, I have decided to retire from the Board after the conclusion of the 35th Annual General Meeting on 28 June 2021. I count it a privilege and honour to have been appointed to serve as the Interim Board Chairman over the last year and would like to thank our shareholders, regulators and other stakeholders for the continued support and confidence.

Looking ahead

Without a doubt, the pandemic and its impact on the economy remains the most significant challenge we will face moving forward. The economists expect that Botswana's GDP will recover by 6.8 % in 2021 due to strengthening domestic and global demand as the impact of the pandemic recedes. A faster improvement in worldwide growth and diamond demand could see an increase of 8-9% although, conversely, further waves of the virus could reduce Botswana's growth to as low as 5%.

However, I have assurance that the Bank will continue to deliver on its strategic ambition.

Looking ahead, I believe that once the pandemic is over, the banking sector will retain some of the changes accelerated and implemented during these trying times, such as remote working and the use of digital self-service avenues.

Notwithstanding the resilience of the Bank, and the willingness of our Government and stakeholders to drive sustainable economic recovery, we must accept that the road to recovery will be long and challenging. During these difficult times, we remain committed to support our customers as we navigate this volatile time.

Appreciation

I would like to thank our regulators, stakeholders and all of my fellow Board members for their incredible support in realising the vision of the Bank. I particularly extend my gratitude to the Managing Director, Ms Keabetswe Pheko-Moshagane, and the Bank's management team for their outstanding efforts over the last truly challenging year. We would not have achieved all that we have without this team, which is why our greatest asset as an organisation will always be our people.

We will continue to work together to reach our goal of being the undisputed leading financial services provider in our market. On behalf of the Board, I would like to send heartfelt gratitude to all Bank employees all across Botswana. Their outstanding efforts and performance as individuals and teams have not gone unnoticed. The sustained energy of embedding our brand despite the last year's challenges assures me that we are building a legacy as an African bank with a truly global reach. We must also continue to improve value for shareholders and continue to deliver superior service to our customers.



absa

Send money abroad **with just a tap**

International payments have never been easier with the Absa NovoFX App. Now you can seamlessly buy forex and make cross border payments from your mobile phone.

Download the **Absa NovoFXapp** today

That's Africanacity. That's Absa.

absa.co.bw

Terms and conditions apply.
Absa Bank Botswana Limited (registered number BW00001237900)
is regulated by the Bank of Botswana.

GET IT ON Google Play | Download on the App Store



Keabetswe Pheko-Moshagane
Managing Director

As our most important stakeholder, our customers can take great comfort in our financial resilience, demonstrated through our strong balance sheet results.

Managing Director's report

The advent of COVID-19 fundamentally changed life as we know it, altering the way the Bank operates. The health emergency quickly developed into a global crisis, and there was subsequent economic downturn globally, regionally and nationally. However, I am pleased to announce that we still run a solid and profitable business.

Introduction

This is mainly due to the swift action we took as an organisation to defend our business, protect our employees' wellbeing and the livelihoods of our customers while ensuring the Bank's financial and operational resilience. I would like to firstly thank our frontline employees who I believe deserve special recognition for their dedicated service and willingness to help our customers during these difficult times.

As at the end of March 2021, the Bank had a total of 48 employees infected and regrettably, 34 employees across the Absa Group had passed away, including the Absa Group Limited Deputy Chief Executive Officer, and Absa Regional Operations Chief Executive, Mr Peter Matlare. Peter was an inspirational leader who was passionate about the African continent and on behalf of the Bank, I wish to extend sincere condolences to his and other families that have been affected by COVID-19. We will fondly remember his stories about growing up in Gaborone and ensure to preserve his commitment to Africanacity as we diligently serve our customers and continent.

Economic and financial performance overview

The COVID-19 pandemic significantly impacted the global economy in 2020, affecting every aspect of life and business, and producing historic declines in economic activity, which resulted in record global recession. The International Monetary Fund (IMF) estimates global Gross Domestic Product (GDP) to have contracted by 3.5% in 2020. As an open economy that is integrated with regional and global economies, Botswana has also been deeply affected by COVID-19 on several fronts: risk of rising local infections; weaker global demand affecting mining exports; and disruption to global supply chains affecting local production and project execution. The travel and social gathering restrictions deeply affected the tourism and hospitality sectors, as well as conferencing, sports and entertainment activities.

Botswana's overall output contracted by an estimated 8% in 2020. Inflation averaged 1.9% for the year, which is below the lower bound of the Monetary Policy Committee medium-term objective range. This was driven by subdued domestic demand. In 2020, to reduce the impact of economic pressures, the Bank of Botswana cut the bank rate by a cumulative 100 basis points. Although policy rates were cut, Bank of Botswana further reduced the primary reserve requirement from 5% to 2.5% releasing P1.6 billion into the banking system. This allowed commercial banks to be unconstrained in performing financial intermediation to support economic activities.

The negative macroeconomic outlook and significant increase in credit risk heavily weighed down impairment numbers and policy rate cuts, which compressed net interest income. However, while most financial performance indicators were impacted, we are proud of the resilience that the Bank showed through this truly challenging period. In 2020, our people excelled, delivering exceptional levels of support and service to our customers under extremely tough circumstances. As our most important stakeholder, our customers can take great comfort in our financial resilience, demonstrated through our strong balance sheet results. This was achieved through protection of our balance sheet during the year, preserving capital while managing credit and liquidity risk. These critical actions enabled us to end the year with solid capital and liquidity positions above the regulatory threshold by 6% for both CAR and LAR. Our balance sheet grew by 9% driven by customer deposit growth of 11% against industry growth of 6%, and customer loans growth of 4%, which is in line with market.

Total income declined marginally by 3% mainly due to reduced transactional volumes and compressed margins driven by movement restrictions as well as reduced economic activity resulting from COVID-19. Our cost to income ratio (CIR) closed the year at 60%, partially as a result of spending linked to implementing COVID-19 health protocols. Our impairment line significantly spiked in line with the increased uncertainty in



Managing Director's report continued

credit risk. As a bank, we adopted a more prudent approach to credit risk, given the volatility of our operating environment. The Bank achieved a Profit before Tax of P364 million, declining by 46% due to the prudent impairment provisions we applied throughout the year. Revenue decline was 3% and the Bank maintained a strong double digit return on equity of 12%, which is in line with the banking industry average.

COVID-19 response

As a Bank, we are acutely aware of the crucial role we play in society and the economy, and we are very conscious of the socio-economic strain that the pandemic has placed on our people, customers, communities and country. Over the last year, we have had to develop and evolve the way we operate, interact and service our customers.

As highlighted in the Chairman's report, the Bank's response to the COVID-19 pandemic was realised through a series of Board-approved strategies underpinned by the following pillars:

- Adhering to the Ministry of Health guidelines and protocols;
- Ensuring the safety and wellbeing of our employees and customers;
- Sustaining and keeping our customers afloat; and
- Leveraging our citizenship programme to contribute to broader community efforts to fight the pandemic.

Our strategic response thus revolved on facilitating debt relief measures for various impacted individuals and entities, adjusting our ways of working and service delivery channels and providing the necessary infrastructure to support customers and employees.

COVID-19 rapidly accelerated digital channels uptake and the adoption of virtual infrastructure, including collaboration environments supported by cloud-computing technologies; a process that was already advanced when the pandemic struck. Over the last year, I am pleased to note that our system's stability was consistent and excellent, with an average availability of 99.4%, supporting our customers digital transactions.

Strategy review

As mentioned above, COVID-19 accelerated new banking trends, altering how we serve our customers, and necessitated a refreshed strategy. The Bank reviewed and re-shaped our strategy throughout 2020, responding to the changing landscape by temporarily shifting focus from set growth ambitions to an emphasis on credit and liquidity management as well as capital preservation. In refining our strategy, we took into consideration the macroeconomic environment, the banking landscape, our strategic aspirations, and what is needed to thrive during and post the pandemic.

Our 2021 strategy is aimed at addressing the implications of our evolving operating environment, accelerating our ability to execute with agility and speed as well as remaining customer centric in everything we do. I am certain that new revenue streams will emanate from solving for our customer and client-specific needs, while leveraging alternate self-service platforms.

Moving forward, our strategy will be strengthened by five deliberate efforts:

- **Leading with purpose** by focusing on our customers and community;
- **Pursuing growth** by selectively defending our market share;
- **Accelerating a digital** - first business;
- **Building an entrepreneurial culture** and creating a future-fit workforce; and
- **Protecting returns** by focusing on capital consumption and cost management.

To achieve these strategic outcomes, we are focused on enabling interventions:

- **Technology** - enhancing and investing in technology architecture that powers digital transformation;
- **Brand** - embedding our brand in the hearts and minds of our customers and communities at large; and
- **Regulatory framework support** - seamlessly embedding controls and agility into operations, enabling us to rapidly respond to regulatory framework changes, while maintaining rigorous business and banking principles.

Our refined strategy ensures that we have a relevant, competitive business that will see us emerge from this crisis with strength and resilience, building confidence in our shareholders, employees, customers and the communities in which we operate. I firmly believe that our strategy creates the ability for the Bank to seamlessly integrate banking services into our customers' other daily activities - coupling the provision of traditional banking services with the fulfilment of customers' adjacent needs. We hold an optimistic view of the future as our strategy positions us to become a bank that delivers customer centricity, sustainable-shared value and has meaningful contribution to all stakeholders.

Managing Director's Report *continued***Absa transition journey**

Despite challenges presented by the COVID-19 pandemic, I am pleased to report that the highly complex Separation Programme was completed within timelines and budget, concluding a significant chapter in Absa's history. The key focus for the Bank during 2020 was to deliver the 24 remaining projects related to the separation from Barclays PLC platforms/system and rebranding of all technology and digital platforms, corporate and retail premises, business assets, and marketing collateral.

In February 2020, the Bank achieved a historic milestone with the name change and trading inauguration as Absa Bank Botswana Limited. The new Absa identity unfolded by introducing the warm, vibrant red colour palette of the Absa brand across all branches, ATMs and other public-facing assets. All the remaining projects and brand transitions necessary, including the successful rebrand of 66 applications, 13 URLs and 1487 emails from Barclays Bank Botswana to Absa Bank Botswana Limited was delivered seamlessly. Further details on the separation are on page 10 of this report.

On behalf of the Bank's leadership, I would like to offer my sincere thanks to all those employees, past and present, who worked tirelessly to ensure that the Separation Program was a success. I am confident in my sentiments that the execution of this program depicted the Bank's commitment to using every endeavour as an opportunity to build depth and resilience in our change management skills, and this same resilience will translate into an advantage as we navigate the current unfamiliar territory.

Risk and regulatory environment

As detailed on the Corporate Governance report on page 36, the Bank has adopted and adheres to the principles of the King IV Code of Corporate Governance. As an entity listed on the Botswana Stock Exchange ("BSE"), the Bank is subject, and adheres, to a number of regulations including the Banking Act, the BSE Listings Requirements; and the BSE Code of Best Practice on Corporate Governance ("the Code"), as well as all guidelines from the Bank of Botswana. Bank of Botswana continues to play a crucial role in ensuring that liquidity is safeguarded. During 2020, we have seen various initiatives by Bank of Botswana as detailed in the Finance Director's report on page 18. We expect liquidity to remain at sustainable levels in the near future and will continue partnering with the government and all regulators to ensure a stable financial services sector. Through the year, and notwithstanding various customer payment relief programmes, the Bank maintained more than adequate levels of liquidity and capital reserves.

The Bank continued to ensure that we abide by the established controls and governance measures that define the domain within which we execute our strategic imperatives - responsibly and in the best interests of the Bank and its stakeholders.

The Bank's Board retains oversight of strategic actions, ensuring that management identifies, measures and monitors a variety of risks through key control mechanisms in line with the Bank's principal and critical key risk frameworks. These frameworks include the Enterprise Risk Management Framework, the Operational Risk Management Framework, the Conduct Risk Framework and the Reputational Risk Framework.

The banking environment continued to evolve, particularly around compliance regulations. The Bank not only ensured implementation of the changing regulatory expectations but has ensured to keep abreast with developing and potential regulatory developments from an international and regional perspective. The Bank has a zero tolerance on compliance and regulatory breaches and continues to ensure responsible corporate citizenship through positive and collaborative partnerships with regulators in the Botswana banking sector.

Human capital

As a Bank, our people are truly our most valuable asset, and we continue to ensure that we establish measures that enable a safe and conducive working environment. As highlighted above, we moved swiftly to implement COVID-19 health protocols for all of our people, providing decisive yet supportive leadership.

The Bank created a positive working environment by enabling working from home and investing in relevant technologies required to operate remotely. As part of this commitment, we provided support to employees in various ways particularly during the periods of extreme movement restrictions. This included provision of tools to stay digitally connected, whilst also contributing to their welfare through provision of various psycho-social support. Recognising the importance of staff morale, the Bank ensured to stay connected and increase employee engagement via virtual engagements at a large and small scale.

Following the launch of the cloud-based core human resource management system, known as Workday in 2019, the People function continues to implement new working methods, which have become embedded across the business improving quality control and streamlining processes. As part of our culture change journey, an employee engagement survey was conducted in the last quarter of the year. The results of this process have been used to develop initiatives that improves engagements through learning in the coming year.

Customer experience and focus

The Bank remains committed to ensuring that all decisions that are taken and systems implemented within the Bank are fixated on Customer experience. Our focus during the period under review was excellent customer service, an ethos that we will carry forward as we continue to be deliberate in adopting a customer centric approach in every process across the Bank.

Managing Director's Report *continued*

We have accelerated our digital investments in order to strengthen resilience and thrive in the future. In 2020, we saw a 34% growth in digital usage, validating our conviction that customer preferences are evolving towards self-service channels. This was coupled with the launch of various platforms such as the Absa SkyBranch, which is a telephone-based contact centre offering a wide range of services including account maintenance/amendments, loan and credit card applications, contactless payments and other user-friendly services.

Over the period under review, the Bank did not only achieve most of the goals in terms of our response strategy, but through our Enterprise Supply Chain Development Programme, we have been instrumental in helping many local companies penetrate the value chains of large corporate entities. The sustainability of these Small and Medium Enterprises (SMEs) has been fortified by access to capital and training in key areas such as finance, human resource management, marketing, operations and various other aspects of running a successful business. We further continued to forge and nurture strategic partnerships with various entities in the private sector and government and parastatal organisations to continually improve our customer value proposition. The Bank also substantively invested in technology, enabling us to launch a range of innovative products to market, such as:

- **Absa Bot** - a interactive robot that is able to respond to our customer queries;
- **Chat Banking** - a WhatsApp-based banking application;
- **NovoFX App** - an App utilised for forex online purchasing.

I am proud to share that the Bank was named "Best Investment Bank" for the third consecutive year by the Europe, Middle East and Africa (EMEA) Banking African Finance Award. This award recognises the demonstrable success of the Bank's efforts to consistently find new ways to help our clients access debt and equity capital they need to grow against the highly challenging backdrop of COVID-19. The award also recognises the success of our long-standing client relationships, and efforts to contribute to the development of Botswana's market.

Citizenship

Whilst our Citizenship Agenda and our ambition to continue to play a shaping role in society remains a priority, we also aligned our activities to address the challenges created by the pandemic. Our citizenship agenda has mainly focused on the following areas:

- Thought leadership;
- Education and skills development;
- Creating sustainability; and
- Building trust.

In addition to our donation to the COVID-19 National Relief Fund, we donated 10,000 masks for children and 3,000 masks for teachers, facilitated by the Ministry of Basic Education.

I would also like to express my sincere thanks to the Group, which supported the Bank with P305,480 to fund these masks over 2020. Some of the students benefiting from our F.G. Mogae scholarship recipients have managed to finalise their dissertations and graduate, but the majority will graduate in 2021. Further details of these and other ongoing interventions are provided on page 32 in the Citizenship section.

Outlook

Our view is that the economy will return to positive growth in 2021, and we anticipate GDP will rebound to 6.8%. An improved global demand for diamonds, accommodative monetary conditions and the government's Economic Recovery and Transformation Plan (ERTP) will support positive recovery in the coming period. We also anticipate that inflation will average 3.5 % in 2021, rising from the 1.9% average seen in 2020. Non-interest income growth is expected to improve but is likely to remain low for the foreseeable future. Return on equity is expected to remain in the low double-digit range, and we anticipate Common Equity Tier 1 capital ratio to remain stable.

Despite indications of recovery, the global and national economic outlook for 2021 remains highly uncertain, but based on the macroeconomic assumptions, regulatory interventions, and our solid strategy, we will continue to lead with purpose and deliver shared value to our stakeholders. Focus will remain on differentiating ourselves through providing the right banking solutions and customer centric transactional banking solutions that focus on creating a positive customer experience. In this way, we will continue to bring possibilities to live.

Appreciation

I would like to thank the Board, under the leadership of Interim Chairman, Ambassador Dube, for the continuous support and guidance. On behalf of the Bank's management, I would also like to extend our gratitude to our regulators and other external stakeholders for affording us the opportunity to serve and make a difference in our community. I must give special thanks to all our customers for choosing us and placing their trust in us as their bank of choice.

I recognise the critical role that our people play and appreciate their efforts as they continue to work hard to deliver outstanding service, despite the current challenges presented by the pandemic. I once again make special mention of our workforce for showing up, being brave and ready in order to achieve our mandate. It has not been an easy journey, with some employees losing loved ones during this pandemic, and I once again convey my sincere condolences to all affected. Let us continue our efforts to stay safe and preserve our country.



Separation journey

Update on the programme

To complete the Separation Programme, there were 24 projects related to the Barclays PLC platforms/systems and re-brand of all technology, corporate and retail premises, business assets, and marketing collateral to be delivered in 2020.

Despite challenges presented by the COVID-19 pandemic, the Separation Programme was completed within bilaterally agreed timelines, thereby concluding a significant chapter in Absa's history. The Bank has informed the Bank of Botswana, the South African Reserve Bank (SARB), and the United Kingdom (UK) regulators that Barclays PLC and Absa Group Limited have concluded and closed the Separation Programme.

Delivery of the final key systems separation projects included the following:

- Teller system replacement:** The Bank achieved a significant milestone through the successful implementation of the new Teller application. This project commenced with two pilot branches in December 2019. Following the two branches' successful performance, the project team rolled-out the new teller application to all branches, concluding with the final four branches in February 2020. The new system will reduce cost-to-serve and introduce a modernised micro-services application, which is scalable and quick to deploy.
- Debit Card Fraud Monitoring System Migration:** the Separation team successfully migrated the debit card fraud detection and monitoring tool from the Barclays PLC's United Kingdom Data Centre in March 2020. Key benefits include improved security with the introduction of industry-standard enhanced firewall security measures, and an improved infrastructure stack within the South African Data Centre, with a fully functional Disaster Recovery environment.
- Card issuing (credit card system):** The Bank replaced the Barclays PLC credit card system in June 2020 with a system that reduces complexity and enables the greater standardisation and certification for mandatory scheme compliance.
- FX Product:** the final critical systems project was replacing the electronic trading platform capability relating to the Fixed Income Currencies and Commodities business. The new platform will generate foreign exchange pricing information, support foreign exchange trade, deliver enhanced revenue protection, differentiate Pan-African Foreign Currency and International Banking customer/client value proposition, and increase operational efficiency.

Brand and name change

Absa achieved a historic milestone with the successful rebranding of 66 applications, 13 URLs and 1487 emails from Barclays Bank Botswana to Absa Bank Botswana Limited during February 2020.

The new Absa identity unfolded by introducing the warm, vibrant red colour palette of the Absa brand across all branches, ATMs and other public-facing assets. While a great deal has changed, Absa Bank Botswana Limited customers are still greeted by familiar, friendly faces when they walk through branch doors.

A single Group brand has enabled the Bank to build on existing brand-value and increase consumer brand awareness, ensuring a consistent identity across operations. Furthermore, the organisation has galvanised behind a common purpose and growth strategy. Additionally, the new brand will facilitate economies of scale in brand-development and change within the various operational areas.

Higher learning institutions, such as the University of Cape Town Business School and research firms, such as Gartner, recognise the Separation Programme's success, quickly becoming a case study on delivering large, complex programmes of work on time and within budget. The experience of Separation and the lessons learned along the way will benefit the bank for many years to come. Benefits extend beyond Separation from Barclays and the birth of a new brand. They also include building execution strength, new standards and processes for change management, the introduction of automated tooling and digitised ways of work. However, the most significant benefits are intangible. The Separation team's successes have injected self-belief, courage, tenacity, and resilience into the Absa culture. Amongst many other achievements within Absa, Separation has contributed immensely towards bringing the Absa brand identity to life.





Country Management Committee



Keabetswe Pheko-Moshagane

Managing Director

Keabetswe joined the Bank in 2010 and is a seasoned executive with over 12 years' experience in the banking and telecommunications industry. She was previously the Head of Core Banking Applications, after which she held the position of the Head of Technology, overseeing bank projects, programmes, and initiatives to ensure the Bank operates in a stable environment. Prior to her appointment as the Managing Director, Keabetswe held the position of the Bank's Chief Operations Officer (COO).

Keabetswe holds a Bachelor of Administration in Information Technology specialising in IT Management and Business Applications from the Tshwane University of Technology.

Keabetswe recently completed her Master's in Business Administration with the Management College of South Africa (Mancosa) and is currently studying for an Executive Master in Positive Leadership and Transformation with IE University, Spain.

Prior to joining the Bank she consulted for various companies and industries in South Africa.



Cynthia Morapedi

Finance Director

Cynthia joined the Bank in October 2015 as the Financial Controller, and is a Chartered Accountant with over 16 years of work experience. She was appointed as the Finance Director in July 2020. Prior to joining the Bank, she held the position of Finance Manager at African Banking Corporation t/a BankABC, leading a division responsible for financial reporting, business planning, performance and analytics, tax management, treasury operations, governance and control and general administration.

Cynthia holds a Master of Business Administration from the University of Oxford Brookes (UK) and a Bachelor's Degree in Accounting obtained from the University of Botswana. She is a Fellow of the Association of Certified Chartered Accountants (ACCA, UK), having been admitted as a full member in 2006. Cynthia has also completed several leadership programs.



Kealeboga N. Bojosi

Head of Legal and Company Secretary

Kealeboga joined the Bank in 2012. He has read, taught and practiced law in Botswana and England, specialising in Banking, Finance, General Commercial Law and Corporate Governance.

Amongst other qualifications, he holds an LLM from the University of Cambridge and a Doctor of Philosophy from Oxford University and is a Solicitor of the Supreme Court of England and Wales.

He has also completed several executive management courses, including the Oxford Executive Leadership Program through the Saïd Business School, Oxford University.



Country Management Committee *continued*



Lesley Bradley

Corporate Banking Director

Lesley joined the Bank in 2003 and has 30 years experience in the banking industry. She was appointed Corporate Banking Director in 2020 and has held senior positions within Corporate and Investment Banking across various Coverage and Product sectors. Prior to joining the Bank, she was the Regional Head of Cash Management for Standard Chartered Bank overseeing Botswana, Zambia and Zimbabwe.

Lesley holds a Bachelor of Commerce (Management) Degree from the University of Botswana and has completed various leadership training programmes including Management Development Programme from the University of Stellenbosch.



Titose Musa

Head of Compliance

Titose joined the Bank in 2013 and has over 20 years of experience in the banking sector. Her extensive experience includes Organisational Strategic Alignment, Risk Management, Performance and Financial Management Change, and People Management.

Prior to joining the Bank, she held several senior positions at Standard Chartered Bank, including Cluster Head of Operational Risk - Southern Africa, Head of Marketing and Branch Management.

Titose holds a Bachelor of Arts in Humanities from the University of Botswana and a Master of Science in Strategic Management from the University of Derby, and an Anti-Money Laundering Compliance certificate from the Association of Certified Compliance Professionals in Africa (ACCPA).



Tumelo Mokowe*

People Function Director

Tumelo joined the Bank in 2007 and has over 12 years of experience in banking. Prior to being appointed the People Function Director in 2017, he held various positions within the People Function, including Training, Governance and Employee Relations, Head of Human Resources Operations and Employee Relations.

Tumelo holds a Bachelor's degree in Social Sciences (Public Administration and Political Science) from the University of Botswana. He has also completed several leadership programmes, including a Management Development Programme from the University of Stellenbosch and a Basic Certificate in Labour Law from the University of Cape Town.

*As at the date of this report, Mr Mokowe was no longer an employee of the Bank.

**Country Management Committee** *continued***Krishnan Menon****Chief Operating Officer**

Krishnan joined the Bank in 2020 and has over 18 years experience in the banking industry, with a primary focus on retail and corporate banking across multiple geographies including the United Kingdom (UK), Middle East, Asia, and Africa. He was with the Barclays PLC Group for over a decade, having managed corporate operations for the UK and subsequently being the Chief Administrative Officer of Barclays Shared Service Centres in India.

In 2012, Krishnan moved to Africa to lead the operational transformation initiative for the region, which oversees the utilisation of viable digital alternatives to traditional operations.

He holds a Bachelor of Science in Mathematics from Calicut University, India.

**Barati Rwelengera****Head of Marketing and Corporate Relations (Acting)**

Barati joined the Bank as the Chief Internal Auditor in 2016 and has over 15 years of audit experience. In that role, she oversaw the effectiveness of governance, risk management and control over current and evolving risks in the context of the current and expected business environment. She is currently the Chief of Staff and Strategy, overseeing the Marketing and Corporate Relations (MCR) function.

Prior to joining the Bank, Barati worked at Letshego Holding Limited, where she left as the Group Head of Internal Audit. Barati also previously worked for Pricewaterhouse Coopers (PWC), where she provided audit and other assurance services to various clients across all industries in Botswana. She brings a wealth of experience, having been involved in international assignments in the United States of America.

Barati is a fellow member of the Association of Chartered and Certified Accountants (ACCA) and holds a Post Graduate Diploma in Business Administration from the University of Cape Town's Graduate School of Business. She is also a qualified PRINCE2 Project Management Practitioner.

**Leroy Klein****Country Treasurer**

Leroy joined the Bank in 2008 and was appointed Country Treasurer in 2017. He has over 13 years experience in the banking sector, having held middle and senior management roles within the Treasury function.

Before joining the Bank, he worked for KPMG Botswana as a Senior Auditor. Leroy is a Fellow of the Association of Certified Chartered Accountants (ACCA- UK) and is a member of the Botswana Institute of Chartered Accountants (BICA).

Leroy has completed the Executive Development Programme at the University of Stellenbosch Business School and various other management and treasury related courses over the period with Absa.

**Country Management Committee** *continued***Valeta Mthimkhulu****Retail Director**

Valeta joined the Bank in 2020 and has over 20 years of diverse and extensive experience in banking, mostly gained in retail and business banking, corporate affairs, marketing, and project management.

Prior to joining the Bank, she was the country head for retail banking at Standard Chartered Bank, Zimbabwe.

Valeta previously worked for Barclays Bank Zimbabwe for 19 years and was appointed as the Consumer Banking Director for Barclays Bank Zimbabwe from June 2011 to May 2018. She also previously held the role of Regional Head of Corporate Affairs at Barclays Bank, overseeing Zimbabwe, Botswana and Zambia. She has served on various Boards in Zimbabwe in the banking and not-for-profit sectors.

Valeta holds a Master of Philosophy in Development Finance from the University of Stellenbosch Business School and a Bachelor of Commerce Degree in Banking.

**Maungo Mokotedi****Chief Risk Officer (Acting)**

Maungo joined the Bank in 2018 as the Head of Corporate Credit and is the acting Chief Risk Officer. He has 20 years experience in the financial service sector, 18 of which were in banking.

Maungo has supported strategic priorities, business growth and led diverse teams at middle and senior management level across three banks and one top tier micro-lending and financial services business.

Maungo is an accountancy graduate from the University of Botswana and holds a Master of Science in Strategic Management from the University of Derby, UK.



Delivering possibilities and shared value

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Cynthia Morapedi
Finance Director

Absa Bank Botswana delivered strong results in the 2020 financial year, despite the challenging economic and competitive environment.

Finance Director's report

The COVID-19 pandemic significantly changed the course of the global economy in 2020, resulting in massive decline in economic activities across the globe at levels higher than the ones brought by the financial crisis of 2007/2008. COVID-19 impact was not only on the economic front, but its worst impact has been on the health challenges it posed to the human race, moreover the future effects of the outbreak remain uncertain.

Overview of 2020

The International Monetary Fund estimates that global economies contracted by 3.5% in 2020. Coming into 2020, Botswana economy was already under pressure with very high unemployment rates, an economy struggling with diversification as well as subdued local and regional economic activity. All of these posed very tough trading and operating conditions and the outbreak of COVID-19 further exacerbated these. Botswana government like most governments rolled out various measures to contain the spread of the virus and preserve livelihoods, to this end we saw policy rates reduced by a cumulative 100 basis points over the last year. For the most part of 2020 we saw inflation below 2%, which signaled the subdued economic activity.

Our financial performance for 2020 must be reviewed in the context of this extremely difficult operating environment, as well as the strategic execution of key projects to separate from Barclays Plc. Despite these challenges I am proud of the resilience of both our colleagues and our Bank that is reflected by the financial performance for the period under review. With the outbreak of the pandemic our immediate focus went to ensuring the safety of both our colleagues and customers and ensuring that we wear a long term sustainability lens for the Bank. Consequently, we focused on preserving capital and liquidity and protecting our balance sheet, maintaining operational excellence and supporting the communities in which we operate.

COVID-19 lockdowns and a weak economy reduced our transaction volumes materially and impacted our loan conversion rates significantly from the second quarter of 2020. Although our earnings fell drastically, we did see some positive undertones including a solid response strategy, managing the number of infections, the momentum on deposits and loans slightly ahead of industry averages, as well as the responsiveness of our business operating model to the

"new normal" and most importantly the manner in which we came out to support our customers during this difficult time with extension of various debt relief programs.

These factors combined have beefed up both our resilience and responsiveness to change.

Consolidated statement of comprehensive income

Revenue resilient

Despite the challenging, tough trading and operating conditions, our total revenue line showed resilience registering a year-on-year decline of only 3%. Amidst margin compression due to the Bank of Botswana's efforts to support the economy by issuing rate cuts, our net interest income declined by 1% compared to December 2019 on the back of increased customer loans albeit at lower margins than in previous reporting period.

Although our interest expense up ticked slightly in 2020 by 3%, we noted a 10 basis points improvement in our structural cost of funding year-on-year out of the increased momentum on deposits and the decline in policy rates and this impacted net interest income positively.

Fee and commission lines were adversely affected by the COVID-19 containment measures that hampered the ease of doing business. Transactional volumes dampened and trading margins were squeezed further on the back of subdued macro-economic variables. This tremendously affected our transactional banking business due to the significant reduction in branch foot fall together with fall in business volumes. This impact transcended to our trading fee line which fell by 17% compared to December 2019. Net fee and commission income overall closed 2% down compared to the same period last year.



Finance Director's report continued

Strong operational and financial resilience

Digital channels number of customers



Balance sheet growth



Customer loans

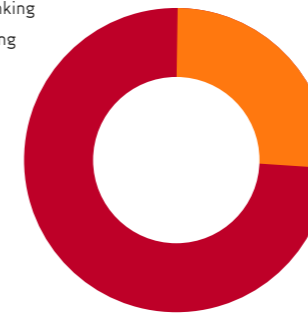


Customer deposits



Revenue by segment (%)

- 26 Corporate Investment Banking
- 74 Retail and Business Banking



Revenue split by Net interest income/Non funded income (%)

- 33 Non funded income
- 67 Net interest income



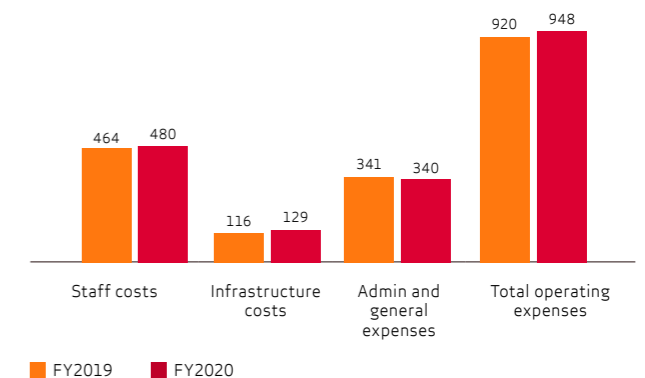
Included in the 3% rise are once off costs incurred in relation to a voluntary staff separation scheme in 2020.

Our infrastructure costs increased materially in 2020 by 11%. This increase is on the back of the investment made in technology platforms to ensure seamless transition as we separated from Barclays Plc as well as the significant costs incurred to rebrand and revamp our physical estate as we prepared for the launch of the new brand, which was successfully concluded in February 2020.

General and other administrative expense remained almost flat year-on-year as we continued to build operational capacity and excellence of the Bank and ensuring we have operating models that are not only responsive, but fit for business purpose.

On the overall, operating costs were well contained with the business achieving a cost to income ratio of 60%. The Bank has absorbed substantial incremental run costs in the past three years due to separating from Barclays PLC. As this exercise has been concluded we anticipate our cost to income ratio to continue to improve in the near-future.

Operating expenses (P'million)



Operating expenses well contained

Year on year our operating expenses increased by 3%, which is in line with average inflation rates for 2019/2020. This performance is reflective of our prudence and cost containment strategies given the cost hurdles we had to manage during the period under review.

In response to COVID-19 the cost of compliance went up as the Bank needed to make cost investment in adhering to health protocols to ensure both our customers and employees are safe as well as providing necessary support to enable the new ways of working and coping with the challenges imposed by the outbreak of the pandemic. Staff costs increased by 3%.



Finance Director's report *continued*

Expected credit losses swelled on the back of significant increase in credit risk

Credit impairments increased significantly, exceeding our combined expected credit losses over the past 3 years. This increase was driven primarily by the increase in credit risk as customers went into distress due to economic outturn and significant impact of COVID-19 on businesses. We were resolute as an entity in terms of how we wanted to support our customers and the government of Botswana in initiatives that preserved livelihoods and contained the spread of the virus.

The Bank's response was offering our customers credit relief in the form of payment holidays and or loan restructures especially for customers in deeply affected sectors.

The Bank extended debt relief measures to more than 1000 customers on the Bank's loan book in excess of P1.6 billion. This remained the principal driver for the significant increase in credit risk, which swelled up the credit impairment number for 2020.

The negative downturn of macro-economic variables predominantly GDP coupled with significant increase in credit risk across our portfolios required us to prudently recognise impairment provisions.

At a total of P263 million and 674% year-on-year growth, credit impairments remain the biggest driver of the decline in our profitability for the current year.

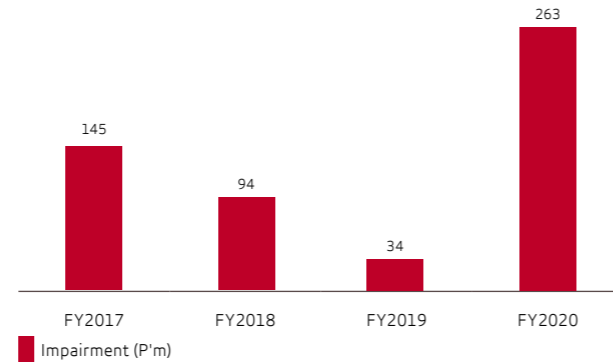
The bulk of this increase was predominantly in the Retail sector which accounted for over 70% of total credit impairments increase.

“ The Bank extended debt relief measures to more than 1000 customers on the Bank's loan book in excess of P1.6 billion. This remained the principal driver for the significant increase in credit risk, which swelled up the credit impairment number for 2020. ”

Profits decreased on account of increased expected credit losses

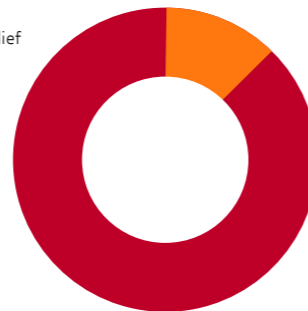
Although earnings fell drastically by 43%, the Bank noted a 12% drop in pre provision profit which is reflective on the overall drop in profitability in the industry.

Impairment (P'million)



Payment relief portion of the loan book (%)

12 Loans with customer relief
88 Loans without customer relief

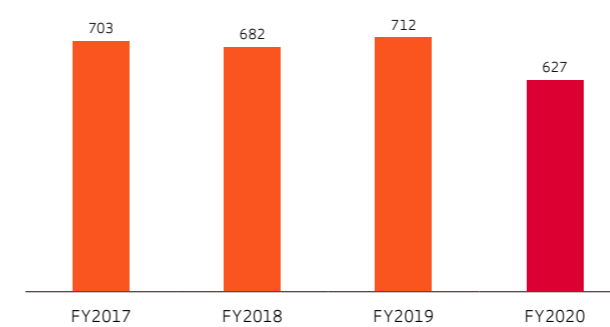


Finance Director's report *continued*

Return on equity dropped due to drop in profitability, but remained in the double-digit range at 12%.

The fall in earnings reflects our commitment to continue to play a pivotal and supportive role in the lives of our customers and the communities in which we operate in. We are proud as a Bank of our customer response strategy as this speaks to the future sustainability of our economy.

Pre-provision profit (P' million)



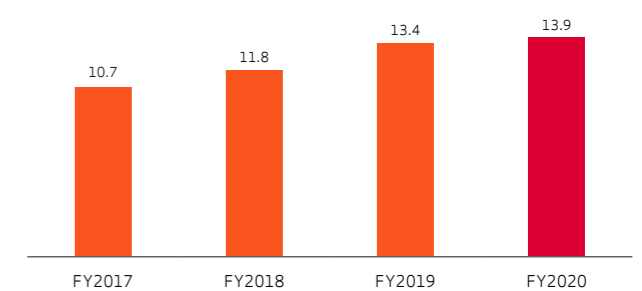
Consolidated statement of financial position

Encouraging momentum on customer loans and advances

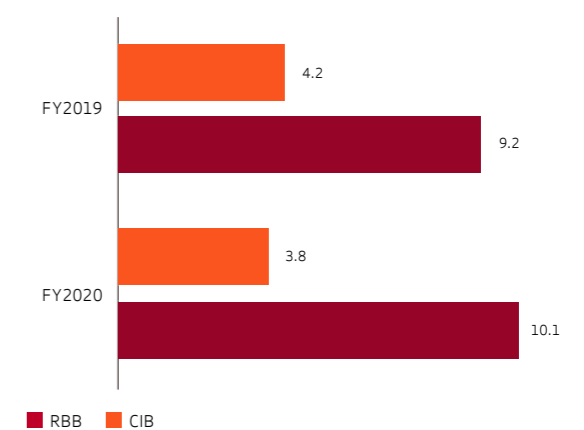
The Bank's balance sheet showed strong resilience despite COVID-19 challenges with a growth of 9% year-on-year exceeding the P20 billion mark.

Gross customer loans and advances grew by 5% year-on-year to P14.6 billion from P13.9 billion amidst subdued market growth and margin compression. Consistent with prior years, they remain the principal driver for our total asset growth. We have seen growth in the Retail and Business Banking segment (RBB) segment albeit in the last two quarters of 2020. Loan book growth in our Corporate Business remained subdued due to emerging risks and most clients taking a hold position on expansion plans.

Net loans and advances (P' billion)



Segmental loans (P' billion)



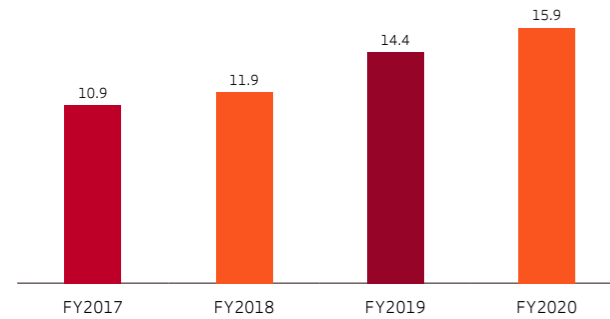
Robust growth in deposits

2020 delivered a strong performance from a customer deposits perspective, substantial growth was noted in all segments, which underpins the Bank's overall strategy for funding efficiency and targeted growth. We noted an overall 11% growth in our deposit base compared to December 2019, giving a 7% positive balance sheet jaws. The Bank's Corporate and Investment Banking (CIB) business experienced the highest momentum on deposit bookings during the year.

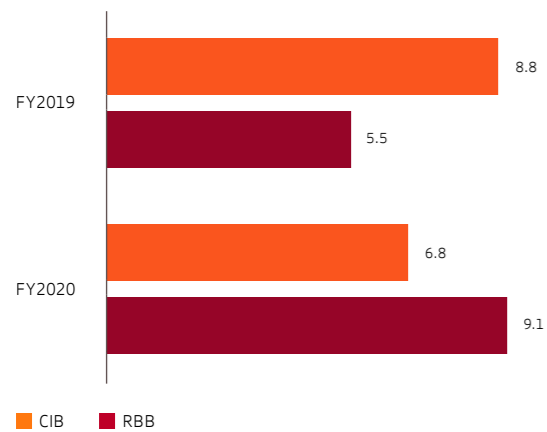
This growth was underpinned by continued business efforts to grow deposit and ensure an efficient balance sheet structure that will deliver sound business growth.

Finance Director's report *continued*

Customer deposits (P' billion)



Segmental deposits (P' billion)



Capital and liquidity management

Strong capital positions to support growth

Managing capital and liquidity was a key priority for us in 2020 given the risks associated with the pandemic outbreak and the continued scarcity of capital world over.

We maintained strong capital positions for the period under review with total capital ending at P2.9 billion signaling a Capital Adequacy Ratio (CAR) of 18% against a regulatory limit of 12.5%. To support growth in 2020 and to enable banks to continue to operate with ease Bank of Botswana revised the CAR requirements down by 2.5% to 12.5%

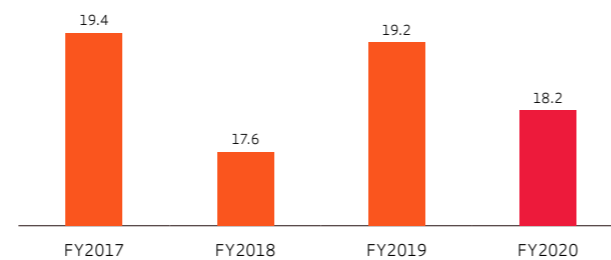
Common Equity Tier 1 ratio decreased to 13.8% from 15.4%, although it remained comfortably above regulatory requirements.

Liquid assets remained stable over the period despite the significant liquidity mop we saw in the market. Our Liquid Asset Ratio (LAR) closed at 16% which is above the regulatory requirements of 10%. To boost liquidity, we also noted the Central Bank's action to reduce reserve requirements by 2.5%.

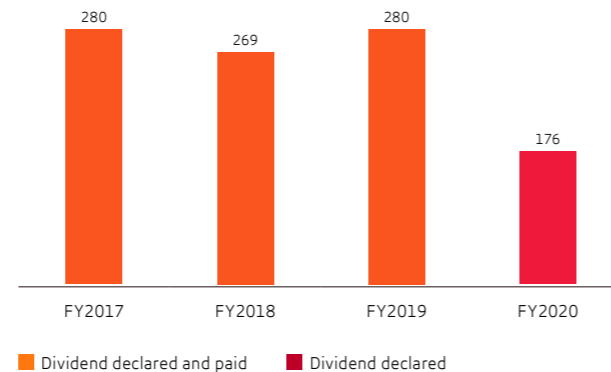
Dividend

Given our strong capital position and taking into account future profitability of the business, a differentiated final dividend of P176 million was declared as at year end. In accordance with Absa Group Limited's stated principle of treating minorities fairly in respect of the separation costs incurred by the Bank, following the Barclays PLC separation from Absa Group, the Bank's Board resolved to declare a differentiated dividend such that minority shareholders received a final dividend of 26.499 thebe per share and Absa Group received a final dividend of 17.799 thebe per share. No dividend was declared for half year.

Capital Adequacy Ratio (%)



Dividend declared and paid (P' million)



Outlook

Optimistic but remain cautious

There remains substantial uncertainty about the global economic outlook, which depends on the roll-out of effective vaccines and additional policy support. The timely rollout of an effective vaccination programme is critical to resuscitation of most economies, Botswana included.

Finance Director's report *continued*

The risk of subsequent waves of infection remains as evidenced by recently emerged variants of the virus around the world. The COVID-19 outbreak has led to a significant decrease in GDP in many markets, although regions and sections have rebounded to differing levels from their previous low points. We anticipate that in the medium to long term, employment and consumer spending will remain under pressure while business confidence and investment is likely to rebound in a slow and steady, but upward trajectory. Economic forecasts have stabilized in recent months and monthly changes to forecasts have become smaller, with a partial rebound broadly predicted for 2021 and this gives positive sentiments regarding the stability of future macro-economic variables as we forge ahead.

GDP levels are unlikely to return to pre-COVID-19 levels until later years in many markets. While the longer-term effects of the outbreak on businesses are uncertain, our financial position and strategy should allow us to still bring our customers first and make their safety our priority, while being able to support and service them with the relevant tools needed on a day to day basis. Management of capital and liquidity remains a key focus area and is being continually monitored.

The Bank is aware of the challenges in the future as COVID-19 continues to foster economic and health uncertainties. However, based on the macroeconomic assumptions, regulatory developments, our solid strategy and outlook for 2021 remains optimistic anticipating moderate levels of growth. Following from this, the Bank anticipates that:

- Net interest income will continue to be under pressure given the low interest rate environment.
- Non-interest income growth is expected to improve, but likely to remain low.
- Low single growth in operating expenses, resulting in flat operating JAWS.
- Our credit loss ratio is likely to improve.
- Return on Equity is expected to remain in the low double digit range.
- We anticipate Common Equity Tier1 capital ratio to remain stable.

The need to comply with safety protocols provided the Bank with an opportunity to ramp up on digitalization drive and bringing convenience to our customers. We enabled our digital platforms for use to our customers while giving sizeable discounts on transactional fees at the same time. This resulted in a 34% uptake on digital platform usage for the year 2020. The Bank also saw a 7% increase in our total number of customers year on year.



Corporate and Investment Banking

Resilience and sustainability: 2020 was without doubt, a very challenging year for the Corporate business as a number of key economic sectors such as Trade, Mining and Hospitality were severely impacted by COVID-19, which led to businesses having to review their plans and in certain instances take a ‘wait and see’ approach. This invariably had an impact on our anticipated outlook.

The Corporate business reported a revenue decline of 8.6% as both net interest income and non-funded income were strained by reduced commercial activity and margin compression. This was as a result of a number of Central Bank rate cuts coupled with concessions aimed at providing some relief to clients to navigate through the challenges brought about by the pandemic.

Despite the challenging economic conditions, the Corporate business focused on restructuring debt facilities of those entities that were adversely impacted, which is reflected in our year on year impairment line as well. A considerable effort was spent on building partnerships with clients and strategic partners for the provision of solutions that enabled remote, efficient and safe processing of transactions.

Customer deposits remained under pressure with subdued corporate activity. The Bank saw entities tap into their reserves for sustainability, whilst customer loans declined by 9.1%, reflecting delayed implementation of strategic projects by clients.

In the Markets business, performance was impacted by the significant decline in foreign exchange volumes that resulted from the travel and movement restrictions imposed globally to counter the effects of the COVID-19 pandemic. The global economic uncertainty that ensued resulted in businesses adopting a more cautious approach where they postponed or cancelled cross border payments, where possible. Despite these tailwinds, the Bank was able to successfully assist it's

clients in navigating and managing the heightened Global Market risks that were prevalent during the course of the year.

Our focus for 2021 remains on forging partnerships with clients through structuring the right banking solutions and bringing customer centric transactional banking solutions that focus on providing a positive customer experience.

Awards and achievements

- The Bank was named “Best Investment Bank” for the third consecutive year by the Europe, Middle East and Africa (EMEA) Banking African Finance Award. This award recognizes the demonstrable success of our efforts to consistently find new ways to help our clients access debt and equity capital they need to grow against the highly challenging backdrop of COVID-19. The award also recognizes the success of our long standing client relationships, and efforts to contribute to the development of Botswana’s market.
- The Bank was named the “Best Trade Finance Bank in Botswana” in the Global Finance’s 21st annual World’s Best Trade Finance Providers Survey.
- The Bank was recognised as a “Leading provider of Cash Management Products and Services in Africa” by Euromoney Cash Management Non-Financial Institutions Survey.

“A considerable effort was spent on building partnerships with clients and strategic partners for the provision of solutions that enabled remote, efficient and safe processing of transactions.”



Retail Banking

The COVID-19 pandemic has challenged the way we work, do business and socially interact with our customers and colleagues. The "new normal" began with an uncomfortable feeling of change and anxiety about what the future holds.



Ultimately, we have realised and will continue to realise that change is inevitable; hence, the need to always find a way of getting things done. With the help of sound business resilience measures, we have stood firm by our customers by rapidly adapting strategies to address the challenges and opportunities created by the current crisis. We remained resolute in 2020, focusing on Africanacity - helping our customers find a way of getting things done – no matter the challenges we face together.

As a bank, we have accelerated our investments into digital platforms and technologies to strengthen resilience and thrive in the future. We saw a 34% growth in digital usage during the period under review, which indicates that customer preferences are growing towards self-service channels. This evolution followed the launch of various platforms such as the Absa SkyBranch, which offers a wide range of services through the contact centre, Abby (Chat Banking), contactless payments and other user-friendly services.

We saw muted growth in total income driven by a 2% year-on-year decline in net interest income. Our deliberate focus on digital usage and payments led to non-funded income growth of 4% year-on-year, mainly from debit card income. These results followed an increase in customer numbers by 7%. In line with the Bank's focus on providing benefits for our customers and deepening relationships, we have on-boarded various reward partners spanning multiple industries from restaurants, travel, health and beauty spas, and hotels.

We launched an extensive COVID-19 payment relief plan for customers negatively impacted by the pandemic and a 3-month discount on our digital platforms to facilitate banking at the customers convenience. We launched the Absa Chat Bot (Abby) during the same period, which allows customers to inquire about the Bank's products and services and transact on WhatsApp without visiting the branch. Our customers can also request personal loan top-ups via our Internet Banking platform and do not have to visit the branch for this request. From the above enhancements, it is evident that digital platforms offer better customer engagement, with customers increasingly inclined to use these channels. Furthermore, to support the resumption of economic activities in the informal sector post-COVID-19, the Retail function, in partnership with the Citizen Entrepreneurship Development Agency (CEDA) Letlhabile programme, introduced the Remmogo Current Account to beneficiaries of the Informal Sector Stimulation Programme (ISSP). CEDA utilises the Remmogo Current Account to distribute loan disbursements to approved beneficiaries, allowing the Bank to provide continued banking services beyond the programme.

Outlook

The COVID-19 pandemic has accelerated changes to the banking sector's operating model following changes in consumer preferences and priorities. As a Bank, we are agile in delivering bespoke products and services that respond to changing customer preferences. Our focus will remain mainly around innovation to ensure that we create products that offer value for money to our customers. We believe that digital adoption is a cornerstone for banking going forward and therefore have a clear focus on growing our self-service capability. The need to diversify income streams that respond to enhanced customer experience remains imperative and a key focus area. Our employees remain integral to the service that we offer clients and how we embody Africanicity in the way we serve our valued clients, primarily through our focus on digital experiences. In 2021, we look forward to delivering even better services to our clients, with a resolve to innovate and find solutions that make us the leading financial services provider in transactional banking.

“As a bank, we have accelerated our investments into digital platforms and technologies to strengthen resilience and thrive in the future.”



Business Banking

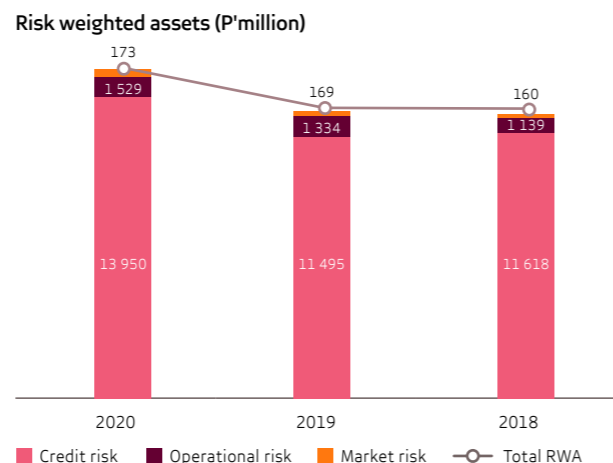
Business Banking continued to focus on the key chosen priority sectors of agriculture and the Corporate Investment Banking value chain to grow the balance sheet and income statement. The Business continues to drive the Relationship Banking model remaining attentive on enhanced product development and improving client service.

Over the last year, Business Banking has driven the Purchase order finance, the Absa Internet Banking product, Enterprise Supply Chain Development programme (ESD), and Commercial Asset Finance (CAF). We have also signed a Memorandum of Understanding with Debswana to drive their Citizen Economic Empowerment Programme - Kamoso - to enable Small and Medium Enterprises (SMEs) to access their supply chain. The Local Enterprise Authority (LEA) and Tokafala support this programme with capacity building and mentoring of SMEs, training 526 companies in total. In a continued effort to drive the ESD programme, we have disbursed at least P100 million to assist mainly SMEs businesses, which we see as key to Botswana's economy.

Looking ahead

The ESD programme remains a crucial focus for the Bank, given corporates' economic development opportunities. We will continue to engage with these corporate entities to support SMEs in accessing their value chain, which will diversify the ESD portfolio. Business Banking will use its momentum to promote digital platforms as an easy way of doing business through business internet banking, Absa Access, NovoFX App, and e-commerce, to mention a few. This evolution of our Business has seen a reduced emphasis on customer use of branches, driven by the COVID-19 pandemic. Moving forward, we will continue to review our chosen sectors and take the necessary actions to assist our clients through the COVID-19 pandemic.

“Over the last year, the Bank has driven the Purchase Order Finance, the Absa Internet Banking product, Enterprise Supply Chain Development programme (ESD), and Commercial Asset Finance (CAF).”



Treasury and Balance Sheet Management

The COVID-19 pandemic was at the forefront for the most of 2020, particularly concerning the Bank's approach to liquidity and capital management.

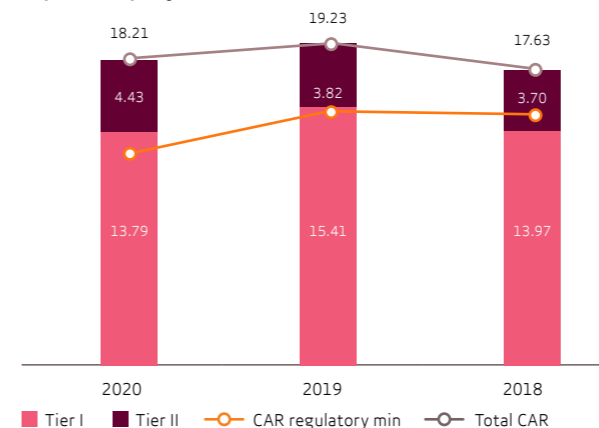
The Bank enhanced its approach to stress testing scenarios and early warning indicators to reflect the specific COVID-19 stress in the first half of the year to ensure the Bank maintains sufficient liquidity and capital buffers. The Bank also increased monitoring and reporting in terms of frequency and number of stakeholders. These elements were implemented to ensure that the Bank dynamically manages the risks associated with COVID-19. Overall, the liquidity and capital ratios for 2020 reflect decisive actions taken by the Bank to ensure that we can support our customers during this challenging period whilst maintaining healthy buffers.

Capital adequacy position

The Bank remained well capitalised throughout 2020, ending the year with a Capital Adequacy Ratio (CAR) of 18.2% (2019: 19.2%). The Common Equity Tier 1 (CET1) ratio of 13.8% was significantly above the regulatory minimum limit of 7.5%. The Bank manages its capital position to an internal limit that includes a Board approved buffer. This buffer is established after considering several risk types that could potentially impact capital levels under stressed scenarios.

The Bank actively managed its capital composition and consumption levels through its Balance sheet management initiatives focusing on Risk Weight Assets (RWA) optimisation and maintaining an optimal capital structure mix in 2020. The Total CAR remained strong in 2020, above the regulatory requirement of 12.5% at year-end; this is despite a 4.06% growth in total customer assets year on year. The Bank issued a Tier II instrument of P 216 million in 2020 to support overall balance sheet growth ambitions in the short to medium term, which contributed to the banks healthy capital adequacy ratio (CAR) position for 2020.

Capital adequacy ratio (%)

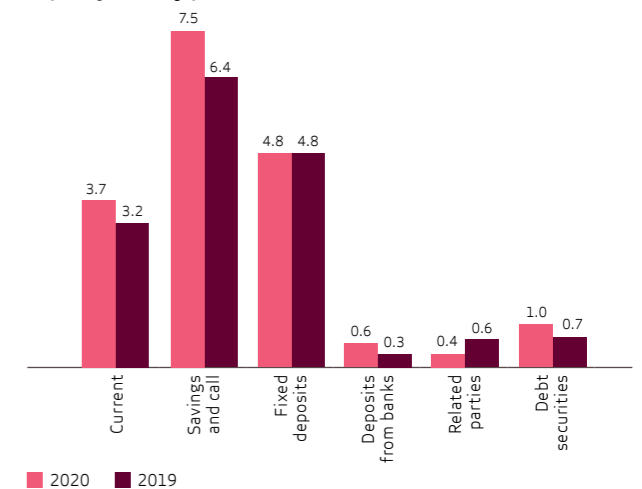


Liquidity and funding position

Optimising the funding profile of the Bank within structural and regulatory constraints to ensure efficient and sustainable operations remains a crucial priority for the Bank. The Bank closed the year with healthy funding and liquidity positions, reporting a Liquid Asset Ratio (LAR) of 15.8% (2019: 18.9%), which was well above the regulatory requirement of 10% and internal limits.

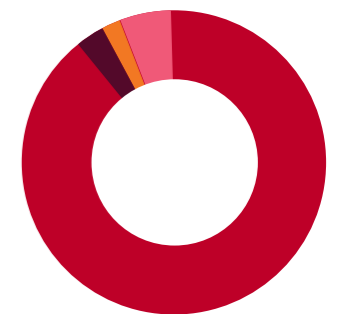
The Bank was able to contain the cost of funding within reasonable levels, which was achieved by optimising the funding profile and targeting cost-efficient liabilities.

Liquidity liability profile (P'billion)



2020 Liquidity liability contribution (%)

- 89 Customer liabilities
- 3 Deposit from banks
- 2 Related parties
- 6 Debt securities





The Bank will continue to optimise its capital structure, seek appropriate and cost-efficient funding, maintain a liquidity maturity profile to meet the Bank's growth aspirations and implement sustainable balance sheet management strategies within the Board-approved risk appetite.

Customer liabilities were up by 10.6% year-on-year, with the most significant contributors to the increase originating in savings and call deposits, current accounts and debt securities. Furthermore deposits owing to related parties saw the largest decline year on year, on the back of a decline in foreign currency lending. The Bank's liability base continues to be dominated by customer liabilities, which are considered as stable funding behaviourally. The Bank's liability profile continues to reflect a well-diversified funding mix.

Looking ahead

The Bank will continue to optimise its capital structure, seek appropriate and cost-efficient funding, maintain a liquidity maturity profile to meet the Bank's growth aspirations and implement sustainable balance sheet management strategies within the Board-approved risk appetite.

The year ahead is expected to be governed by strategies to effectively manage the challenging economic environment brought on by the COVID-19 pandemic. Capital and liquidity preservation remain a top priority for the Bank.



Risk review

The negative impact of COVID-19 tested the Bank's resilience in 2020. However, we are proud to report that our risk and governance structures positioned the Bank to offer sustainable support to our staff and customers despite the challenges.

As discussed throughout this report, economic activity in 2020 was adversely impacted by the COVID-19 pandemic, a trend we anticipate will continue to pose challenges to fiscal performance in short- to medium-term. Tourism and Mining were the hardest hit sectors, impacted by the containment measures directly and protocols put in place to control the spread of the virus. Some of the Bank's customers operating in these sectors needed to revise their growth plans to accommodate the rapidly changing economic landscape, enabling them to adapt to evolving trading realities.

Impairment management and coverage

A considerable amount of the Bank's customers were directly affected by the economic effects of COVID-19, which impacted their ability to maintain their loan repayments. The Bank deployed a customer-centric Forbearance Programme to realign credit facility structures with prevailing market conditions and affordability during the period under review.

Whilst the Bank extended exhaustive customer centric debt relief programs, this subsequently affected the asset quality of the book. Additionally, the Bank undertook precautionary forward looking impairment provisions to adjust the anticipated period of stress in the market as well as downstream systemic risk that was bound to arise. To aid various government support initiatives, the Bank executed relief cash flow, removing working capital pressures from stressed entities during the period. These collective measures ensured adequate prudential impairment cover to manage existing and future credit risk of the Bank, albeit leading to the significant increase in impairment charge for the period. While the environment was challenging, our agility, responsiveness and relevance anchored on a robust risk appetite framework helped us achieve our strategic priorities.

In 2020 the Bank continued to focus on the following strategic risk-related goals:

- **Embedding the Enterprise Risk Management Framework** with emphasis on sustainability, prudent and proactive risk management tools;
- **Solution-based offerings** for materially impacted sectors;
- **Capital preservation and optimisation** to drive growth across several sectors;
- Invoking the **Business Continuity Management Plan** to deliver superior performance under extraordinary circumstances; and
- **Proactive and forward-looking view on impairment, modelling and forecasting** to adequately identify, assess and quantify ongoing risk across the portfolio.

Capital optimisation was a critical aspect of our work during the period, assisting the Bank in aligning expected demand, including stress testing while managing overall capital costs for the Bank. As a result, the management of Risk-Weighted Assets across the risk types enabled efficient capital deployment within expected returns.

Outlook

The outlook into 2021 is expected to remain strained; however, considerable underlying optimism exists, largely dependent upon COVID-19 vaccine rollout and its anticipated benefits in fast-tracking a return to some form of normality. Given our performance during this challenging period, the Bank is expected to respond positively to emerging risks in 2021.

The Bank remains resolute in its digital migration process, the importance of which was underlined in this past year. The Bank also remains focused on delivering automated credit solutions to meet rapidly changing customer demands whilst still adhering to sound risk principles and regulatory requirements.



People Function report

The year under review has been challenging following the outbreak of COVID-19 as the People Function worked to find adaptive ways to support employees during these unprecedented and challenging times while keeping focus on meeting strategic initiatives.

Talent, learning and leadership

The People function was able to facilitate talent and succession discussions for the first half of the year. This achievement is in line with the new talent framework, giving the business a balanced insight into succession requirements and the current talent bench-strength.

Some of the Bank's top performers have participated in leadership programmes sourced through the Absa Leadership Academy to support succession development and planning.

In February, eight graduates joined the Bank's Gen A graduate programme. This programme provides continuous development opportunities, grooming graduates, and infusing much-needed diversity into the workforce as we ready ourselves for the Volatile Uncertain Complex Ambiguous (VUCA) world.

To embed talent practices and facilitate easier information retrieval such as skills, careers, job interests, and while allowing for faster talent acquisition and talent management decision making, the Human Resources Department launched the Workday talent module. The talent module will enable employees to update their skills, education, career aspirations and individual development plans, to name a few. This tool ensures that line managers have instant access to current talent information. The system also allows line managers to capture succession and retention plans, potential assessments and other relevant information, which line managers can utilise during talent review and calibration discussions.

Learning and development have had to start adapting to new ways of developing skills in the organisation. Microsoft Teams has made it possible for virtual programmes to reach colleagues wherever they are. The Absa Leadership Academy also has quickly and diligently re-worked the instructor-led training to a blended virtual and online training delivery. Colleagues across Absa are now reaping the benefit from this transition.

To bring our Absa learning philosophy to life, promoting self-driven learning and ramping-up colleague engagement, we successfully launched and delivered two learning weeks in March and October. Each learning week included topics to promote self-directed learning in the VUCA world and covered various other issues such as managing stress, personal mastery, and growth mindset vs fixed mindset. The Bank supported learners throughout this process by launching the Absa Digital Campus (ADC) Platform. ADC is a learning and development platform that can diagnose learners' current competency level and automatically package bespoke relevant learning content based on their learning style and existing skills. Absa implemented the platform to provide colleagues with current and future skills. The platform includes learning content from global learning institutes such as Harvard

University and International Business Management (IBM). Over and above the ADC, the Bank also launched a mobile learning app, facilitating 'learning on the go'.

All employees continued to benefit through the internal Learning Management System. Various businesses also benefitted from training through the learning partnership we have with Retail Banking Academy, Moody's, Cornerstone, IMD, Duke University and many other renowned institutions. The business also decided to purchase Udemy licenses for employees to enhance themselves further and continue with the re-skilling and upskilling mandate.

Employee engagement

The Bank is committed to building employee engagement throughout the organisation and embedding it in the corporate culture. As part of this commitment, the Bank provided support to employees in various ways during the pandemic, including providing tools to stay digitally connected and contributions to welfare. Furthermore, the Bank offered regular information and updates to all employees to help them keep connected to the world during extreme social distancing periods. Numerous virtual engagements with employees have been taking place as one of the ways to keep them connected and informed. Town halls have also been migrated to our online platforms to assist management keep regular checks with employees. As part of our culture change journey, employees completed an engagement survey in the last quarter of the year, which will see the results and subsequently initiatives to improve the results shared and implemented in the coming year.

Employee relations and wellness

A key focus has been to ensure our colleague community's safety and wellness during the pandemic

The Bank remains committed to growing its partnership and strengthening its relations with its stakeholders, including Botswana Bank Employees Union (BOBEU). Our collaboration with BOBEU has resulted in the parties successfully concluding salary negotiations and regularly engaging on other employee matters.

In addition to an intensified awareness drive, the Bank provided safety supplies (masks and sanitizers) to all employees and closely followed Government guidelines and Bank health protocols. The Bank also offered employees access to an in-house medical practitioner for easy access and psycho-social support for them and their families.



People function report *continued*

Reward

Our focus on reward aims to secure an effective, engaged and motivated workforce, remaining a critical component of our people strategy. In line with the Bank's reward philosophy, salary increases and performance bonuses were processed as planned according to the Bank's performance. Incentives schemes and colleagues' recognition continued to be delivered across the business in different forms to keep them engaged and motivated during this pandemic.

“ **Employees now utilise digital platforms delivering a seamless, digitally enabled, data-led colleague experience that empowers them and accelerates growth.** ”

Systems

As highlighted in the Managing Director's report, following the successful launch of Workday in 2019, employees now utilise digital platforms delivering a seamless, digitally enabled, data-led colleague experience that empowers them and accelerates growth. The change and adoption of the new process have allowed people managers to access information and various reports, enabling them to analyse their respective areas and formulate appropriate decisions. The new ways of working have reduced the manual processing that was time-consuming and costly to the business.

This year, the Bank launched the Workday mobile application, providing easier access to Workday and increasing uptake across the business. Further improvements in the People Function included the launch of the learning system and the People Portal.





Citizenship

2020 has been a challenging year mainly due to the COVID-19 pandemic, which negatively impacted our business and the communities in which we operate. Whilst our Citizenship agenda and our ambition to continue to play a shaping role in society remains a priority, we have had to align our activities to address the pandemic's challenges.



Therefore, our focus has been to support our government's efforts by donating P1.5 million to the COVID-19 Relief Fund. The Bank also donated 10,000 masks for children and 3,000 masks for teachers to the Ministry of Basic Education.

The virus has also impacted our F.G. Mogae scholarship recipients, and whilst some managed to finalise their dissertations and graduate, the majority will graduate in 2021. Our students are studying at the University of Botswana, Botswana Accountancy College, Botswana University of Agriculture and Natural Resources and Botswana International University of Science and Technology.

The young recipients of the Nelson Mandela Scholarship Fund, funded by Absa Group Limited in South Africa, joined us for their second internship. The five scholars joined our People Function, Risk, Treasury and Management Information departments for eight weeks.

The last phase of the Madi Majwana Tour took place in the early part of the year, where Maitisong visited schools to run financial literacy sessions with students. A total of fourteen schools were visited and 5,000 students and their teachers engaged in the communities of Ghanzi, Maun, Palapye, Gaborone and Good Hope.

Despite its largely negative impact, the COVID-19 pandemic has presented an opportunity to appreciate better technology, which has enabled us to continue with some of our Citizenship work. Our ReadytoWork on-line learning programme remains critical to the Citizenship mandate and is available for individuals transitioning from school to the world of work. ReadytoWork has learning pathways, being employability and entrepreneurship. The programme is part of the United States Agency for International Development (USAID) funded DREAMS programme, positively impacting over 4,000 adolescents and youth during this reporting period.

Our inaugural Women in Business webinar took place in the last quarter of the year, under the theme "Re-imagining Business for Women Entrepreneurs". Panelists discussed the role of technology in improving business practise and offered solutions for women in business.

Our employees play an essential role in implementing our Citizenship Agenda, and they did not allow the pandemic to prevent them from being a force for good. Several branches raised funds to purchase much-needed Personal Protective Equipment (PPE) for schools in their community, whilst others participated in virtual mentoring sessions for young people.



“The Bank also donated 10,000 masks for children and 3,000 masks for teachers to the Ministry of Basic Education.”



Board of Directors

Non-executive Directors



Ambassador Alfred Majaye Dube

Interim Board Chairman

Non-Executive Director
Member of the Credit Committee

Alfred joined the Board in 2009 and was appointed Interim Board Chairman on 13 August 2020. He is a Foreign Policy Specialist with a diplomatic career spanning over 40 years.

He has held appointments as Botswana's Ambassador to Sweden and the Nordic countries; United Kingdom (as High Commissioner); the People's Republic of China, Japan, and High Commissioner to Malaysia and Singapore. He also served as Permanent Representative to the United Nations, New York.

After retirement from diplomatic service, Ambassador Dube served as Managing Director of the Lazare Kaplan Botswana diamond company - Lazare Kaplan International, New York. He also served as Director at the Office of the Institute for Security Studies, Addis Ababa - accredited to the African Union.

He holds a Bachelor of Arts Degree with Honours from the University of Essex in the United Kingdom.



Cosmas Moapare

Independent Non-Executive Director

Chairman of the Audit Committee
Chairman of the Ad Hoc Committee on the Appointment of the Board Chair
Member of the Credit Committee

Cosmas joined the Board in March 2020 and is a Chartered Accountant by profession. He is the founder and Chief Strategy Officer of Cosburg (Pty) Ltd. He has held various positions at Botswana Telecommunications Corporation, Botswana Telecommunications Authority (now BO CRA), and the Local Enterprise Authority (LEA), where he was the Deputy Chief Executive Officer.

Cosmas has immense directorship experience with past seats on the boards of Air Botswana, the National Development Bank (NDB) and the Finance and Risk Subcommittee of the Botswana Institute of Development Policy Analysis (BIDPA), as well as the Botswana Institute of Accountants (BICA) Practice Review Committee. Cosmas has also served as the Chairman of the LEA Pension Fund.

Cosmas holds a Bachelor Commerce degree from the University of Botswana and is a Fellow Member of the Botswana Institute of Chartered Accountants (BICA).



Benjamin Monaheng Kodisang

Independent Non-Executive Director

Chairman of the Credit Committee
Member of the Audit Committee
Member of the Ad Hoc Committee on the Appointment of the Board Chair

Benjamin joined the Board in March 2020 and is the founder and Chief Executive Officer of ALT Capital Partners, a Pan African impact investor focusing on economic infrastructure, social impact property and private equity.

He has over 25 years of investment expertise, having been the Chief Executive Officer of Sanlam Alternative Investments, Managing Director of STANLIB Asset Management in Africa, and Managing Director of Old Mutual Property. Benjamin previously served as President and Director of the South African Property Owners Association (SAPOA); Chairman of Western Cape's Trade, Investments and Destination Marketing Agency (WESGRO). He was also the first Chairman of the Johannesburg Securities Exchange (JSE)-listed SA Corporate Real Estate Fund.

He has worked in Botswana, South Africa, Namibia, Lesotho, Swaziland, Kenya, Tanzania, South Sudan, Ghana, Nigeria, India and Saudi Arabia.

Benjamin holds a Bachelor of Commerce Honours degree from the University of South Africa and is a Chartered Accountant by profession.



Sari Helena Nikka

Independent Non-Executive Director

Member of the Audit Committee
Member of the Risk Committee
Member of the Human Resources, Remuneration and Nominations Committee

A seasoned international finance expert, Sari joined the Board in March 2020. She has previously served as the Chief Executive Officer of Norsad Finance Limited (Botswana, Zambia) - an impact investor and regional private credit firm offering medium to long-term risk capital to mid-market growth companies in the Southern Africa region.

Before working for Norsad, Sari was the Programme Director (Finnpartnership) and Senior Investment Manager for Finnfund - a Finnish development financier and professional impact investor investing in responsible and profitable businesses in developing countries. She was also previously a Project Finance Advisor for Finnvera Plc (Finland) - a specialised financing company that promotes Finnish exports to emerging markets and developing countries.

Sari has served on various boards and board committees of companies and investment funds investing in Africa, Asia, Latin America and Eastern Europe. She has a range of experience from project finance, senior debt instruments, mezzanine and equity investments and financing solutions for microfinance institutions and commercial banks.

Sari holds a Masters of Science in Economics and Business Administration from Turku School of Economics and Business Administration in Finland.



Board of Directors continued



Kgotlayarona Ramaphane

Independent Non-Executive Director

Chairman of the Risk Committee
Chairman of the Human Resources, Remuneration and Nominations Committee
Member of the Ad Hoc Committee on the Appointment of the Board Chair

Kgotlayarona joined the Board in August 2018. He previously served as the CEO of the Public Enterprises Evaluation and Privatisation Agency (PEEPA). He also served as Head-Performance Monitoring of PEEPA, where his responsibility included advising the Government on performance and corporate governance issues in parastatals. He has over 30 years of experience in Project and Business Management in Public Enterprises.

Before his appointment to PEEPA, Kgotlayarona served in several high profile positions in leading organisations, including Botswana Railways and Botswana Technology Centre. He has also served as a Board Member of Botswana Privatisation Assets Holding.

He holds a Master of Business Administration (MBA) from the University of Stirling (United Kingdom), a Bachelor of Commerce from the University of Botswana, and a Certificate in High Performance Leadership from the University of Oxford.

He is also a qualified PRINCE2 Project Management Practitioner and a Corporate Governance Practitioner.



Oduetse Motshidisi

Former Board Chairman*

*Mr Motshidisi resigned from the Board on 12 August 2020

Oduetse joined the Board in 2016. He is the previous Deputy Governor of the Bank of Botswana, where he served for fifteen years. During his service, he was directly involved in central banking and actively participated in developing the financial sector in Botswana.

Before he was appointed Deputy Governor, Mr Motshidisi served progressively senior positions at the Bank, including heading the Foreign Exchange reserves management. Mr Motshidisi has served on the Board of Motor Vehicle Accident (MVA) Fund, the Botswana Stock Exchange and the Botswana Institute for Development Policy Analysis (BIDPA). He worked in the Public Service and USAID (Botswana) before joining the Bank of Botswana in 1989.

Mr Motshidisi has a Bachelor of Arts from the University of Botswana and Swaziland and attained a Master of Arts in Public Policy degree from the University of Wisconsin-Madison.



Kenneth Molosi

Independent Non-Executive Director**

**Mr Molosi resigned from the Board on 11 September 2020

Kenneth joined the Board in 2009 and is the chairman of the Absa Bank Botswana Limited Pensions Fund. Kenneth is an expert in ICT deployment and business strategy development, having led consultancies in the public and private sectors in Botswana, Namibia, Tanzania, the USA and South Africa.

He has published several thought-leadership articles on technology, strategy and talent management in local media. A certified Balanced Scorecard Practitioner, Kenneth has facilitated the annual Palladium Balanced Scorecard Boot Camp in Botswana and South Africa. He also holds an MSc in Information Systems from Pace University, USA and a Bachelor of Business Administration from Brock University, Canada.

Kenneth sits on the Advisory Board of the University of Stellenbosch (Executive Development) and is part of the Palladium Execution Premium Community (XPC).



Mohamed Osman

Independent Non-Executive Director***

***Mr Osman resigned from the Board on 2 October 2020

Mohamed joined the Board in August 2018 and is the Group Finance Director of the Sefalana Group of companies, a position he has held since 2013. He is a qualified Chartered Accountant and is a fellow member of both the Institute of Chartered Accountants of England and Wales (ICAEW) and Botswana Institute of Chartered Accountants (BICA). He is also Botswana's representative for the ICEAW and has served on the BICA Technical Committee for several years.

Mohamed has over 13 years of experience in the provision of audit services and has worked as a Senior Manager at leading Audit Firms in the UK, including Ernst & Young Birmingham and KPMG Birmingham; and at KPMG in Botswana. Mohamed is also an Audit Committee member for the University of Botswana.

Mohamed holds an Executive MBA in International Management from the University of Edinburgh and a BCom (Hons) in Accounting and Finance from the University of Birmingham. He has also attended Executive Leadership programs at the Harvard Business School in Boston and the MIT Sloan School of Management in Cambridge, USA.



Corporate Governance report

The year under review saw the Bank remain committed to business integrity and the principles of corporate governance in all activities with direct support from the Board of Directors ("the Board").

The Bank adheres to, and has, adopted local and international corporate governance principles. Locally, as an entity listed on the **Botswana Stock Exchange ("BSE")**, the Bank is subject, and adheres, to BSE' Listings Requirements, and the **BSE Code of Best Practice on Corporate Governance ("the Code")**. The Code provides that every company listed on the BSE's domestic board should have a balanced board. The Bank, therefore, strives to ensure that its Board is balanced and effective and supports the highest standards of corporate governance, comprising all relevant skills and experience. To achieve the requirements of a balanced and effective board, the **Bank also strictly adheres to the Bank of Botswana Guidelines on the Appointment of Directors and Senior Officials ("Bank of Botswana Guidelines")**.

These guidelines apply to all licensed banks and provide guidance on the implementation of the provisions of the **Banking Act (Chapter 46: 04)** with regards to appointment of effective boards.

Additionally, and in accordance with international best practices, the Board ensures that management identifies, measures and monitors a variety risks through several control mechanisms. In doing so, the Bank's Board ("Board") annually reviews, approves and has oversight over the Bank's principal and critical risk frameworks, such as, the Enterprise Risk Management Framework ("ERMF"), the Operational Risk Management Framework ("ORMF"), the Conduct Risk Framework and the Reputational Risk Framework.

Application of King IV

The Bank is committed to adherence to the King IV code of corporate governance guidelines ("King Code"). Additionally, at the Absa Group Limited ("Absa Group Limited" or "Group") level, the Group is guided by several corporate governance policies that ensure compliance with the King Code.

The Board has adopted the Group Governance Framework, developed pursuant to the recommendations of King IV, and as a general governance improvement mechanism for the Group. This Framework standardises the application of policies and standards and ensures the Bank's minimum requirements in governance, internal controls, financial management, human resource management, legal and regulatory compliance, internal audit, ethics management, stakeholder relationships and sustainability are complied with. It provides clarity on the roles and responsibilities of the Group and subsidiary boards, the proportional application of King IV by subsidiaries as well as the management of discretion limits across the Group.

Similarly, the Bank also adopted the Group's Policy on Legal Entities and Directors, which is intended to operationalise key governance principles for effective board and legal entity governance. We are also continuously seeking to improve our

governance practices and to comply with the 17 Principles in King IV. In this way, for example, the Board continuously assesses and evaluates its own performance and that of its committees, its chair and its individual members, support improvement in its performance and effectiveness in line with King IV. Based on this evaluation, the Bank appointed additional Non-Executive Directors to ensure that the Board has the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively evaluation of its own performance and that of its committee. Similarly, through its Risk, Credit and Audit Committees, the Board continuously governs the risk in a way that supports the Bank in setting and achieving its strategic objectives as well as ensure compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the Bank.



Corporate Governance report continued

King IV Principle	Status	Comments
Principle 1: The governing body should lead ethically and effectively	● Applied	The Board sets the tone and leads the Bank ethically, effectively and responsibly. The Board reviews individual Board members' declaration of interests at the beginning of every Board meeting. In decision-making, individual Board members act with independence but on a consensus basis, with competence, commerciality as well as with the necessary awareness, insight and information.
Principle 2: The governing body should govern the ethics of the organization in a way that supports the establishment of an ethical culture.	● Applied	During 2020, the Board approved the Absa Code of ethics, known as the Absa Way and delegated its implementation to management. The Board further approved the Conduct Risk Framework in November 2020 and receives the Conduct Risk report on a quarterly basis from the Head of Compliance.
Principle 3: The governing body should ensure that the organization is and is seen to be a responsible corporate citizen.	● Applied	The Bank is grounded in the communities in which we operate. The Board oversees the Bank's stakeholder policies and takes a stakeholder inclusive approach, recognising the need for transparent disclosure and open channels of communication. The Board is engaged and on an annual basis and signs off the Bank's strategy, inclusive of Corporate Relations. On a quarterly basis, the Board is engaged on citizenship initiatives and strategic updates.
Principle 4: The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.	● Applied	The Board is accountable for the performance of the Bank, considering the possible positive and negative outcomes of the Bank's activities and outputs on the economy, society and the environment in which we operate. The Board and management have a combined strategy session at least annually for appreciation and contribution to the Bank's core purpose and enabling strategic pillars. During 2020, taking into account the COVID-19 pandemic and effects thereof, the Board considered and approved a revised strategic response in May 2020, thereafter, monitoring the execution of the strategic objectives. The Board further considered and approved the strategy and medium-term-plan in November 2020.
Principle 5: The governing body should ensure that reports issued by the organization enable stakeholders to make informed assessments of the organisation's performance and its short, medium and long-term prospects.	● Applied	The Annual financial statements for the year ended December 2020 were approved by the Board and shared with relevant stakeholders on March 30, 2021. The Board is engaged on a quarterly basis on the organisation's performance and any risks to its short, medium and long-term prospects and has ensured that this publication contains reports that will enable stakeholders to make an informed assessment on the Bank's performance.
Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.	● Applied	The Board has approved key policies and frameworks that promote good corporate governance and duly monitor embedment. The Board Charter and Board Committees Terms of Reference are reviewed and approved on an annual basis in order to continuously improve corporate governance in the Bank.
Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.	● Applied	The Board recognized that the number of Non-Executive Directors ("NEDs") are not aligned to the size and complexity of the organisation and commenced a recruitment process, to this end, appointing three NEDs in March 2020. However, with the resignation of three members of the Board at the end of 2020, the Board once again commenced a recruitment process and as at the date of this publication was in the advanced stages of NED recruitment and on-boarding. In the ongoing nomination and appointment of NEDs exercise, the Board has agreed and is making deliberate efforts to promote gender diversity in the consideration and assessment of candidates. This stance was further confirmed by the Board during the completion of the Board Skills Matrix in November 2020, which included gender diversity as a priority in the ongoing NED recruitment exercise. In terms of the current Board composition, 3 of the 7 directors are women.

Corporate Governance report *continued*

King IV Principle	Status	Comments
Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement and assist with the balance of power and the effective discharge of its duties.	● Applied	The Board reconstituted Board Committees in July 2020, after the recruitment and induction of new NEDs. However, with the resignation of three NEDs during the latter part of 2020, this affected the composition of the Board Risk and Board Human Resources Remunerations and Nominations Committees in particular. With the finalization of the recruitment process, the balance of power and effective discharge of duties will be fully restored.
Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members support continued improvement in its performance and effectiveness.	● Applied	In November 2019, the Board engaged an independent and external company, being the Institute of Directors South Africa (IODSA), to facilitate the evaluation of the Board. During 2020, the Board again engaged IODSA to assist the Board with coining an action plan to address feedback of the assessments as shared with the Board. As at the end of the first quarter of 2021, the Board had managed to close over 70% of the identified recommendations.
Principle 10: The governing body should ensure that the appointment of, and delegation to, management contribute to the role clarity and the effective exercise of authority and responsibilities.	● Applied	The Board delegated authority framework is reviewed by the Board on an annual basis. In addition, the Board approves every Senior management appointment and through the Board Human Resources Remunerations and Nominations Committee ensure adequate succession is in place for senior management.
Principle 11: The governing body should govern risk in a way that supports the organization in setting and achieving its strategic objectives.	● Applied	The Board provides guidance to and oversight of the management of compliance risk, remuneration, the enterprise-wide risk management, and the related lines of defense that support good governance practices. The Board actively monitors the control environment and adjusts risk appetite and growth objectives accordingly.
Principle 12: The governing body should govern technology and information in a way that supports the organization in setting and achieving its strategic objectives.	● Applied	The Board actively monitors technology as a key strategic enabler and in 2020, the Board reviewed the Bank's digital strategic objectives against key priorities such as Customer Experience and the completion of the separation from Barclays PLC.
Principle 13: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organization being ethical and a good corporate citizen.	● Applied	The Board recognizes that sound corporate governance practices are vital for creating and sustaining shareholder value and ensuring that behaviour is ethical, legal and transparent thereby reducing the risk of value erosion. The Board is committed to continuous improvement in corporate governance principles, policies and practices, and does so by remaining abreast of evolving regulations and best practices. During 2020, the Board enhanced compliance and regulatory developments through engagement with regulators and industry bodies, and through seeking regular feedback from relevant stakeholders.
Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.	● Applied	During 2020, the Board, reviewed and thoroughly considered and exercised oversight on the critical decisions regarding remuneration, such as the salary mandate, bonus pool and executive remuneration.
Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision making and external reporting purposes.	● Applied	During 2020 the Board exercised oversight and requisite risk management through an Enterprise Risk Management Framework, ensuring: <ul style="list-style-type: none"> • Risk appetite set and monitored. • Combined assurance approach. • Solvency, liquidity and going concern status regularly tested. • Capital allocation deliberated and executed. • Liquidity and funding tested and stressed

Corporate Governance report *continued*

King IV Principle	Status	Comments
Principle 16: In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organization over time.	● Applied	The Board continuously assesses stakeholder feedback in an effort to improve its governance roles and responsibilities. During 2020, the Board met with, considered and deliberated various stakeholder feedback on a number of expectations. As an example, based on such feedback, this publication includes an outline of the Bank's approach to director remuneration and guiding principles thereof.
Principle 17: The governing body of an institutional investor should ensure responsible investment.	Not Applicable	

The Board

The main role of the Board is to provide effective and ethical leadership, acting in a way that is considered, in good faith, and promotes the success of the Bank for the benefit of its stakeholders. During the period under review, the Board achieved this through the following actions:

- once again engaging IODSA to assist the Board with evaluations and coining actions plans to further improve the Board execute its mandate;
- Engaging proactively with the Bank's management to test, challenge, improve, and implement the Bank's strategy;
- Overseeing performance of management;
- Providing challenges, counsel, and support to management;
- Receiving reports from management on matters pertaining to the agendas of Board and Board Committees, including governance, internal control, assurance, risk, capital management, business performance, resourcing, technology and other enablers; and to challenge action taken by management; and
- Testing, challenging and implementing controls, processes and policies that enable risk to be assessed and managed.

Objectives

The main objectives of the Board are as follows:

- Ensure the Bank complies with applicable laws and regulations;
- Discuss, agree to and regularly review the Bank's business strategies so that they remain in line with those of the Group and, where necessary, recommend adjustments for the Bank to keep up with local market considerations;
- Monitor business performance and be responsible to shareholders for creating and delivering sustainable shareholder value, through sound business management;
- Establish and embed the Group corporate management model and behaviours, underpinning the achievement of the Group's objectives;
- Agree proposals that fall within the discretion of the Board; and
- Execute other important control functions.

The Board must ensure that management strikes an appropriate balance between promoting long-term sustainable growth and delivering short-term performance. Accordingly, there should be alignment between the Bank's strategy as approved by the Board and the Group's overall strategy as set by the Group's Board.

Board composition and changes

The size and composition of the Board is prescribed by the Bank's Constitution (as amended and approved by shareholders at the 34th Annual General Meeting) and the Board Charter (as amended and approved by the Board in September 2020), which specifies that the minimum number of Directors shall be five (5) and the maximum number shall be twelve (12), at least half of which shall be resident in Botswana. The composition of the Board is also guided by provisions of the Banking Act, the Code and the Group policies to ensure that the Board comprises of individuals of the right skills, experience and expertise bearing in mind the size and business of the Bank. In addition, the Board annually reviews and updates the Board Skills Matrix to ensure any identified skills gaps are taken into consideration in the Board recruitment process as and when necessary. The Board is composed of Non-Executive Directors ("NEDs") and Executive Directors ("EDs"). The Executive Directors are the Managing Director and the Finance Director.

Following the departure of the former Finance Director, Mr Mumba Kalifungwa on 31 March 2020, the Board proceeded with appointing a new Finance Director, who would also serve as an executive director of the Board. Ms Cynthia Morapedi was appointed Acting Finance Director on 1 April 2020 and substantive Finance Director on 24 July 2020 after obtaining the necessary regulatory approvals. This appointment was concluded after the Board Audit Committee had interviewed Ms Morapedi and satisfied itself of the appropriateness of her expertise and experience, details of which are on page 12 of this report.

In March 2020, the Board appointed and welcomed three (3) new NEDs, approved by shareholders at the 34th Annual General Meeting, being Ms Sari Helena Nikka, Mr Benjamin Monaheng Kodisang and Mr Cosmas Moapare. During the period under review, as previously indicated to shareholders, the Board's former Chairman, Mr Oduetse Motshidisi resigned on 12 August 2020. The Board currently comprises five (5) Non-Executive Directors ("NEDs"), with the Interim Board Chairman, Mr Alfred Majaye Dube at the helm. Furthermore, in September 2020, Mr Kenneth Molosi, who had joined the Board in November 2009 and been a member of the Board's Audit and Human Resources Remunerations and Nominations Committees' resigned. Mr Mohamed Osman, who chaired the Board Audit Committee resigned from the Board on 2 October 2020. The Bank is currently in the advanced stages of appointing additional NEDs to the Board. Brief biographical details of the Directors are presented on page 34-35 of this report.

Corporate Governance report *continued***Board meetings**

The Board has a minimum of four (4) scheduled meetings per year and all Directors are expected to attend all meetings. In practice, the Board meets more frequently than four (4) times per year, responding to the demands of the business.

In 2020, the Board held a total of 10 meetings, 2 of which were meetings of the Non-Executive Directors. A quorum for Board meetings consists of a majority of the members. A quorum may be reached provided the members are in attendance, either in person or by teleconference.

The Board, through the Company Secretary, prepares a Board and Board Committees calendar as well as forward-planners

to ensure that all relevant matters for the Board and the Board Committees' consideration are prioritised. Members of senior management of the Bank and assurance providers (external auditors) may attend meetings by invitation and in line with the Charter and the Terms of Reference of each Board Committee. However, they do not form part of the quorum of any meeting.

Director	Board	Audit Committee	Risk Committee	Human Resources, Remuneration and Nominations Committee	Credit Committee	Ad Hoc Committee on the appointment of the Board Chair
Oduetse Motshidisi*	7/7	-	-	-	-	-
Kenneth Molosi**	8/8	4/4	-	3/3	-	-
Mohamed Osman***	7/8	3/3	1/1	-	-	-
Mumba Kalifungwa****	2/2	2/2	1/1	1/1	-	-
Alfred Dube	10/10	-	2/2	5/5	2/2	-
Kgotlalarona Ramaphane	10/10	-	4/4	6/6	-	3/3
Sari Helena Nikka	8/8	2/2	3/3	4/4	-	-
Cosmas Moapare	7/8	3/3	1/1	1/1	2/2	3/3
Benjamin Monaheng Kodisang	8/8	3/3	1/1	1/1	2/2	3/3
Keabetswe Pheko – Moshagane	8/8	5/5	4/4	5/5	2/2	-
Cynthia Morapedi*****	8/8	4/4	3/3	4/4	2/2	-

* Mr Oduetse Motshidisi resigned from the Board on 12 August 2020

** Mr Kenneth Molosi resigned from the Board on 11 September 2020

*** Mr Mohamed Osman resigned from the Board on 2 October 2020

**** Mr Mumba Kalifungwa's assignment with the Bank ended on 31 March 2020

***** Ms Cynthia Morapedi was appointed Acting Finance Director from 1 April 2020 and appointed Finance Director from 24 July 2020

Corporate Governance report *continued***2020 Remuneration in review**

As a Bank, our remuneration principles and policies guide the actions we take in this regard, factoring into consideration feedback received from our shareholders.

The Group Directors Affairs Committee ("DAC") conducts market research and assessments, based on which recommendations are made to the Board and subsequently shareholders, on the appropriateness of Board fees every two years. At the 2020 Annual General Meeting ("AGM"), shareholders approved the slight increases in Board Fees as follows, which were effective January 2020:

- Chairman: 7%
- Board member: 10%
- Risk and Audit Committees: 7%
- HR Committee: 5%

In reaching the above recommendations, the DAC considered that the market data showed that the Chairman's fee and the Board Committee fees are on par with the market average, while the Board member fee is slightly below market average.

In terms of Executive Director remunerations, the Human Resources Remunerations and Nominations Committee, considered the Bank's reward principles, which aim to:

- Attract, retain and engage high caliber individuals who have the skills, ambition and talent to deliver our strategy.
- Support the realisation of all our stakeholder promises, with specific focus on rewarding our employees for the achievement of our strategy within our risk appetite relative to performance and shareholder returns.
- Align the long-term interests of our executives and shareholders, by ensuring remuneration outcomes are aligned to the value we create in the short and long term and are transparent. This entails a specific emphasis on the contribution of longer-term incentives for senior and executive employees, aligned to market practice.
- Pay for Performance, by aligning incentive outcomes to performance and value created.
- Drive our culture of being entrepreneurial, while taking ownership and accountability for responsible, sustainable business growth and success.

During 2020, the Board, through the Human Resources Remuneration and Nominations Committee reviewed and thoroughly considered and exercised oversight on the critical decisions regarding remuneration, such as the salary mandate, bonus pool and executive remuneration.

Remuneration of directors

Approved directors' remuneration in 2020 (P)

Director	Board	Audit Committee	Risk Committee	Human Resources Committee	Credit Committee	Total
Oduetse Motshidisi	463 444					463 444
Kenneth Molosi	152 460	90 089	83 225			331 774
Mohamed Osman	152 460	102 399	10 004			264 864
Alfred Dube	380 669		40 018	79 288	9 817	509 792
Kgotlalarona Ramaphane	203 280		80 036	42 917		326 233
Cosmas Moapare	169 400	77 354			19 635	266 389
Sari Helena Nikka	169 400	11 378	20 009	19 635		220 422
Benjamin Monaheng Kodisang	169 400	34 133			39 270	242 803
*Keabetswe Pheko – Moshagane						6 342 029
*Cynthia Morapedi						1 786 512
* Mumba Kalifungwa						1 697 351

* Executive Remuneration
Mumba Kalifungwa's assignment with the Bank ended on 31 March 2020

Corporate Governance report *continued*

Board fees per annum are as follows for the year 2020

	P'000
Board Chairman	618
Board Members	203
Audit Committee Chairman	137
Audit Committee	68
Risk Committee Chairperson	80
Risk Committee Member	40
Human Resources Remuneration and Nominations Chairperson	79
Human Resources and Remuneration and Nominations Member	39
Credit Committee Chairperson	79
Credit Committee Member	39

Board effectiveness review

The Board conducts an annual self-assessment to review effectiveness and identify areas for improvement, and to encourage constructive dialogue. All gaps and proposed improvements are assessed at Board meetings, and remedial actions agreed by the Board. At the end of 2019, the Board further enhanced the effectiveness review by engaging IODSA to facilitate the effectiveness of the Board, Board members, Board Committees. The IODSA Board evaluation included an assessment on the competence and experience of the Company Secretary. Dr Kealeboga Bojosi has read, taught and practiced law in Botswana and England, specialising in Banking, Finance, General Commercial Law and Corporate Governance. Amongst other qualifications, he holds an LLM from the University of Cambridge and a Doctor of Philosophy from Oxford University and is a Solicitor of the Supreme Court of England and Wales. During 2020, the Board again engaged IODSA to assist the Board with coining an action plan to address feedback of the assessments as shared with the Board. As at the end of the first quarter of 2021, the Board had managed to close 70% of the identified recommendations. The Board is confident that the conclusion of this exercise and implemented feedback will serve to further enhance its effectiveness and build on good practice on corporate governance.

Skills and Board training

The members of the Board are individuals from a diverse range of industrial and professional skills, knowledge and experience, and are not involved in the day-to-day management of the Bank. The Bank maintains a Board skills matrix, designed to continually review and assess skills,

expertise and knowledge requirements, ensure that all skills needed to effectively discharge its mandate are present. The skills matrix is tabled for review and approval by the Bank's Board, at least annually. Furthermore, the Bank's Board continuously assesses the areas for development and training required by the Board, with such training provided on an annual basis to further enhance the skills and knowledge of the Board as a whole.

The Board Charter and Board Committees terms of reference

The Board Charter addresses the composition and responsibilities of the Board, as well as Terms of Reference for the Bank's Committees, reviewed and approved by the Board annually. Good corporate governance practice is an essential ingredient in creating and sustaining shareholder value, and ensuring that conduct is ethical, legal, and transparent for the benefit of all Bank stakeholders. Therefore, the Bank has significant responsibilities to its customers and to the public at large in contributing to a stable and secure environment, thereby enhancing trust in the financial institutions industry.

The Board Charter is aligned to the King IV Code of Corporate Governance, establishing the following key matters:

- The Board's responsibilities and functions
- The role and responsibilities of the Chairperson, shareholders and management and
- The governance structure of the Board

Each Committee has Terms of Reference ("ToR") that set out the following:

- The role of the Committee
- The composition of the Committee and
- The process for the conduct of meetings

The Board Charter and Board Committee ToRs are reviewed annually by the Board to ensure compliance with local and international standards. This also ensures effectiveness and relevance, and the proper functioning of the Board and its Committees

Following the resignation of the former Board Chairman, the Board established an Ad Hoc Committee on the Appointment of the Board Chair in September 2020. This Committee, chaired by Mr Cosmas Moapare, was tasked with the end to end governance process of appointing the next Board Chairman and would be dissolved after the conclusion of the Board Chair appointment.

Corporate Governance report *continued*

Board Committees

Audit Committee

The Board Audit Committee meets at least four (4) times a year and had five (5) meetings during the period under review. Its primary objective is to ensure that the Bank has implemented and manages an effective audit management plan and set of policies that will support the Bank's ability to achieve its strategic objectives. In line with corporate governance best practice, a NED other than the Chairperson of the Board is appointed to chair the Committee. Mr Cosmas Moapare was appointed the Chair of the Audit Committee in July 2020. As representatives of management, the following are mandatory attendees to the Committee meetings.

- Managing Director
- Finance Director
- Head of Compliance
- Chief Operating Officer
- Chief Risk Officer
- Chief Internal Auditor
- Head of Legal and Company Secretary

The Committee, which has written ToRs approved by the Board and are in compliance with the Banking Act, Chapter 46:04, reports to the Board on a quarterly basis to ensure compliance with applicable laws, rules and standards. In particular, the Committee monitors financial controls, accounting systems, and shareholder reporting. It also assesses the management of key financial risks.

The function of the Chief Internal Auditor, is accountable to the Audit Committee and is responsible for development and maintenance of the Quality Assurance and Improvement Programme (QAIP) as required by the Standards for the Professional Practice of Internal Auditing. The external and internal auditors have free access to the Chairperson of the Committee. In particular, the programme monitors key financial controls, accounting systems, shareholder reporting the management of key financial risks.

“ The Board conducts an annual self-assessment to review effectiveness and identify areas for improvement, and to encourage constructive dialogue. All gaps and proposed improvements are assessed at Board meetings, and remedial actions agreed by the Board. ”

Corporate Governance report *continued***Credit Committee**

At the end of 2019, in line with good corporate governance practice and upon recommendation of the Bank of Botswana, the Bank established the Credit Committee, which commenced work in the third quarter of 2020. This Committee is separate from the Risk Committee and is mandated to exercise oversight over Credit Risk. The Committee commenced work in 2020 following the appointment of additional NEDs to the Board, and is comprised of Ambassador Alfred Dube and Mr Cosmas Ramaphane, chaired by Mr Benjamin Kodisang. Non-voting members of the Committee are the Managing Director, Finance Director and Chief Credit Director. However, it is important to note that the Bank was still in the process of separating the Credit and Risk functions, with the Chief Credit Director noted as a mandatory attendee to this Committee once the appointment of the candidate is concluded.

The following are invitees to the Committee:

- Retail Director
- Corporate Banking Director
- Head of Corporate Credit
- Economist
- Head of Retail Credit
- Head of Business Support and Corporate Recoveries

Management committees**Country Management Committee (CMC)**

The Country Management Committee (CMC) is responsible to the Board for implementing strategies and policies approved by the Board, formulating and implementing operational decisions, and managing the Bank based on their knowledge and experience. The Board challenges, monitor and approve the strategies and policies recommended by the CMC. The CMC acts as the operational management forum responsible for delivering the Bank's strategy.

The objectives of the CMC are to ensure the following:

- That business conducted is compliant with required local and international legislation and regulations
- The effective implementation of Absa Group's policies and governance arrangements across all lines and functions of the business
- The integrity of the operational, control, compliance, and governance framework of the Bank as a part of Absa Group
- The efficient implementation of business plans and
- That performance is maximised across all lines and functions of the business

Membership of the CMC comprises the following:

- Managing Director (as its Chairperson)
- Finance Director
- Country Treasurer
- Chief Risk Officer
- Retail Director
- Chief Operating Officer
- Corporate Banking Director
- Head of Compliance
- Head of Marketing and Corporate Relations
- People Function Director
- Head of Legal and Company Secretary

Country Asset and Liability Management Committee (ALCO)

The main purpose of the Country ALCO is to achieve sustainable and stable profits within a framework of acceptable financial risk and controls. The ALCO meets at least once a month, undertaking to maximise value generated from actively managing the Bank's balance sheet and financial risks within agreed risk parameters. Therefore, it is primarily focused on forecasting and scenario modelling.

The objectives of the Country ALCO are to manage the following aspects of the business:

- Funding and investment of the balance sheet
- Liquidity and cash flow
- Exposure to interest and exchange rate movements;
- Capital position and dividend flow
- Asset and liability margins and Internal Transfer Pricing arrangement and
- Compliance with all Internal and regulatory limits and ratios for the above activities
- Managing the Assets and Liability Management Strategic Agenda

Membership of the Country ALCO comprises the following:

- Managing Director (as its Chairperson)
- Corporate Banking Director
- Retail Banking Director
- Country Treasurer (alternate chair)
- Finance Director
- Head of Balance Sheet Management (Secretary)
- Chief Risk Officer
- Head of Business Banking

By invitation

- Chief Operating Officer
- Head of Marketing and Corporate relations
- Head of Transactional Banking

Corporate Governance report *continued***Executive Risk Committee (ERC)**

The Executive Risk Committee (ERC) is responsible for reviewing the bank wide risk profile. The Committee is further responsible for:

- satisfying itself as to the positioning of the Bank's risk profile in relation to Short-Term-Plan/strategy, and Board-approved risk appetite
- Recommending to the Board and the Board Committees the Bank's proposed risk appetite, stress test scenarios and results
- Conducting review and challenge of risk practices and the control environment as required by the Enterprise Risk Management Framework, for all Principal Risks with the exception of Treasury and Capital which are managed through a different Governance structure.

Membership of the Executive Risk Committee comprises of the following:

- Chief Risk Officer (Chairman)
- Managing Director
- Finance Director
- Chief Operating Officer
- Head of Compliance
- Head of Marketing and Corporate relations
- Chief Internal Auditor
- Retail Director
- Head of Business Banking
- Corporate Banking Director
- People Function Director
- Country Treasurer
- Head of Legal and Company Secretary

Remunerations and Promotions Committee (RPC)

The duties and responsibilities of this management committee are to:

- Approve salary increases, bonuses, long-term incentives and awards, all subject to Group approval
- Approve bonus funding requests in line with Board Remuneration Committee decisions
- Approve customised reward schemes subject to Group governance
- Monitor compliance with Legal and regulatory requirements as they apply to appointments and rewards;
- Provide oversight of appointments and compensation, and review all appointments to the CMC and direct reports to the Managing Director and
- Review and recommend proposed placements onto the CMC

Membership of the Remunerations and Promotions Committee comprises the following:

- Managing Director (Chairperson)
- Finance Director
- Head of Compliance
- People Function Director

Operations Committee (OPCO)

The duties and responsibilities of this management committee are to as follows:

- Provide oversight of all key operational issues facing the Bank (including IT and other operational projects) and to ensure timely, robust delivery of operational and IT investments within budget
- Ensure the effectiveness of operational and IT capability and resource management across the Bank
- Provide management oversight and review of all operational and IT projects, and ensure that projects are managed according to PRINCE 2 principles, and within timelines and budget
- Review Group, Global Retail Banking (GRB) and the Group operations and IT projects intended for, or impacting upon the country
- Provide oversight of sourcing and alliances and
- Review business continuity management

Issues are escalated and reported to the Managing Director, Country Management Committee and the Chief Operating Officer where resolution at OPCO is not possible.

Membership of the Operations Committee comprises the following:

- Chief Operating Officer (Chairperson)
- Finance Director
- Retail Director
- Chief Risk Officer
- Head of Compliance
- Corporate Banking Director
- People Function Director
- Head of Technology
- Head of Consumer Operations
- Head of Internal Control Unit
- Head of Sourcing
- Head of Customer Service
- Head of Control Rigour
- Change Enablement Lead
- Head of Payments

Corporate Governance report *continued***Brand and Reputation Committee (BRC)**

The duties and responsibilities of the Committee are as follows:

- Considering approval/declines of all Introducer relationships except for those that require Group Introducer Committee approval
- Ensuring the approvals are aligned to the Absa Group Introducer Policy and Standard
- Ensuring that there is a multi-stakeholder approach for the approvals, and that business, legal, regulatory and financial crime risks are assessed at the same time by relevant stakeholders
- Protect and enhance the brand and reputation of the Bank
- Support the Bank in being a leading company in the field of Citizenship
- Ensure that the Bank treats customers fairly in accordance with its "Treating Customers Fairly" principles
- Confirm and monitor the implementation of the External Corporate Affairs plan and the Community and Environmental strategy
- Monitor the implementation of and report all issues related to Brand and Reputation

Membership of the Brand and Reputation Committee comprises the following:

- Managing Director (Chairperson)
- Finance Director
- Chief Operations Officer
- Head of Legal and Company Secretary
- Corporate Banking Director
- Head of Marketing Corporate Affairs
- Retail Director
- Chief Risk Officer
- Head of Compliance
- Retail Director
- Country Treasurer and
- Money Laundering Reporting Officer

Corporate Governance report *continued***Risk Control Forum (RCF)**

The Forum is mandated to provide a regular review of the Control Environment (Governance, Risks and Controls) in accordance with the Enterprise Risk Management Framework (ERMF) requirements.

The duties and responsibilities of the Forum are as follows:

- **Framework strategy and policy alignment** – overseeing the alignment, implementation and compliance to the Operational Risk Management Framework and Control Management Framework Strategy and Policies
- **Governance and performance monitoring** – government and oversight of the overall performance, execution, and alignment of the Country Strategy to Control
- **Regulatory compliance** - oversee the monitoring of Legal and Regulatory changes in the external environment impacting on operational risk management and ensure compliance with relevant laws, regulations and the directives of state authorities
- **Risk identification** – identifying risks impacting business and ensure that action plans are put in place to address the control weaknesses identified
- **Decision making** - to ensure business risks and issues are adequately addressed and escalated
- **Issue tracking** - ensuring that issues and actions are tracked until the risk has been mitigated and
- Take primary accountability for risk identification, ownership, management and control, including embedding a supportive risk culture

Membership of the Risk and Control Forum comprises of the following:

- Head of Governance and Control (as its Chairperson)
- Head of Operational Risk
- Head of Compliance

The business invitees to the Forum comprise of the following:

- Head of Business Banking
- Head of Branch Network
- Head of Branch Operations
- Rigour Manager-Business Banking
- Head of Marketing and Corporate Relations
- Governance and Control
- Consumer Governance

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Directors responsibilities and approval

for the year ended 31 December 2020

The directors are responsible for overseeing the preparation, integrity and objectivity of the annual financial statements that fairly present the state of the affairs of Absa Bank Botswana ("the Group") at the end of the financial year and the net income and cash flows for the reporting period, and other information contained in this report.

To enable the directors to meet these responsibilities:

- All directors will endeavour to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach;
- The Board sets standards and management implements systems of internal control and accounting and information systems aimed at providing reasonable assurance that both on and off statement of financial position assets are safeguarded and the risk of error, fraud or loss is reduced in a cost-effective manner. These controls, contained in established policies and procedures, include the proper delegation of responsibilities and authorities within a clearly defined framework, effective accounting procedures and adequate segregation of duties;
- The Board and management identify all key areas of risk across the Group and endeavour to mitigate or minimise these risks by ensuring that appropriate infrastructure, controls, systems and discipline are applied and managed within predetermined procedures and constraints; and
- The internal audit function operates unimpeded and independently from operational management, appraises, evaluates and, when necessary, recommends improvements to the systems of internal control and accounting practices, based on audit plans that take cognisance of the relative degrees of risk of each function or aspect of the business;

To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

The Group consistently adopts appropriate and recognised accounting policies and these are supported by reasonable and prudent judgements and estimates on a consistent basis. The

annual financial statements of the Group have been prepared in accordance with the provisions of the Companies Act of Botswana (Companies Act, 2003); the Banking Act (CAP 46: 04); comply with International Financial Reporting Standards (IFRS) and all applicable legislation.

The directors have no reason to believe that the Group will not be a going concern in the reporting period ahead, based on forecasts and available cash resources. These annual financial statements have accordingly been prepared on this basis.

It is the responsibility of the independent auditors to report on the annual financial statements. Their reports to the shareholders on the consolidated and separate financial statements are set out on pages 54 to 57 and 58 to 61 respectively.

The directors' report on pages 52 to 53 and annual financial statements of the Group and Company which appear on pages 62 to 170 were approved on 26 March 2021 and 21 May 2021 respectively and are signed on its behalf by

Alfred Dube
Interim Chairman of the Board

Keabetswe Pheko - Moshagane
Managing Director

Cosmas Moapare
Chairman of the Board Audit Committee



Corporate Governance report

for the year ended 31 December 2020

The Absa Group Limited (Absa Group or the Group) adopted a governance framework for all subsidiaries in the Group as set out in the Absa Group Limited Group Policy on Legal Entities and Directors (the Code).

The Board of the Group adopted the Group Policy on Legal Entities and Directors.

The directors of the Group are of the opinion that the Group has applied the principles and recommendations of the Code, in all material respects, with regard to the period under review.

Board of directors

The Board consists of:

- 5 Non-executive directors
- 2 Executive directors

Company secretary

All directors have access to the advice and services of the company secretary, who provides guidance to the Board as a whole and to individual directors with regard to how their responsibilities should be discharged in the best interest of the Group.

Audit committee

The Board has concluded that the audit committee has satisfied its responsibilities.

Internal audit

The internal audit function is conducted by the local internal audit function with oversight from Absa group internal audit.

Remuneration policy

The Group has adopted the Absa Group Limited Human Resources policies. The executive directors of the Group are full time employees of the Group and therefore earn no directors' fees for their services as directors.

Risk management

The Group manages the risk of the business in partnership with Absa Group Limited. Risk policies, standards, and strategies are jointly created between the two parties with execution managed by the local Risk team, country management team, and Board of directors.

Integrated sustainability reporting and disclosure

The results of the Group are consolidated into the Absa Group Limited financial results which address sustainability at a group level.

Managing stakeholder relationships

As a subsidiary, the Group is governed by the stakeholder management of Absa Group Limited.

Fundamental and affected transactions

Directors are requested to declare their directorships in other organisations, at least, on a quarterly basis. The Group has appropriate policies and procedures to govern any potential conflict of interest, in instances where the Group does conduct business with entities in which its directors have an interest.

Information technology governance

Information Technology governance is performed in terms of the Absa Group Limited Information Technology Policy.

Compliance

The Group has a Compliance Officer that monitors compliance with the applicable legislation. The Compliance Officer forms part of the Group Compliance function.



Directors' report

for the year ended 31 December 2020

Company registration number	Absa Bank Botswana Limited BW00001237900 Absa Insurance Services Proprietary Limited BW00001179345
Country of incorporation and domicile	Botswana
Nature of business and principal activities	<p>Absa Bank Botswana Limited ("the Bank") is a public limited company listed on the Botswana Stock Exchange and domiciled in Botswana. The annual financial statements of the Group comprise of the Bank and its wholly owned subsidiary Absa Insurance Services (Pty) Ltd, (together referred to as the "Group"). Absa Insurance Services (Pty) Ltd (private limited company) is an insurance agent which earns its fees from referral of life and non-life insurance products.</p> <p>Absa Bank Botswana Limited ("the Bank") offers a range of retail, business, corporate and investment, and wealth management solutions.</p>
Directors	<p>Oduetse A. Motshidisi (Independent Non-executive Director - Chairman of the Board resigned 12 August 2020)</p> <p>Cosmas Moapare (Independent Non-executive Director appointed 23 March 2020)</p> <p>Sari Nikka (Independent Non-executive Director appointed 23 March 2020)</p> <p>Benjamin Kodisang (Independent Non-executive Director appointed 23 March 2020)</p> <p>Kenneth Molosi (Independent Non-executive Director resigned 11 September 2020)</p> <p>Alfred Dube (Non-executive Director- Interim Chairman of the Board appointed 13 August 2020)</p> <p>Kgotlayarona Ramaphane (Independent Non-executive Director)</p> <p>Mohamed Osman (Independent Non-executive Director resigned 2 October 2020)</p> <p>Keabetswe Phoko-Moshagane (Executive - Managing Director)</p> <p>Mumba Kalifungwa (Executive- Finance Director end of assignment 31 March 2020)</p> <p>Cynthia Morapedi (Finance Director appointed 24 July 2020)</p>
Registered office	Deloitte House Plot 64518 Fairgrounds Gaborone, Botswana
Business address	5th Floor, Building 4 Prime Plaza Plot 74358 Central Business District Gaborone
Postal address	P O Box 478 Gaborone Botswana
Date of incorporation	17 March 1975
Holding company	Absa Group Limited
Auditors	Ernst & Young Plot 22, Khama Crescent PO Box 1519, Gaborone
Company secretary	Dr. Kealeboga Bojosi



Directors' report (continued)

for the year ended 31 December 2020

Review of financial results

The annual financial results of the Bank are set out in the attached annual financial statements. In light of the anticipated economic impact of COVID-19, the Directors have made an assessment of the Bank's ability to continue as a going concern and acknowledged the risk of lower revenue and profits in the medium term.

The Directors have concluded that there are no material uncertainties that could have cast significant doubt over the Bank's ability to continue as a going concern for at least a year from the date of approval of the financial results.

Key performance indicators	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Profit for the year	296 746	520 608	290 419	510 750
Total comprehensive income	284 620	523 721	278 293	513 863
Taxation	(67 197)	(156 964)	(56 904)	(154 524)
Dividends declared and paid:				
-Dividends paid (net of waiver in 2020)	169 692	189 995	169 692	189 995
-Interim dividend paid	-	110 000	-	110 000
-Dividend declared	175 533	-	175 533	-
Net (liabilities)/assets	2 335 391	2 222 666	2 301 291	2 194 893

Authorised and issued share capital

There were no changes to the authorised or issued share capital for the year under review. The share capital is disclosed in note 37.

Property, plant and equipment

Details of changes in property, plant and equipment during the year are reflected in note 23.

Events after the reporting date

There were no events material to the understanding of these annual financial statements that occurred between the financial year end and the date of this report other than as disclosed in note 54.

Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.



Independent Auditor's report

for the year ended 31 December 2020

To the Shareholders of Absa Bank Botswana Limited

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Absa Bank Botswana Limited and its subsidiary ('the Group') set out on pages 62 to 170, which comprise of the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, but excluded the sections marked as "unaudited" in notes 4 and 47.1 and the annexure "Normalised view vs IFRS view".

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Companies Act of Botswana (Cap 42:01) and the requirements of the Banking Act (Cap 46:04).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audit of the Group and in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable to performing the audit of the Group. 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 financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Expected credit losses (ECLs) relating to loans and advances

The disclosures associated with the key audit matter are set out in the consolidated financial statements in the following notes:

- Note 2.16.3 - Expected credit losses on financial assets on the consolidated financial statements
- Note 4 - Impact of COVID-19 (excludes any numbers marked as unaudited)
- Note 10- Expected credit losses
- Note 21 - Loans and advances to customers
- Note 22 - Credit risk reconciliation - expected credit loss allowance
- Note 47.7 - Credit risk

Key audit matter

We identified the audit of expected credit losses (ECL) relating to loans and advances to customers as a key audit matter considering the following:

- Absa's loan and advances to customers are material to the consolidated financial statements;
- The high degree of estimation uncertainty, significant judgements and assumptions applied in estimating ECL on loans and advances to customers; and
- The COVID-19 pandemic has created significant economic volatility and uncertainty, requiring increased subjective management judgement in developing its economic forecasts and the estimation of ECL on loans and advances to customers

How the matter was addressed in our audit

Our audit effort included the following procedures in addressing the key audit matter:

We have updated our understanding of management's process over credit origination, credit monitoring and credit remediation and tested the relevant controls identified within these processes.

Modelled ECL provisions

With the assistance of our quantitative specialists, we have assessed the design and implementation of the ECL models, including assessing the significant assumptions applied with reference to the requirements of IFRS 9: Financial Instruments: Expected Credit Loss methodology (IFRS 9).



Independent Auditor's report (continued)

for the year ended 31 December 2020

Key audit matter

In particular we have focussed on the following areas of significant judgement and estimation which required the use of specialists, additional audit effort and increased discussions with management during the course of the audit:

Modelled ECL provisions

A significant portion of ECL is calculated on a modelled basis. The development and execution of these models requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters.

Significant increases in credit risk (SICR) are assessed based on the current risk of default of an account relative to its risk of default at origination. This assessment incorporates judgement and estimation by management, including the impact of COVID-19

- Estimation and incorporation of multiple forward-looking macro-economic scenarios
These scenario forecasts are developed by Absa's group economics unit and have required increased levels of management judgement, given the COVID-19 pandemic is an unprecedented event with material impacts on economic activity and incomes.

- Management adjustments
Management adjustments are applied to ECL model outputs where the existing models do not fully incorporate factors which impact on the ECL.

In the current year, management have recognised that COVID-19 is an extraordinary event. Absa's ECL models are not calibrated to cater for the full impact of the current levels of economic volatility and complexity. Within the Retail portfolios, management thus developed new macro-economic analytical models to determine appropriate adjustments to modelled PDs and LGDs when recognising ECL. Within the Wholesale portfolios existing model approaches were adjusted for the impacts of COVID-19, supplemented by industry sector adjustments.

These adjustments are subject to a high degree of subjective management judgement.

- Stage 3 ECL provisions assessed on an individual basis
A significant portion of loans and advances to customers are assessed for recoverability on an individual basis, primarily in the Corporate, Investment Bank, and Business Banking portfolios which requires specific audit effort. Significant judgements, estimates and assumptions are applied by management to:
 - Determine if the financial asset is credit impaired;
 - Evaluate the valuation and recoverability of collateral;
 - Determine the expected future cash flows to be collected; and
 - Estimate the timing of the future cash flows.

How the matter was addressed in our audit

We have tested the operating effectiveness of management's ECL modelling controls which support the assumptions used in determining the probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters included in the models.

Our quantitative specialists have reperformed the model calculations using assumptions as per the model documentation, and our independently reperformed PD, EAD and LGD parameters, to test accuracy of ECL calculations. We have assessed the appropriateness of Absa's significant increases in credit risk (SICR) methodologies and calibrations of the models and have tested the stage allocations including the SICR for a sample of portfolios and individual exposures. The reperformed ECL numbers have been compared to Absa's ECL numbers per stage and per portfolio.

We have tested the completeness and accuracy of data inputs into the models by tracing a sample of data inputs back to the information sourced by management from internal systems and external data providers.

- Estimation and incorporation of multiple forward-looking macro-economic scenarios

We have tested controls over the approval of updated macro-economic forecasts and related ECL impacts. With assistance from our economics specialists, we have assessed the appropriateness of the macro-economic forecasts and scenario weightings by benchmarking these against external evidence and economic data.

With the assistance of our quantitative and economics specialists, we have assessed the design and application of the macro-economic analytical models and sensitivity approaches adopted by management. We performed independent ECL quantification analyses on economic forecasts and industry stresses, which incorporated independently estimated economic impacts as a result of the COVID-19 pandemic considering third party and our own data, to assess the reasonability of the macro-economic management adjustments.

- Management adjustments

We reperformed a sample of the management adjustments, challenged the appropriateness of the assumptions and inputs used and have assessed management's governance processes over the management adjustments.

We have assessed management's rationale for the macro-economic variable (MEV) adjustments and evaluated them against our understanding of the factors used based on independent data.

Where there is a range of uncertain potential outcomes, we have considered a range of possible outcomes, formed an independent view using independent data and discussed with management regarding our views.

- Stage 3 ECL provisions assessed on an individual basis
We have tested management's processes and key controls over judgements used to determine whether specific exposures are credit impaired, including the completeness and reasonability of these assessments.



Independent Auditor's report (continued)

for the year ended 31 December 2020

Key audit matter	How the matter was addressed in our audit
<ul style="list-style-type: none"> Additional disclosures related to credit risk The increased level of economic uncertainty as a result of COVID-19 increases the subjectivity and materiality of management judgements applied to estimate ECL. Additional disclosure was required in the consolidated financial statements in order to allow users of the consolidated financial statements to understand the additional level of judgement applied by management, this included additional disclosure with regards to management adjustments and sensitivity analyses. Due to the extensive nature of these disclosures which are non-routine and very specific to the environmental conditions, this required significant audit effort to assess the reasonability thereof. 	<p>Our procedures focused on assessing the reasonability of the estimate of the amount and timing of expected future cash flows used in measuring ECL. We have performed the following for a sample of stage 3 exposures:</p> <ul style="list-style-type: none"> Where exposures are collateralised, we tested Absa Group's legal right to the collateral by inspecting legal agreements and bond registration information, as well as the reasonability of the valuation of the collateral by evaluating key assumptions against available market and internal information. Where management has utilised specialists, we have assessed controls related to their competence and objectivity. Where future cash flows are estimated based on the loan counterparty's enterprise value, we have tested these valuations with reference to available market information and counterparty specific information. We have utilised our valuation specialists for a sample of more complex valuation assessments. Additional disclosures related to credit risk We have focused on the additional disclosures in the current year to ensure the appropriateness and accuracy of these disclosures with the assistance of our financial reporting specialists. Specifically, we assessed the reasonability of the disclosures in light of the audit work performed and disclosures made elsewhere in the consolidated financial statements. We have assessed management's credit disclosures including those related to the ECL impact of COVID-19 against IFRS 7: Financial Instruments: Disclosures requirements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the 183 - page document titled "Absa Bank Botswana Limited 2020 Annual Report" which includes the Directors' responsibility and approval and the Corporate governance report, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. The other information also includes the sections marked as unaudited in the consolidated financial statements and described in our Opinion paragraph above. Other information does not include the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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.

Other Matter

The consolidated financial statements of Absa Bank Botswana Limited for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 30 March 2020.

Responsibilities of the Directors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the director is responsible for assessing the Group'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 director either intends to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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



Independent Auditor's report (continued)

for the year ended 31 December 2020

Auditor's Responsibilities for the Audit of the Consolidated Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 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 financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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'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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 and company audit. We remain solely responsible for our audit opinion.

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

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

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

Ernst & Young
Practising member: Bakani Ndwapi Partner
Membership number: 19980026 Certified Auditor
Gaborone
30th March 2021



Independent Auditor's report

for the year ended 31 December 2020

To the Shareholders of Absa Bank Botswana Limited

Report on the Audit of the Separate Financial Statements

Opinion

We have audited the separate financial statements of Absa Bank Botswana Limited ('the Company') set out on pages 62 to 170, which comprise of the separate statement of financial position as at 31 December 2020, and the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies, but excluded the sections marked as "unaudited" in notes 4 and 47.1 and the annexure "Normalised view vs IFRS view".

In our opinion, the separate financial statements give a true and fair view of the separate financial position of the Company as at 31 December 2020, and its separate financial performance and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Companies Act of Botswana (Cap 42:01) and the requirements of the Banking Act (Cap 46:04).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and other independence requirements applicable to performing audit of the Company and in Botswana. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code, and in accordance with other ethical requirements applicable

to performing the audit of the Company. 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Expected credit losses (ECLs) relating to loans and advances

The disclosures associated with the key audit matter are set out in the separate financial statements in the following notes:

- Expected credit losses (ECLs) relating to loans and advances
- The disclosures associated with the key audit matter are set out in the separate financial statements in the following notes:

Key audit matter	How the matter was addressed in our audit
<p>We identified the audit of expected credit losses (ECL) relating to loans and advances to customers as a key audit matter considering the following</p> <ul style="list-style-type: none"> • Absa's loan and advances to customers are material to the separate financial statements; • The high degree of estimation uncertainty, significant judgements and assumptions applied in estimating ECL on loans and advances to customers; and • The COVID-19 pandemic has created significant economic volatility and uncertainty, requiring increased subjective management judgement in developing its economic forecasts and the estimation of ECL on loans and advances to customers 	<p>Our audit effort included the following procedures in addressing the key audit matter:</p> <p>We have updated our understanding of management's process over credit origination, credit monitoring and credit remediation and tested the relevant controls identified within these processes.</p> <p>Modelled ECL provisions</p> <p>With the assistance of our quantitative specialists, we have assessed the design and implementation of the ECL models, including assessing the significant assumptions applied with reference to the requirements of IFRS 9: Financial Instruments: Expected Credit Loss methodology (IFRS 9).</p>



Independent Auditor's report (continued)

for the year ended 31 December 2020

Key audit matter	How the matter was addressed in our audit
<p>In particular we have focussed on the following areas of significant judgement and estimation which required the use of specialists, additional audit effort and increased discussions with management during the course of the audit:</p> <p>Modelled ECL provisions</p> <p>A significant portion of ECL is calculated on a modelled basis. The development and execution of these models requires significant management judgement, including estimation of the probability of default (PD); exposure at default (EAD) and loss given default (LGD) model parameters.</p> <p>Significant increases in credit risk (SICR) are assessed based on the current risk of default of an account relative to its risk of default at origination. This assessment incorporates judgement and estimation by management, including the impact of COVID-19</p> <ul style="list-style-type: none"> • Estimation and incorporation of multiple forward-looking macro-economic scenarios These scenario forecasts are developed by Absa's Company economics unit and have required increased levels of management judgement, given the COVID-19 pandemic is an unprecedented event with material impacts on economic activity and incomes. • Management adjustments Management adjustments are applied to ECL model outputs where the existing models do not fully incorporate factors which impact on the ECL. <p>In the current year, management have recognised that COVID-19 is an extraordinary event. Absa's ECL models are not calibrated to cater for the full impact of the current levels of economic volatility and complexity.</p> <p>Within the Retail portfolios, management thus developed new macro-economic analytical models to determine appropriate adjustments to modelled PDs and LGDs when recognising ECL. Within the Wholesale portfolios existing model approaches were adjusted for the impacts of COVID-19, supplemented by industry sector adjustments.</p> <p>These adjustments are subject to a high degree of subjective management judgement.</p> <ul style="list-style-type: none"> • Stage 3 ECL provisions assessed on an individual basis A significant portion of loans and advances to customers are assessed for recoverability on an individual basis, primarily in the Corporate, Investment Bank, and Business Banking portfolios which requires specific audit effort. Significant judgements, estimates and assumptions are applied by management to: <ul style="list-style-type: none"> • Determine if the financial asset is credit impaired; • Evaluate the valuation and recoverability of collateral; • Determine the expected future cash flows to be collected; and • Estimate the timing of the future cash flows. 	<p>We have tested the operating effectiveness of management's ECL modelling controls which support the assumptions used in determining the probability of default (PD), exposure at default (EAD) and loss given default (LGD) parameters included in the models.</p> <p>Our quantitative specialists have reperformed the model calculations using assumptions as per the model documentation, and our independently reperformed PD, EAD and LGD parameters, to test accuracy of ECL calculations. We have assessed the appropriateness of Absa's significant increases in credit risk (SICR) methodologies and calibrations of the models and have tested the stage allocations including the SICR for a sample of portfolios and individual exposures. The reperformed ECL numbers have been compared to Absa's ECL numbers per stage and per portfolio.</p> <p>We have tested the completeness and accuracy of data inputs into the models by tracing a sample of data inputs back to the information sourced by management from internal systems and external data providers.</p> <ul style="list-style-type: none"> • Estimation and incorporation of multiple forward-looking macro-economic scenarios We have tested controls over the approval of updated macro-economic forecasts and related ECL impacts. With assistance from our economics specialists, we have assessed the appropriateness of the macro-economic forecasts and scenario weightings by benchmarking these against external evidence and economic data. With the assistance of our quantitative and economics specialists, we have assessed the design and application of the macro-economic analytical models and sensitivity approaches adopted by management. We performed independent ECL quantification analyses on economic forecasts and industry stresses, which incorporated independently estimated economic impacts as a result of the COVID-19 pandemic considering third party and our own data, to assess the reasonability of the macro-economic management adjustments. • Management adjustments We reperformed a sample of the management adjustments, challenged the appropriateness of the assumptions and inputs used and have assessed management's governance processes over the management adjustments. We have assessed management's rationale for the macro-economic variable (MEV) adjustments and evaluated them against our understanding of the factors used based on independent data. Where there is a range of uncertain potential outcomes, we have considered a range of possible outcomes, formed an independent view using independent data and discussed with management regarding our views. • Stage 3 ECL provisions assessed on an individual basis We have tested management's processes and key controls over judgements used to determine whether specific exposures are credit impaired, including the completeness and reasonability of these assessments.



Independent Auditor's report (continued)

for the year ended 31 December 2020

Key audit matter	How the matter was addressed in our audit
<ul style="list-style-type: none"> Additional disclosures related to credit risk The increased level of economic uncertainty as a result of COVID-19 increases the subjectivity and materiality of management judgements applied to estimate ECL. Additional disclosure was required in the consolidated financial statements in order to allow users of the consolidated financial statements to understand the additional level of judgement applied by management, this included additional disclosure with regards to management adjustments and sensitivity analyses. Due to the extensive nature of these disclosures which are non-routine and very specific to the environmental conditions, this required significant audit effort to assess the reasonability thereof. 	<p>Our procedures focused on assessing the reasonability of the estimate of the amount and timing of expected future cash flows used in measuring ECL. We have performed the following for a sample of stage 3 exposures:</p> <ul style="list-style-type: none"> Where exposures are collateralised, we tested Absa Group's legal right to the collateral by inspecting legal agreements and bond registration information, as well as the reasonability of the valuation of the collateral by evaluating key assumptions against available market and internal information. Where management has utilised specialists, we have assessed controls related to their competence and objectivity. Where future cash flows are estimated based on the loan counterparty's enterprise value, we have tested these valuations with reference to available market information and counterparty specific information. We have utilised our valuation specialists for a sample of more complex valuation assessments. Additional disclosures related to credit risk We have focused on the additional disclosures in the current year to ensure the appropriateness and accuracy of these disclosures with the assistance of our financial reporting specialists. Specifically, we assessed the reasonability of the disclosures in light of the audit work performed and disclosures made elsewhere in the consolidated financial statements. We have assessed management's credit disclosures including those related to the ECL impact of COVID-19 against IFRS 7: Financial Instruments: Disclosures requirements.

Other information

The directors are responsible for the other information. The other information comprises the information included in the 183 - page document titled "Absa Bank Botswana Limited 2020 Annual Report" which includes the Directors' responsibility and approval and the Corporate governance report, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. The other information also includes the sections marked as unaudited in the separate financial statements and described in our Opinion paragraph above. Other information does not include the separate financial statements and our auditor's report thereon.

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

In connection with our audit of the separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the 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.

Other matter

The separate financial statements of Absa Bank Botswana Limited for the year ended 31 December 2019, were audited by another auditor who expressed an unmodified opinion on those statements on 03 June 2020.

Responsibilities of the Directors for the consolidated financial statements

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

In preparing the separate financial statements, the director is responsible for assessing the 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 director either intends to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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



Independent Auditor's report (continued)

for the year ended 31 December 2020

Auditor's Responsibilities for the Audit of the Consolidated Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 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 Company and company to cease to continue as a going concern.

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

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

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

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

Ernst & Young
Practising member: Bakani Ndwapi Partner
Membership number: 19980026 Certified Auditor
Gaborone
27th May 2021



Statements of comprehensive income

for the year ended 31 December 2020

	Notes	Consolidated		Company	
		2020 P'000	2019 P'000	2020 P'000	2019 P'000
					*Restated
Effective interest income	5	1 342 663	1 338 879	1 342 663	1 338 879
Effective interest expense	6	(287 660)	(278 344)	(287 660)	(278 344)
Net interest income		1 055 003	1 060 535	1 055 003	1 060 535
Fee and commission income	7	488 543	477 842	440 947	430 177
Fee and commission expense	7	(109 999)	(90 462)	(109 999)	(89 263)
Net fee and commission income		378 544	387 380	330 948	340 914
Net trading income	8	138 630	166 892	138 630	166 892
Other income*	9	3 412	17 066	34 639	51 234
Total income		1 575 589	1 631 873	1 559 220	1 619 575
Expected credit losses	10	(263 235)	(34 023)	(263 235)	(34 023)
Net operating income		1 312 354	1 597 850	1 295 985	1 585 552
Staff costs	11	(479 573)	(463 728)	(479 573)	(463 728)
Infrastructure costs	12	(128 926)	(115 782)	(128 926)	(115 782)
Administration and general expenses*	13	(339 912)	(340 768)	(340 163)	(340 768)
Operating expenses		(948 411)	(920 278)	(948 662)	(920 278)
Profit before tax		363 943	677 572	347 323	665 274
Taxation expense	14	(67 197)	(156 964)	(56 904)	(154 524)
Profit for the year		296 746	520 608	290 419	510 750
Other comprehensive income					
Items that may be reclassified subsequently to profit or loss:					
Movement in financial assets at fair value through OCI					
Fair value (losses)/ gains arising during the reporting period		(15 546)	3 991	(15 546)	3 991
Deferred tax		3 420	(878)	3 420	(878)
		(12 126)	3 113	(12 126)	3 113
Total other comprehensive income for the year, net of tax		(12 126)	3 113	(12 126)	3 113
Total comprehensive income for the year, net of tax		284 620	523 721	278 293	513 863
Earnings per share					
Basic and diluted (thebe per share)	15	34.82	61.09		

The accompanying notes form an integral part of these annual financial statements.

* Management fee income has been presented previously within the administrative and general expenses account for company numbers. As the management fee income is not wholly reimbursed and in order to improve the understanding of the users of the financial statements, management fee income from subsidiary is presented under the other income account with the comparative being restated. (refer to note 9 for details).



Statements of financial position

for the year ended 31 December 2019

	Notes	Consolidated		Company	
		2020 P'000	2019 P'000	2020 P'000	2019 P'000
Assets					
Cash	27	645 784	529 450	645 784	529 450
Balances at central bank	16	775 787	890 439	775 787	890 439
Trading portfolio assets	17	212 332	-	212 332	-
Derivative financial instruments	18	48 430	48 769	48 430	48 769
Financial assets at fair value through OCI	19	2 042 225	2 251 097	2 042 225	2 251 097
Loans and advances to banks	20	1 010 533	1 059 520	1 010 533	1 059 520
Due from related parties	52	1 404 496	191 990	1 547 126	191 990
Loans and advances to customers	21	13 904 310	13 362 427	13 904 310	13 362 427
Other receivables	25	152 775	220 239	152 775	220 239
Property, plant and equipment	23	252 083	197 635	252 083	197 635
Intangible assets	24	2 717	817	2 717	817
Deferred tax assets	31	110 635	69 576	110 087	66 517
Taxation refundable	40	5 762	-	5 110	-
Investment in Subsidiary	57	-	-	-	-
Total assets		20 567 869	18 821 959	20 709 299	18 818 900
Equity and liabilities					
Liabilities					
Deposits from banks	28	553 623	302 972	553 623	302 972
Due to related parties	52	350 958	575 824	536 810	611 322
Customer deposits	29	15 903 147	14 377 542	15 903 147	14 376 541
Derivative financial instruments	18	42 396	36 074	42 396	36 074
Other payables	33	375 858	557 412	380 585	555 949
Provisions	32	37 828	35 412	22 779	20 582
Taxation payable	40	-	4 568	-	11 078
Debt securities in issue	35	394 192	350 673	394 192	350 673
Subordinated debt	36	574 476	358 816	574 476	358 816
Total liabilities		18 232 478	16 599 293	18 408 008	16 624 007
Shareholders' equity					
Stated capital	37	17 108	17 108	17 108	17 108
General risk reserve	38	118 347	118 347	118 347	118 347
Fair value reserves	38	(9 753)	2 373	(9 753)	2 373
Share-based payment reserve	38	1 120	3 323	1 120	3 323
Share capital reserve	38	2 060	2 060	2 060	2 060
Retained income	38	2 206 509	2 079 455	2 172 409	2 051 682
Total equity attributable to equity holders		2 335 391	2 222 666	2 301 291	2 194 893
Total equity and liabilities		20 567 869	18 821 959	20 709 299	18 818 900

The accompanying notes form an integral part of these annual financial statements.



Statement of changes in equity

for the year ended 31 December 2020

Consolidated

	Stated capital P'000	General risk reserve P'000	Fair value reserves P'000	Share- based payment reserve P'000	Retained income P'000	Share capital reserve P'000	Total equity attributable to equity holders P'000
Balance at 1 January 2019	17 108	118 347	(740)	3 148	1 853 969	2 060	1 993 892
Increase/(decrease) resulting from adoption of IFRS 16	-	-	-	-	(1 102)	-	(1 102)
Profit for the year	-	-	-	-	520 608	-	520 608
Other comprehensive income for the year	-	-	3 113	-	-	-	3 113
Total comprehensive income for the year	-	-	3 113	-	520 608	-	523 721
Dividends paid	-	-	-	-	(299 995)	-	(299 995)
Recognition of share-based payments	-	-	-	175	-	-	175
Transfer to retained earnings	-	-	-	-	5 975	-	5 975
Total transactions with owners	-	-	-	175	(294 020)	-	(293 845)
Balance at 31 December 2019	17 108	118 347	2 373	3 323	2 079 455	2 060	2 222 666
Note	37			51			
Balance at 1 January 2020	17 108	118 347	2 373	3 323	2 079 455	2 060	2 222 666
Profit for the year	-	-	-	-	296 746	-	296 746
Other comprehensive income for the year	-	-	(12 126)	-	-	-	(12 126)
Total comprehensive income for the year	-	-	(12 126)	-	296 746	-	284 620
Dividends paid	-	-	-	-	(213 040)	-	(213 040)
Recognition of share-based payments	-	-	-	(2 203)	-	-	(2 203)
Capital reinvestment (note 42)	-	-	-	-	43 348	-	43 348
Total transactions with owners	-	-	-	(2 203)	(169 692)	-	(171 895)
Balance at 31 December 2020	17 108	118 347	(9 753)	1 120	2 206 509	2 060	2 335 391
Note	37			51			

The accompanying notes form an integral part of these annual financial statements.



Statement of changes in equity

for the year ended 31 December 2020

Company

	Stated capital P'000	General risk reserve P'000	Fair value reserves P'000	Share- based payment reserve P'000	Retained income P'000	Share capital reserve P'000	Total equity attributable to equity holders P'000
Balance at 1 January 2019	17 108	118 347	(740)	3 148	1 836 055	2 060	1 975 978
Increase/(decrease) resulting from adoption of IFRS 16	-	-	-	-	(1 102)	-	(1 102)
Profit for the year	-	-	-	-	510 750	-	510 750
Other comprehensive income for the year	-	-	3 113	-	-	-	3 113
Total comprehensive income for the year	-	-	3 113	-	510 750	-	513 863
Dividends paid	-	-	-	-	(299 995)	-	(299 995)
Recognition of share-based payments	-	-	-	175	-	-	175
Transfer to retained earnings	-	-	-	-	5 974	-	5 974
Total transactions with owners	-	-	-	175	(294 021)	-	(293 846)
Balance at 31 December 2019	17 108	118 347	2 373	3 323	2 051 682	2 060	2 194 893
Note	37			51			
Balance at 1 January 2020	17 108	118 347	2 373	3 323	2 051 682	2 060	2 194 893
Profit for the year	-	-	-	-	290 419	-	290 419
Other comprehensive income for the year	-	-	(12 126)	-	-	-	(12 126)
Total comprehensive income for the year	-	-	(12 126)	-	290 419	-	278 293
Dividends paid	-	-	-	-	(213 040)	-	(213 040)
Recognition of share-based payments	-	-	-	(2 203)	-	-	(2 203)
Capital reinvestment (note 42)	-	-	-	-	43 348	-	43 348
Total transactions with owners	-	-	-	(2 203)	(169 692)	-	(171 895)
Balance at 31 December 2020	17 108	118 347	(9 753)	1 120	2 172 409	2 060	2 301 291
Note	37			51			

The accompanying notes form an integral part of these annual financial statements.



Statement of cash flows

for the year ended 31 December 2020

	Notes	Consolidated		Company	
		31 December 2020 P'000	31 December 2019 Restated* P'000	31 December 2020 P'000	31 December 2019 Restated* P'000
Cash flows from operating activities					
Cash used in operations	39	(535 463)	(171 987)	(539 468)	(183 142)
Net increase in loans and advances to customers		(697 781)	(1 532 808)	(697 781)	(1 532 808)
Interest received	44	1 287 801	1 283 991	1 287 801	1 283 991
Interest paid	43	(283 280)	(278 344)	(283 280)	(278 344)
Income taxes paid net of refunds		(115 472)	(157 792)	(113 243)	(151 041)
Increase in deposits due to customers		1 522 860	2 522 922	1 523 861	2 522 922
Increase in amounts due from related parties		(33 552)	(20 099)	(183 132)	(20 099)
(Decrease)/increase in deposits due to other banks		250 651	(55 000)	250 651	(55 000)
(Decreased)/ Increase in amounts due to related parties		(180 306)	(907 367)	(29 952)	(902 963)
Increase/(decrease) in statutory reserve with the Central Bank		388 496	(94 398)	388 496	(94 398)
(Increase)/ decrease in derivative financial instruments		3 050	(5 965)	3 050	(5 965)
Net cash generated used in operating activities*		1 607 004	583 153	1 607 004	583 153
Cash flows from investing activities					
Payments for property, plant and equipment	23	(69 502)	(42 481)	(69 502)	(42 481)
Proceeds from disposal of property, plant and equipment	41	48	15 091	48	15 091
Payments for intangible assets	24	(2 552)	-	(2 552)	-
Decrease in long term financial instruments held at FVOCI		(606 432)	(316 238)	(606 432)	(316 238)
Purchase of trading portfolio assets		(710 232)	513	(710 232)	513
Proceeds from disposal of trading portfolio assets		497 400	-	497 400	-
Net cash used in investing activities		(891 270)	(343 115)	(891 270)	(343 115)
Cash flows from financing activities					
Dividends paid to shareholders	42	(169 693)	(299 995)	(169 693)	(299 995)
Issuance of debt securities	35	131 000	94 200	131 000	94 200
Redemption of debt securities	35	(88 000)	(278 800)	(88 000)	(278 800)
Proceeds from subordinated debt	36	215 660	-	215 660	-
Payment of lease liabilities		(28 211)	(49 935)	(28 211)	(49 935)
Net cash used in financing activities		60 756	(534 530)	60 756	(534 530)
Net decrease in cash and cash equivalents		776 490	(294 492)	776 490	(294 492)
Cash and cash equivalents at the beginning of the year		3 815 626	4 110 118	3 815 626	4 110 118
Cash and cash equivalents at the end of the year*	45	4 592 116	3 815 626	4 592 116	3 815 626

*Prior year numbers have been restated, refer to note 45 for further details.

The accompanying notes form an integral part of these annual financial statements.



Summary of accounting policies

for the year ended 31 December 2020

1. Statement of compliance

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (IFRIC) and the requirements of the Companies Act of Botswana (Companies Act, 2003); the Botswana Banking Act (Cap 46:04) and all applicable legislation.

The consolidated financial statements of Absa Bank Botswana Limited were authorised for issuance by the board of directors on 26th March 2021 and are available for inspection at the Bank's registered office. The separate financial statements of the Bank were authorised for issue by the board of directors on 21st May 2021.

2. Significant accounting policies

The significant accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Adoption of new and revised accounting standards

During the current year, the Bank has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRIC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2020. For details of the new and revised accounting policies refer to note 55.

2.2 Basis of preparation

Apart from certain items that are carried at fair valued amounts, as explained in the accounting policies below, the financial statements have been prepared on the historical cost basis. The principal accounting policies are set out below.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern.

The financial statements are presented in thousands of Pula (P'000), the presentation currency of the Bank. All amounts have been rounded to the nearest thousand unless otherwise advised.

2.3 Consolidation

The annual financial statements include those of the Group comprising of Absa Bank Botswana Limited and Absa Insurance Services (Proprietary) Limited.

Subsidiaries are all entities over which the Group has control. The Group controls and hence consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group will only consider potential voting rights that are substantive when assessing whether it controls another entity. In order for the right to be substantive, the holder must have the practical ability to exercise that right. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

When necessary, adjustments are made to the annual financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Intragroup transactions and balances are eliminated on consolidation and consistent accounting policies are used throughout the Group for the purposes of the consolidation. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and they do not result in loss of control.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except for:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-based Payment at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

2.3.1 Investment in subsidiary

Subsidiaries are entities in which the Bank has at least 50% of the equity and control. Investments in subsidiaries are measured at cost.



Summary of accounting policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.4 Business combinations

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 Financial Instruments.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

2.5 Foreign currency

Functional currency and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The annual financial statements are presented in Pula, which is the Group's functional and presentation currency.

In preparing the annual financial statements, transactions in currencies other than the functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. Refer to note 8 for exchange gains and losses recognised.

2.6 Revenue recognition

Net interest income

Interest revenue and interest charges which are calculated using the effective interest method are separately presented in the statement of comprehensive income. Effective interest on loans and advances at amortised cost and debt instruments at fair value through other comprehensive income as well as the interest expense on

financial liabilities held at amortised cost, are calculated using the effective interest rate method. This results in the allocation of interest, and direct and incremental fees and costs, over the expected lives of the assets and liabilities.

The effective interest method requires the Group to estimate future cash flows, in some cases based on its experience of customers' behaviour, considering all contractual terms of the financial instrument, as well as the expected lives of the assets and liabilities. Due to the large number of products and types (both assets and liabilities), there are no individual estimates that are material to the results or financial position.

The Group also presents as part of net interest income, albeit separate from effective interest income and effective interest expense, other interest income and other interest charges, which are not calculated on the effective interest method.

Effective interest rate (EIR) method

The Group's EIR method recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well as expected changes to Group's base rate and other fee income/expense that are integral parts of the instrument.

Revenue from contracts with customers

Revenue from contracts with customers is measured based on the transaction price specified in a contract with a customer and excludes amounts on behalf of third parties. The Group recognises the revenue from contracts with customers when it transfers control over to the customers.

Revenue from contracts with customers is presented in "fee and commission income".

The following is a description of the principal activities from which the Group generates its revenue from contracts with customers:

Fee and commission income

Credit-related fees and commissions
Banking fees such as bundled service fees, transactional fees and account management fees are recognised over the period over which the underlying service is provided to the customer. Transactional fees such as cash withdrawal fees, deposit fees, debit order fees etc. are recognised at the point in time of transactions with customers and payment is received monthly. The performance obligation on bundled services is satisfied on a monthly basis at a point in time.

Commitment fees

Commitment fees relate to loan commitments where it is not probable that the loan will be drawn. Such fees are regarded as a return for the provision of a service and are amortised over the commitment period. These fees may be received upfront or on a monthly basis.



Summary of accounting policies (continued)

for the year ended 31 December 2020

2 Significant accounting policies (continued)

2.6 Revenue recognition (continued)

Net trading income

In accordance with IFRS 9 trading positions are held at fair value and the resulting gains and losses are included in profit or loss, together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

Income arises from both the sale and purchase of trading positions, margins which are achieved through market-making and customer business and from changes in fair value caused by movements in interest and exchange rates, equity prices and other market variables.

Gains or losses on assets or liabilities reported in the trading portfolio are included in profit or loss under "net trading income" together with interest and dividends arising from long and short positions and funding costs relating to trading activities.

2.7 Leasing

The Group's leases consist mostly of property leases including branches, head offices, ATM sites and other administrative buildings. None of these leases are considered individually significant to the group. Leases are negotiated for an average term of three to five years although this differs depending on the jurisdiction and type of property. Some leases will include renewal options but these are generally renewals at market rates to be negotiated at the time of renewing the contract. These rates will only be included in the lease liability once it is reasonably certain that the group will exercise the extension option. Most leases in the Group have fixed escalations with a limited number of inflation linked leases.

As lessor

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Where the Group is the lessor, and the lease is a finance lease, the leased asset is not held on the statement of financial position; instead a finance lease receivable is recognised representing the minimum lease payments receivable under the terms of the lease, discounted at the rate of interest implicit in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term. The Group recognises leased assets on the statement of financial position within property and equipment.

As lessee

Where the Group is a lessee, a right-of-use asset and corresponding lease liability are recognised at commencement date. The right-of-use asset is initially and subsequently measured at cost with depreciation

recognised on a straight line basis over the lease term. The right of use asset is included within property, plant and equipment in the statement of financial position. The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease, if readily determinable, or the lessee's incremental borrowing rate. Lease liabilities are subsequently measured at amortised cost. Interest is recognised within net interest income and the lease liability is included within other payables in the statement of financial position.

The lease payments in relation to short term leases (leases with a lease term of 12 months or less at commencement date) and leases in which the underlying asset is of low value are recognised as an expense on a straight line basis over the lease term.

2.8 Employee benefits

Staff costs

Short-term employee benefits, including salaries, accrued performance costs, salary deductions and taxes are recognised over the reporting period in which the employees provide the services to which the payments relate. Performance costs are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably and are recognised on an undiscounted basis over the period of service that employees are required to work to qualify for the benefits.

Defined benefit scheme

In the past, the Group operated a defined benefit pension plan for its employees ("the Fund"). The Group has since discontinued this Fund and currently there are no active employees within this Fund. The Board of Trustees of the Fund have obtained relevant regulatory approvals, and have wound up the defined benefit Fund by converting the deferred members within this Fund to transfer relevant member credits to their new employers' pension plans or purchase annuities from other service providers in the market. This process was concluded by 31 May 2015.

Deferred defined benefits have been converted to defined contribution based on accrued benefits as at 31 May 2015. Annuities with respect to deferred pensioners have been purchased with effect from 31 May 2015. Consequently settlement accounting treatment was adopted in 2015 disclosures and thus no defined benefit obligation remains in respect of the defined benefit deferred members.

In 2016, a contractual agreement was signed between the Fund and the insurer which specifies that the obligation in respect of the pensioners has transferred to the insurer. In the past, the annual pension increase declared by the Board of Trustees of the Fund was closely aligned to the prevailing inflation and was higher than the 2.5% as prescribed by the Fund rules. At the time of sourcing annuities, this was regularised. The fair value of Insurance Policy is aligned to the defined benefit obligation and any change in fair value of this plan asset was considered to arise from remeasurement and accounted within other comprehensive income. The remaining surplus is not available to the Group and is treated as a reduction in asset ceiling and is accounted as such.



Summary of accounting policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.8 Employee benefits (continued)

Defined contribution scheme

The Group recognises contributions due to defined contribution plans as an expense as and when the services are rendered by employees that entitle them to such contributions. Any contributions unpaid at the reporting date are therefore included as a liability.

Valuation of the retirement benefit plan

The Group treats any change in the fair value of plan assets in the form of a qualifying insurance policy, due to plan amendments, as change due to remeasurements and any resultant gains or losses are transferred to other comprehensive income ('OCI'). The valuations and contributions towards the defined benefit plans were determined using actuarial valuations.

The actuarial valuations involved making assumption about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Any changes in these assumptions impacted the carrying amount of pension obligations.

In 2015 the Group took out a pension policy with an independent insurer, to assume the payments in respect of the current defined benefit pensioners. This resulted in a change in the fair value of plan assets. Management treated this as a remeasurement, with the movement being recognised in line with the requirements of IAS 19 Employee Benefits.

Employee services settled in equity instruments

The Group operates equity-settled and cash-settled share-based payment plans.

Employee services settled in equity instruments

The cost of the employee services received in respect of the shares or share options granted is recognised in profit or loss, with a corresponding increase in equity, over the period that employees provide services, generally the period in which the award is granted or notified and the vesting date of the shares or options. The overall cost of the award is calculated using the number of shares and options expected to vest and the fair value of the shares or options at the date of grant.

Absa Group Limited operates a number of share schemes across multiple subsidiaries within the Absa Group. An individual subsidiary within the Absa Group that receives services as part of a share-based payment arrangement that is equity-settled, from the perspective of the Absa Group, shall account for that award as equity-settled in its separate financial statements only when:

- The awards granted are settled with the subsidiary's own equity instruments; or
- The entity has no obligation to settle the share-based payment transaction.

Where these criteria are not met, the award will be cash settled in the separate financial statements of the subsidiary.

In terms of the rules of the share-based payment schemes currently in effect within the Group (explained further in note 51), Absa Group Limited has the ultimate obligation to settle the deferred awards, and is accordingly considered to be the grantor of the awards under IFRS 2. The Group therefore accounts for the current schemes as equity-settled share-based payment arrangements.

The accounting treatment under IFRS 2, as determined to be required in the separate financial statements of the Group, applies regardless of any intra-group repayment arrangements that might be in place.

The number of shares and options expected to vest takes into account the likelihood that performance and service conditions included in the terms of the awards will be met. Failure to meet non-vesting condition is treated as a cancellation, resulting in an acceleration of recognition of the cost of the employee services.

The fair value of shares is the market price ruling on the grant date, in some cases adjusted to reflect restrictions on transferability. The fair value of options granted is determined using option pricing models to estimate the numbers of shares likely to vest. These take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors. Market conditions that must be met in order for the award to vest are also reflected in the fair value of the award, as are any other non-vesting conditions.

Employee services settled in cash

The fair value of the amount payable to employees in terms of a cash-settled share-based payment is recognised as an expense, with a corresponding increase in liabilities, over the vesting period. The liability is remeasured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as staff costs in profit or loss. No amount is recognised for services received if the awards granted do not vest because of a failure to satisfy a vesting condition.

2.10 Taxation

Income tax expense represents the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities.

Current taxation

Income tax payable on taxable profits ("current taxation") is recognised as an expense in the reporting period in which the profits arise. Income tax recoverable on tax allowable losses is recognised as a current tax asset only to the extent that it is regarded as recoverable by offset against taxable profits arising in the current or prior reporting period. Current tax is measured using tax rates and tax laws that have been enacted or substantively enacted at the reporting date.



Summary of accounting policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.10 Taxation (continued)

Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising from the differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates and legislation enacted or substantively enacted by the reporting date, which are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets and liabilities are only offset when there is both a legal right to set-off and an intention to settle on a net basis.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Current and deferred tax

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Withholding taxation

Dividends are taxed at 7.5% or other applicable rates as prescribed by double tax agreements in place in the hands of the recipients of the dividends.

Value added taxation

Revenues, expenses and assets are recognised net of the amount of VAT, except:

- where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the asset; and
- receivables and payables that are stated with the amount of VAT included.

Non-recoverable VAT on operating expenditure is disclosed separately in operating expenditure in the statement of comprehensive income. The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

2.11 Property, plant and equipment

Freehold land is not depreciated.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready

for its intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Property, plant and equipment is stated at cost, which includes direct and incremental acquisition costs less accumulated depreciation and provisions for impairment, if required. Subsequent costs are capitalised if these result in an enhancement to the asset.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Useful lives and residual values

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

	Useful lives Years
Property, plant and equipment	
Freehold property	50
Office equipment, computers, ATMs and point of sale devices	3 - 7
Motor vehicles	5
Furniture and fittings	5

Leasehold property and rented property improvements are depreciated over a period that is the shorter of the unexpired period of the lease or its useful life.

2.12 Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Useful lives

Intangible assets

	Useful lives Years
Capitalised computer software	3 - 5



Summary of accounting policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.12 Intangible assets (continued)

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

2.13 Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired.

If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating units (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For non-financial assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its cost amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.



Summary of accounting policies (continued)

for the year ended 31 December 2020

2.14 Provisions

Provisions are recognised for present obligations arising as consequences of past events where it is more likely than not that a transfer of economic benefit will be necessary to settle the obligation, which can be reliably estimated.

2.15 Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events, and present obligations where the transfer of economic resources is uncertain or cannot be reliably measured. Contingent liabilities are not recognised on the statement of financial position but are disclosed unless the outflow of economic resources is remote.

2.16 Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are capitalised to the initial carrying amount of the financial asset/liability, as appropriate on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group recognises financial assets and liabilities when it becomes a party to the terms of the contract, which is the trade date or the settlement date.

On initial recognition, it is presumed that the transaction price is the fair value unless there is observable information available in an active market to the contrary. The best evidence of an instrument's fair value on initial recognition is typically the transaction price. However, if fair value can be evidenced by comparison with other observable current market transactions in the same instrument, or is based on a valuation technique whose inputs include only data from observable markets then the instrument should be recognised at the fair value derived from such observable market data.

For valuations that have made use of significant unobservable inputs, the difference between the model valuation and the initial transaction price (Day One profit) is recognised in profit or loss either on a straight-line basis over the term of the transaction, or over the reporting period until all model inputs will become observable where appropriate, or released in full when previously unobservable inputs become observable.

2.16.2 Classification and measurement of financial instruments

On initial recognition, the Group classifies its financial assets into the following measurement categories:

- Amortised cost;
- Fair value through other comprehensive income; or
- Fair value through profit or loss;

The classification and subsequent measurement of financial assets depends on:

- The business model within which the financial assets are managed; and
- The contractual cash flow characteristics of the asset (that is, whether the cash flows represent solely payments of principal and interest).

Business model assessment:

The business model reflects how the Group manages the financial assets in order to generate cash flows and returns. The Group makes an assessment of the objective of a business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The factors considered in determining the business model include: (i) how the financial assets' performance is evaluated and reported to management; (ii) how the risks within the portfolio are assessed and managed; and (iii) the frequency, volume, timing for past sales, sales expectations in future periods, and the reasons for such sales.

The Group reclassifies debt instruments when, and only when, the business model for managing those assets changes. Such changes are highly unlikely and therefore expected to be very infrequent.

Assessment of whether contractual cash flows are solely payments of principal and interest (SPPI):

In making the assessment of whether the contractual cash flows have SPPI characteristics, the Group considers whether the cash flows are consistent with a basic lending arrangement. That is, the contractual cash flows recovered must represent solely the payment of principal and interest. Principal is the fair value of the financial asset on initial recognition. Interest typically includes only consideration for the time value of money and credit risk but may also include consideration for other basic lending risks and costs, such as liquidity risk and administrative costs, together with a profit margin.

Where the contractual terms include exposure to risk or volatility that is inconsistent with a basic lending arrangement, the cash flows would not be considered to be SPPI and the assets would be mandatorily measured at fair value through profit or loss, as described below. In making the assessment, the Group considers, inter alia, contingent events that would change the amount and timing of cash flows, prepayment and extension terms, leverage features, terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements), and features that modify consideration of the time value of money (e.g. tenor mismatch). Contractual cash flows are assessed against the SPPI test in the currency in which the financial asset is denominated.



Summary of accounting policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

Debt Instruments:

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds. The Group classifies its debt instruments as follows:

- Amortised cost - Financial assets are classified within this measurement category if they are held within a portfolio whose primary objective is the collection of contractual cash flows, where the contractual cash flows on the instrument are SPPI, and that are not designated at fair value through profit or loss. These financial assets are subsequently measured at amortised cost where interest is recognised as effective interest within Effective interest income using the effective interest rate method. The carrying amount is adjusted by the cumulative expected credit losses recognised.
- Fair value through other comprehensive income - This classification applies to financial assets which meet the SPPI test, and are held within a portfolio whose objectives include both the collection of contractual cash flows and the selling of financial assets. These financial assets are subsequently measured at fair value with movements in the fair value recognised in other comprehensive income, with the exception of interest income, expected credit losses and foreign exchange gains and losses that are recognised within profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to Net trading income in profit or loss. Interest income from these financial assets is included as Effective interest within Effective interest income using the effective interest rate method.
- Fair value through profit or loss - Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are mandatorily measured at fair value through profit or loss. Gains and losses on these instruments are recognised in profit or loss. The Group may also irrevocably designate financial assets that would otherwise meet the requirements to be measured at amortised cost or at fair value through other comprehensive income, as at fair value through profit or loss, if doing so would eliminate or significantly reduce an accounting mismatch that would otherwise arise. These will be subsequently measured at fair value through profit or loss with gains and losses recognised as Gains and losses from banking and trading activities or in profit or loss.

Equity instruments:

IFRS 9 provides that at initial recognition, an irrevocable election may be made to present subsequent changes in the fair value of an equity instrument in other comprehensive income, provided that the instrument is neither held for trading nor constitutes contingent

consideration recognised in a business combination. Amounts recognised in other comprehensive income are not subsequently recognised in profit or loss. Dividends, when representing a return on investment, continue to be recognised in profit or loss when the Group's right to receive payment is established. All equity instruments for which the designation at fair value through other comprehensive income has not been applied are required to be recognised at fair value through profit or loss.

Financial Liabilities

Financial liabilities that are held at amortised cost are measured in accordance with the effective interest rate method. That is, the initial fair value (which is normally the amount borrowed) is adjusted for premiums, discounts, repayments and the amortisation of coupon, fees and expenses to represent the effective interest rate of the liability.

Financial liabilities classified as held for trading are subsequently measured at fair value through profit or loss, with changes in fair value being recognised in profit or loss.

A financial liability may be designated at fair value through profit or loss if (i) measuring the instrument at fair value eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (ii) if the instrument belongs to a group of financial assets or financial liabilities that are managed on a fair value basis, in accordance with a documented risk management or investment strategy. Own credit gains or losses arising from the valuation of financial liabilities designated at fair value through profit or loss are recognised in other comprehensive income and are not subsequently recognised in profit or loss.

2.16.3 Expected credit losses on financial assets

The Group uses a mixed approach to impairment where parameters are modelled at an individual financial instrument level or on a portfolio basis when they are only evident at this higher level. A collective approach will only be carried out when financial instruments share similar risk characteristics, which could include factors such as instrument type, collateral type, industry, geography and credit risk ratings.

The Group recognises expected credit losses based on unbiased forward-looking information. Expected credit losses are recognised on:

- financial assets at amortised cost
- lease receivables
- debt instruments at fair value through other comprehensive income
- loan commitments not measured at fair value
- financial guarantee contracts not measured at fair value

Summary of accounting policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

2.16.3 Expected credit losses on financial assets (continued)

Impairment is recognised based on a three-stage approach:

Stage 1: Exposures where there has not been a significant increase in credit risk since origination. For these exposures an expected credit loss is recognised based on the credit losses expected to result from default events that are possible within 12 months of the reporting date. Interest income is calculated based on the gross carrying value of these instruments.

Stage 2: Exposures for which the credit risk has increased significantly since initial recognition. For these exposures lifetime expected credit losses should be recognised (i.e. credit losses from default events that are possible over the life of the instrument). The Group will assess whether a significant increase in credit risk has occurred based on (i) qualitative drivers including being marked as high risk or reflected on management's watch list; and (ii) quantitative drivers such as the change in the asset's cumulative weighted average lifetime probability of default (PD). Any exposure that is more than 30 days past due will also be included in this stage. Interest income is calculated based on the gross carrying value of these instruments.

Stage 3: Exposures which are credit impaired. For these exposures, expected credit losses are based on lifetime losses. Assets are considered to be credit impaired when they meet the regulatory definition of default which includes unlikelihood to pay indicators as well as any assets that are more than 90 days past due. Interest income is calculated based on the carrying value net of the loss allowance.

EAD is the estimated amount at risk in the event of a default (before any recoveries) including behavioural expectation of limit usage by customers in the various stages of credit risk.

- PD is the probability of default at a particular point in time, which may be calculated, based on the defaults that are possible to occur within the next 12 months; or over the remaining life; depending on the stage allocation of the exposure.
- LGD is the difference between the contractual cash flows due and the cash flows expected to be received, discounted to the reporting date at the effective interest rate. The expectation of cash flows take into account cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms. The estimate reflects the amount and timing of cash flows expected from the enforcement of collateral less the costs of obtaining and selling the collateral. The collection of any cash flows expected beyond the contractual maturity of the contract is also included.

Lifetime of financial instruments

For exposures in stage 2 and stage 3, the maximum lifetime over which expected credit losses should be measured, is the maximum contractual period over which the Group is exposed to credit risk. The Group estimates cash flows by considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) through the expected life of that financial instrument. In rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the Group use the remaining contractual term of the financial instrument.

Certain credit exposures include both a drawn and an undrawn component and the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the exposure to credit losses to the contractual notice period. In this case, expected credit losses are measured over the period that the Group is exposed to credit risk, even if that period extends beyond the maximum contractual period. This applies to overdrafts, credit cards and other revolving products.

These contracts are cancellable at very short notice and they have no fixed term but credit may continue to be extended for a longer period and may only be withdrawn after the credit risk of the borrower increases, which could be too late to prevent losses. For these types of products, the expected life is based on the behavioural life, i.e. the period over which there is exposure to credit risk which is not expected to be mitigated by credit actions (e.g. limit decreases) even though the contract permits immediate limit decrease.

Forward looking information

Forward-looking information is factored into the measurement of expected losses through the use of multiple expected macro-economic scenarios that are either reflected in estimates of PD and LGD for material portfolios; or adjusted through expert credit judgement where the effects could not be statistically modelled.

Write -off

The gross carrying amount of a financial asset shall be directly reduced (that is, written off) when the entity has no reasonable expectations of recovering it in its entirety, or a portion thereof. A write-off constitutes a derecognition event for accounting purposes. Accounts are written off the sooner of:

- Where less than one qualifying payment is received in the last 12 months; or
- It is not economically viable to keep the debt on the balance sheet.

Under IFRS 9, the Group applies the write-off assumptions consistently at both an individual account level and on a collective modelling basis. This means that the Group's LGD model includes only the present value of forecast recoveries on a pool of loans up until the designated point of write-off. Recoveries of amounts previously written off are recognised as an ECL gain in the statement of comprehensive income as and when the cash is received.



Summary of accounting policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.16 Financial instruments (continued)

2.16.4 Derecognition of financial instruments

Derecognition of financial assets

Full derecognition only occurs when the rights to receive cash flows from the asset have been discharged, cancelled or have expired, or the Group transfers both its contractual right to receive cash flows from the financial assets (or retains the contractual rights to receive the cash flows, but assumes a contractual obligation to pay the cash flows to another party without material delay or reinvestment) and substantially all the risks and rewards of ownership, including credit risk, prepayment risk and interest rate risk. When an asset is transferred, in some circumstances, the Group may retain an interest in it (continuing involvement) requiring the Group to repurchase it in certain circumstances for other than its fair value on that date.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified (taking into account both quantitative and qualitative factors), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss. Where the terms of an existing liability are not substantially modified, the liability is not derecognised. Costs incurred on such transactions are treated as an adjustment to the carrying amount of the liability and are amortised over the remaining term of the modified liability.

On derecognition of a financial instrument, any difference between the carrying amount thereof and the consideration received is recognised in profit or loss.

2.16.5 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Ordinary share capital

Proceeds are included in equity, net of transaction costs. Dividends and other returns to equity holders are recognised when declared by the Board.

Dividends

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared, in accordance with the Companies Act of Botswana (Companies Act, 2003). Capital reinvestment relates to dividends re-invested back by Absa Group and these are treated as capital injections back into back into capital.

2.16.6 Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts and interest rate swaps.

Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives embedded in financial liability non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

2.16.7 Offsetting

In accordance with IAS 32 Financial Instruments: Presentation, the Group reports financial assets and financial liabilities on a net basis on the statement of financial position only if there is a current legally enforceable right to set off the recognised amounts and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

2.17 Cash and cash equivalents

For the purposes of the statement of cash flows, cash comprises cash on hand and demand deposits, and cash equivalents comprise highly liquid investments that are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less.



Summary of accounting policies (continued)

for the year ended 31 December 2020

2. Significant accounting policies (continued)

2.18 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity holders of the Group and the number of basic weighted average number of ordinary shares excluding treasury shares held in employee benefit trusts or held for trading. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the effects of all dilutive potential ordinary shares held.

2.19 Segmental reporting

The Group's segmental reporting is in accordance with IFRS 8 Operating Segments (IFRS 8). Operating segments are reported in a manner consistent with the internal reporting provided to the Country Management Committee (CMC), which is responsible for allocating resources and assessing performance of the operating segments and has been identified as the Chief Operation Decision Maker (CODM). All transactions between business segments are conducted on an arm's length basis. Income and expenses directly associated with each segment are included in determining business segment performance.

Assets excluding loans and advances to customers, financial instruments, trading portfolio assets and derivative instruments and liabilities excluding deposits due to customers, derivative financial instruments and debt securities in issue are not identifiable to any one of the reportable segments and can be used interchangeably between segments. As a result, these are not reviewed by chief operating decision maker. Therefore, segmental disclosure relating to these has not been provided.

All transactions between segments are carried in the normal course of business. Our management reporting system reports our inter-segment service at a cost reduction and does not take them as internal revenue. Inter-segment service mainly represent utilisation of manpower resource of one segment by another on a project-by-project basis. Inter-segment services are charged based on an internal cost rate including certain indirect and direct overhead costs, but without profit margin.

The segment analysis for the year is detailed on note 50.

2.20 Loan commitments

The Group enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Group subject to notice conditions.

Under IFRS 9, loan commitments must be measured with reference to the quantum of ECL required to be recognised. In the case of undrawn loan commitments, the inherent credit risk is managed and monitored by the Group together with the drawn component as a single exposure. The EAD on the entire facility is therefore used to calculate the cumulative ECL. As a result, the total ECL is recognised in the ECL allowance in respect of the financial asset unless the total allowance exceeds the gross carrying amount of the financial asset. If this is the case, the excess ECL is recognised as a provision on the face of the statement of financial position.

2.21 Financial guarantees

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument. Financial guarantees are initially recognized in the financial statements under provisions at fair value on the date that the guarantee was given.

Other than where the fair value option is applied subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in profit or loss any fee income earned over the reporting period, and the amount of the loss allowance expected from the guarantee at the reporting date. Any increase in the liability relating to guarantees is recognised in profit or loss. For financial guarantee contracts the cash shortfalls are future payments to reimburse the holder for a credit loss that it incurs less any amounts that the entity would expect to receive from the holder, the debtor or any other party.



Summary of accounting policies (continued)

for the year ended 31 December 2020

3. Judgements and estimates

In the preparation of the annual financial statements, management is required to make judgements, estimates and assumptions that affect reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates, which may be material to the financial statements within the next financial period.

Judgements made by management that could have a significant effect on the amounts recognised in the financial statements include:

- Expected credit losses of financial assets
- Useful lives and residual values of property, plant and equipment (Note 23)
- Useful lives and residual values of intangible assets (Note 24)
- Valuation of the share-based payment reserve
- Basis for determining fair values of investments
- Basis for provision for commission refund
- Valuation of the retirement benefit plan (Note 30)

The consideration of credit risk is a fundamental process for the Group as it ultimately determines the impairment losses recognised from an accounting perspective. This section describes the processes and assumptions applied in estimating impairment under IFRS 9.

Expected credit losses (ECL) of financial assets Approach to impairment of credit exposures

The measurement of ECL involves a significant level of complexity and judgement, including estimation of probability of default (PD), loss given default (LGD), a range of unbiased future economic scenarios, estimation of expected losses, and estimation of exposure at default (EAD) and assessing significant increases in credit risk.

The purpose of estimating ECL is neither to estimate a worst-case scenario nor to estimate the best-case scenario. The estimate reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes. In some cases, relatively simple modelling is considered to be sufficient, without the need to consider the outcome under different scenarios. For example, the average credit losses of a large group of financial instruments with shared risk characteristics may be a reasonable estimate of the probability-weighted amount. In other situations, the identification of scenarios that specify the amount and timing of the cash flows for particular outcomes and the estimated probability of those outcomes will be needed.

Under IFRS 9, the Group recognises ECL based on a stage allocation methodology, with such categorisation informing the level of provisioning required. The ECL allowance calculated on stage 1 assets reflects the lifetime losses associated with events of default that are expected to occur within 12 months of the reporting date (12 month ECL). Assets classified within stage 2 and stage 3 carry an ECL allowance calculated based on the lifetime losses associated with defaults that are expected to occur over the lifetime of the exposure (lifetime ECL). The assessment of whether an exposure should be transferred from stage 1 to stage 2, is based on whether there has been a significant deterioration in credit risk. This is a relative measure, where the credit risk at the reporting date is compared to the risk that existed upon initial recognition of the instrument. Exposures are classified within stage 3 if they are credit impaired.

For IFRS 9 purposes, two distinct PD estimates are required:

- 12 month PD: the likelihood of accounts entering default within 12 months of the reporting date.
- Lifetime PD: the likelihood of accounts entering default during the remaining life of the asset.

For the purposes of credit modelling under IFRS 9, the PD is calculated on a point in time (PIT) basis and reflects the likelihood of default assessed based on the prevailing economic conditions at the reporting date, adjusted to take into account estimates of future economic conditions that are likely to impact the risk of default. PIT PDs do not equate to a long run average. This is a key distinction between the IFRS 9 ECL models and the Group's Basel III models. Under Basel III, the PD is the average of default within the next 12 months, calculated based on the long-run historical average over the full economic cycle (that is, through the cycle (TTC)).

IFRS 9 provides that financial assets should be written off, and accordingly derecognised, when the Group believes there to be no reasonable expectation of recovery. The Group has well-governed internal policies, which define how an individual account should be assessed for write-off, and which ensure that post write-off recoveries remain insignificant over the long run. Further, the policies are recalibrated over time, as and when actual recovery experience changes. Whilst the Group's write-off policy determines the point of derecognition at an individual account level, it also impacts the level of recoveries modelled on a collective basis for the purposes of determining LGDs to be applied at a portfolio level. Under IFRS 9, the Group applies the write-off assumptions consistently at both an individual account level and on a collective modelling basis. This means that the Group's LGD model includes only the present value of forecast recoveries on a pool of loans up until the designated point of write-off. Recoveries which are therefore forecast to be received post the point of write-off are excluded from the LGD model. Recoveries of amounts previously written off are recognised as an ECL gain in the statement of comprehensive income as and when the cash is received.

Summary of accounting policies (continued)

for the year ended 31 December 2020

3. Judgements and estimates (continued) Expected credit losses (ECL) of financial assets (continued)

In calculating LGD, losses are discounted to the reporting date using the EIR determined at initial recognition or an approximation thereof. For debt instruments, such as loans and advances, the discount rate applied is the EIR calculated on origination or acquisition date. For financial guarantee contracts or loan commitments for which the EIR cannot be determined, losses are discounted using a rate that reflects the current market assessment of the time value of money and the risks that are specific to the cash flows (to the extent that such risks have not already been taken into account by adjusting the cash shortfalls).

Approach to impairment of credit exposures (continued)

The EAD model estimates the exposure that an account is likely to have at any stage of default in future. This incorporates both the amortising profile of a term loan, as well as behavioural patterns such as the propensity of the client to draw down on unutilised facilities in the lead up to a default event.

Expert credit judgement may, in certain instances be applied to account for situations where known or expected risk factors have not been considered in the ECL assessment or modelling process, or where uncertain future events have not been incorporated into the modelled approach. Adjustments are intended to be short term measures and will not be used to incorporate any continuous risk factors. The Group has a robust policy framework which is applied in the estimation and approval of management adjustments.

Retail portfolio

Ratings assigned across each Retail portfolio are based on automated application and behavioural scoring systems. The underlying rating is calculated at point of application and updated monthly thereafter. The rating is used in decisions concerning underwriting and account management, and is used to calculate regulatory capital, economic capital and IFRS 9 ECL. The methodology and data employed in the risk estimation and the rating processes can be summarised as follows:

- Internal risk estimates of PD, EAD and LGD are based on historical experience and are reliant on historical data.
- PDs are assigned at account level, and consist of three elements namely:
 - a term structure, capturing typical default behaviour by the months since observation;
 - a behavioural model which incorporates client level risk characteristics; and
 - a macro-economic model that incorporates forward looking macro-economic scenarios

- EADs are assigned at an account level and are based on the EAD pool to which the account has been assigned. EAD estimates incorporate all relevant data and information including account balances as well as utilised and unutilised limits, if present.
- LGDs are assigned at account level and are based on the LGD pool to which the account has been assigned. Relevant historical data used in LGD estimates include observed exposure at the point of default, recovery strategies, re-defaults, cure and write-off rates. The models make use of risk drivers such as loan-to-value (LTV) and attributes that describe the underlying asset.

Wholesale portfolio

The Wholesale rating process relies both on internally developed PD, EAD and LGD rating models and vendor provided solutions. The Wholesale rating process relies on quantitative and qualitative assessments that could be manual or automated. Wholesale PDs and LGDs are modelled using the parameters from regulatory models as a starting point. Parameters are adjusted for differences between requirements under Basel III and IFRS 9.

- PD ratings are assigned on a customer level. Information used in the calculation of customer PD ratings includes financial statements, projected cash flows, equity price information, behavioural information, as well as quality assessments on strength of support.. In converting Basel III compliant PDs to PDs appropriate for the purposes of IFRS 9, the main adjustments effected comprise:
 - a macroeconomic adjustment that changes the paradigm from a long-run average default rate to a PD that reflects the prevailing macroeconomic conditions, thereby adjusting the PD from a seven year historical average to a PD reflective of the macro economic environment at the reporting date; and
 - an adjustment to the regulatory PD to convert it from a PD over 12 months, to a PD over the lifetime of an exposure, to be able to assess significant increases in credit risk and estimate lifetime provisions for stage 2.
- LGD estimates depend on the key drivers of recovery such as collateral value, seniority of claim and costs involved as part of the recovery process. LGD models are based on internal and external loss data and the judgement of credit experts. The main adjustments to LGD comprise a macroeconomic adjustment that changes the long-run LGD to reflect a given macroeconomic scenario as well as the exclusion of forecast recoveries expected beyond the point of write-off. Lifetime projections of LGD take into account the expected balance outstanding on a loan at the time of default, as well as the value of associated collateral at that point in time.



Summary of accounting policies (continued)

for the year ended 31 December 2020

3. Judgements and estimates (continued)

Critical areas of judgment with regards to IFRS 9:

Financial Instruments (continued)

Wholesale portfolio

- EAD models aim to replicate the expected utilisation of a customer's facility should a default occur. EADs are assigned for each facility using models incorporating internal and external default data as well as the experience of credit experts in relation to particular products or customer groups.

Definition of a significant increase in credit risk

The Group uses various quantitative, qualitative and backstop measures as indicators of a significant increase in credit risk. The thresholds applied for each portfolio will be reviewed on a regular basis to ensure they remain appropriate. Where evidence of a significant increase in credit risk is not yet available at an individual instrument level, instruments that share similar risk characteristics are assessed on a collective basis.

Key drivers of a significant increase in credit risk include:

- Where the weighted average (PD) for an individual exposure or group of exposures as at the reporting date evidences a material deterioration in credit quality, relative to that determined on initial recognition;
- Adverse changes in payment status, and where accounts are more than 30 days in arrears at reporting date. In certain portfolios a more conservative arrears rule is applied where this is found to be indicative of increased credit risk (e.g. 1 day in arrears);
- Accounts in the Retail portfolio which meet the portfolio's impairment high risk criteria; and
- The Group's watch list framework applied to the Wholesale portfolio, which is used to identify customers facing financial difficulties or where there are grounds for concern regarding their financial health.

Definition of credit impaired

Assets classified within stage 3 are considered to be credit impaired, when an exposure is in default. Important to the Group's definition of default, is the treatment of exposures which are classified as within forbearance. Forbearance is a concession granted to a counterparty for reasons of financial difficulty that would not otherwise be considered by the Group. The definition of forbearance is not limited to measures that give rise to an economic loss (that is, a reduction in the counterparty's financial obligation).

Default within Wholesale and Retail is aligned with the regulatory definition, and therefore assets are classified as defaulted when either:

- The Group considers that the obligor is unlikely to pay its credit obligations without recourse by the Group to actions such as realising security. Elements to be taken as indications of unlikelihood to pay include the following:
 - The Group consents to a distressed restructuring / forbearance of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness of principal, interest or fees;
 - The customer is under debt review, business rescue or similar protection;
 - Advice is received of customer insolvency or death; or,
 - The obligor is past due 90 days or more on any credit obligation to the Group.
- In addition, within the Retail portfolios:
- All forms of forbearance are treated as in default, regardless of whether the restructure has led to a diminished financial obligation or not; and
 - The Group requires an exposure to reflect at least 12 consecutive months of performance, in order to be considered to have been cured from Stage 3. This probation period applies to all exposures, including those that may have been classified as defaulted for reasons other than forbearance and debt review (e.g. owing to the fact that they become more than 90 days past due).



Summary of accounting policies (continued)

for the year ended 31 December 2020

3. Judgements and estimates (continued)

Critical areas of judgment with regards to IFRS 9:

Financial Instruments (continued)

Determination of the lifetime of a credit exposure

The determination of initial recognition and asset duration (lifetime) are critical judgements in determining quantum of lifetime losses that apply. The date of initial recognition reflects the date that a transaction (or account) was first recognised on the statement of financial position. The PD recorded at this time provides the baseline used for subsequent determination of a significant increase in credit risk.

When determining the period over which the entity is expected to be exposed to credit risk, but for which the ECL would not be mitigated by the entity's normal credit risk management actions, the Group considers factors such as historical information and experience about:

- the period over which the entity was exposed to credit risk on similar financial instruments;
- the length of time for related defaults to occur on similar financial instruments following a significant increase in credit risk; and
- the credit risk management actions that an entity expects to take once the credit risk on the financial instrument has increased, such as the reduction or removal of undrawn limits.

For asset duration, the approaches which are applied (in line with IFRS 9 requirements) are:

- Term lending: the contractual maturity date, reduced for behavioural trends where appropriate (such as, expected settlement and amortisation); and
- Revolving facilities: for Retail portfolios, asset duration is based on behavioural life and this is normally greater than contractual life. For wholesale portfolios, a sufficiently long period to cover expected life modelled and an attrition rate is applied to cater for early settlement.

Incorporation of forward-looking information into the IFRS 9 modelling

The Group's IFRS 9 impairment models consume macroeconomic information to enable the models to provide an output that is based on forward looking information. The macro-economic variables and forecast scenarios are sourced from one of the world's largest research companies, and are reviewed and approved in accordance with the Group's macroeconomic governance framework. This review includes the testing of forecast estimates, the appropriateness of variables and probability weightings, as well as the incorporation of these forecasts into the ECL allowance. Updates post Covid -19 on the forward looking information has been disclosed in note 4.

The Group has adopted the use of three economic scenarios: a base scenario, a mild upside scenario, and a mild downside scenario.

Base scenario

- Global growth is forecast to continue on the steady path but less synchronized and balanced among advanced economies than in previous years.

Sub-Saharan Africa's economy continues to face significant uncertainties and downside risk. Global uncertainties, including US trade and monetary policies, capital outflows, domestic political risks, fiscal vulnerabilities, volatile weather conditions and weak policy implementation continue to weigh on the outlook.

Mild upside scenario: Stronger near term growth

- The global economy grows faster than expected, as global trade and political tensions subside. This boosts global business confidence, trade and investment.
- A stronger global economy and higher commodity prices help support growth in African commodity exports and fixed investments. The level of output remains above the baseline scenario.

Mild downside scenario: Moderate recession

- Global output contracts over the first year of the forecast as economies experience a synchronised contraction in economic activity.
- Sub-Saharan Africa's markets would be affected through low commodity prices and currencies. Falling exports drive currencies weaker and inflation higher.

Updates to estimates and judgements on the base and mild scenarios as a result of COVID-19 have been outline in Note 4.



Summary of accounting policies (continued)

for the year ended 31 December 2020

3. Judgements and estimates (continued)

Share-based payments

As explained in section 2.9 the Group's equity share based payments schemes, are linked to the shares of its holding company, Absa Group Limited. The initial fair value of awards is determined at grant date, and is measured after taking into account all terms and conditions of the share incentive scheme, excluding non-market vesting conditions. In the case of certain schemes, options are granted to employees with a zero strike price. In this case the Group may consider Absa Group Limited share price on the grant date to be the best indication of the grant date fair value. Where the fair value of share awards relating to share-based payments is not based on a zero strike price, it is determined using option pricing models. The inputs to the option pricing models are derived from observable market data where possible, but where observable market data is not available, judgement is required to establish fair values. Significant inputs into this pricing model include the risk-free discount rate, share price volatility, as well as an expectation of future dividends.

The cumulative expense recognised at each reporting date will reflect the extent to which the vesting period has expired as well as the Group's best estimate of the number of equity instruments that will ultimately vest. A key assumption applied is staff turnover and expected forfeitures. Management calibrates this assumption based on historical data.

Note 51 include details of the Group's share awards.

Basis for determining fair values of investments

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values should be first calculated with reference to observable inputs where these are available in the market. Only where these are unavailable should fair value techniques be applied which employ less observable inputs. Unobservable inputs may only be used where observable inputs or less observable inputs are unavailable. IFRS 13 Fair Value Measurement does not mandate the use of a particular valuation technique but rather sets out a principle requiring an entity to determine a valuation technique that is appropriate in the circumstances for which sufficient data is available and for which the use of relevant observable inputs can be maximised. Where management is required to place greater reliance on unobservable inputs, the fair values may be more sensitive to assumption changes and different valuation methodologies that may be applied. For this reason, there is a direct correlation between the extent of disclosures required by IFRS 13 and the degree to which data applied in the valuation is unobservable.

The fair values of quoted investments in active markets are based on current bid prices (level 1). If the market for a financial asset is not active, the Group establishes fair value by using valuation techniques (level 2 and level 3). These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Debt securities and treasury and other eligible bills

These instruments are valued, based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. Where unavailable, fair value is determined by reference to quoted market prices for similar instruments or, in the case of certain mortgage-backed securities, valuation techniques using inputs derived from observable market data, and, where relevant, assumptions in respect of unobservable inputs.

Derivatives

Derivative contracts can be exchange-traded or traded Over The Counter ("OTC"). OTC derivative contracts include forward, swap and option contracts related to interest rates, bonds, foreign currencies, credit spreads, equity prices and commodity prices or indices on these instruments.

Fair values of derivatives are obtained from quoted market prices, dealer price quotations, discounted cash flow and pricing models. Bid-offer valuation adjustments for assets and liabilities where the Group is not a market maker, mid-prices are adjusted to bid and offer prices respectively unless the relevant mid-prices are reflective of the appropriate exit price as a practical expedient given the nature of the underlying instruments. Bid-offer adjustments reflect expected close out strategy and, for derivatives, the fact that they are managed on a portfolio basis.

The methodology for determining the bid-offer adjustment for a derivative portfolio will generally involve netting between long and short positions and the bucketing of risk by strike and term in accordance with the hedging strategy. Bid-offer levels are derived from market sources, such as broker data. For those assets and liabilities where the Group is a market maker and has the ability to transact at, or better than, mid-price (which is the case for certain equity, bond and vanilla derivative markets), the mid-price is used, since the bid-offer spread does not represent the transaction cost.



Summary of accounting policies (continued)

for the year ended 31 December 2020

3. Judgements and estimates (continued)

Derivatives (continued)

Measurement of assets and liabilities at Level 2

The following table presents information about the valuation techniques and significant observable inputs used in measuring assets and liabilities categorised as Level 2 in the fair value hierarchy:

Category of asset	Valuation techniques applied	significant observable inputs
Loans and advances to banks	Future cash flows are discounted using market-related interest rates, adjusted for credit inputs, over the contractual period of the instruments (that is, discounted cash flow)	Interest rates and/or money market curves, as well as credit spreads
Trading and hedging portfolio assets and liabilities		
Debt instruments	Discounted cash flow models	Underlying price of market instruments and/or interest rates
Derivative assets		
Foreign exchange derivatives	Discounted cash flow techniques and/or option pricing models, such as the Black Scholes model	Interest rate curves, repurchase agreements, money market curves and/or volatilities.
Interest rate derivatives	Discounted cash flow and/or option pricing models	Interest rate curves, repurchase agreement curves, money market curves and/or volatility

Measurement of assets and liabilities at Level 3

The following table presents information about the valuation techniques and significant unobservable inputs used in measuring assets and liabilities categorised as Level 3 in the fair value hierarchy:

Category of asset	Valuation techniques applied	Significant unobservable inputs
Loans and advances to banks	Discounted cash flow and/ or dividend yield models	Credit spreads
Investment securities and investments linked to investment contracts	Discounted cash flow models, third-party valuations, earnings multiples and/ or income capitalisation valuations.	Risk adjusted yield curves future earnings, marketability discounts and/ or comparator multiples
Trading and hedging portfolio assets and liabilities		
Debt instruments	Discounted cash flow models	Credit spreads
Derivative assets		
Foreign exchange derivatives	Discounted cash flow techniques and/or option pricing models, such as the Black Scholes model	African basis curves (greater than 1 year).
Interest rate derivatives	Discounted cash flow and/or option pricing models	Real yield curves (greater than 1 year), repurchase agreement curves (greater than 1 year), funding spread.

Basis for provision for commission refund

Commission earned from the principal in respect of credit insurance policies secured are refundable in the case of early settlements or cancellation of policies by the Group's customers. Management employs judgements in coming up with estimates of the proportion of the customers who will submit a claim for such refunds and the corresponding fees that may fall in this category. The insurance model gives an approximate % to be deferred of commission received. It calculates on a month on month basis the average rate of clawbacks, which is then averaged out every year to get a yearly average. The yearly average is then applied to the subsequent year figure of commission received to get an amount to defer. This is done in order to maintain the balance between income realised and amount given as claw backs, in order not to overstate nor understate either of the two. Clawbacks captured on monthly basis. This also gives the year in which the commission relates to and also give the prop of payments. The calculation is based on an insurance deferral model. Which indicates a weighted average of 34.5%. The credit life commission received on monthly basis (34.5%) is the deferral amount disclosed on the financials.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

4. Impact of COVID-19

The impact of the COVID-19 pandemic on the Group's use of estimates and judgements, as well as on the financial risks to which the Group is exposed has resulted in additional comprehensive disclosures being provided below to highlight the effect of the pandemic on the consolidated financial statements.

- Updates to estimates and judgements made in applying IFRS due to COVID-19; and
- COVID-19 credit risk disclosures.

4.1 Updates to estimates and judgements made in applying IFRS due to COVID-19

The coronavirus pandemic has had a devastating impact on the global economy as a whole. As the outbreak continues to progress and evolve, it is challenging at this juncture to predict the full extent and duration of its business and economic impact. This high degree of uncertainty introduced by the unexpected development of the pandemic has forced many organisations to reassess assumptions and existing methods of estimation, as well as judgements, used in the calculation of certain balances and transactions.

4.2 Approach to credit risk and impairment of loans and advances to customers

The most significant impact on the Group's use of estimates and judgements due to the advent of the COVID-19 crisis relates to credit risk and specifically the quantification of expected credit losses (ECL) of loans and advances to customers. The ECL estimation must reflect an unbiased and probability-weighted estimate of future losses determined by evaluating a range of possible macroeconomic outcomes. IFRS 9 models use three parameters - probability of default, loss given defaults and exposure at default - in ECL allowance calculations. Significant judgement and estimates are applied when quantifying the ECL of loans and advances, and even more so now as credit models are not calibrated for events such as the COVID-19 crisis. Given the deteriorating macroeconomic environment, specific increases in probability of default and loss given defaults were made to appropriately capture the COVID-19 environment.

The determination of the Group's ECLs remains a significant area of judgement and estimation, even more so due to the COVID-19 crisis. Management adjustments were therefore required in addition to the model outputs to provide a more appropriate assessment of risk. These additional management adjustments have required greater governance across the Group and were robustly challenged and reviewed by the Group Credit Impairment Committee. A revised approach to the estimation of probabilities of default, identification of significant increase in credit risk (stage 2 impairment), forward looking scenarios and the impact on estimated ECLs was employed. Further complexity was added by the payment relief provided to eligible customers.

The table below provides a breakdown of the total ECL recognised at 31 December 2020 to reflect the impairment charge calculated using the Group's approved models together with the management adjustments raised to incorporate the effects of COVID-19.

	Consolidated and Company			31 Dec 2019
	31 Dec 2020			
	Impairment losses pre-management adjustments P'000	Management adjustment P'000	Impairment losses P'000	Impairment losses P'000
Retail and Business Banking	(185 749)	(57 356)	(243 105)	(106 311)
Corporate and Investment Banking	(21 015)	(21 502)	(42 517)	46 555
Total	(206 764)	(78 858)	(285 622)	(59 756)

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

4. Impact of COVID-19 (continued)**4.3 COVID-19 Payment relief**

The Group implemented extensive payment relief programmes across its segments from April 2020 for eligible customers impacted by COVID-19. The programme allows customers who have been financially impacted by the pandemic and need short-term financial relief (3 to 6 months), to defer their monthly instalments to assist with cash flow needs.

Retail customers in good standing could opt-in for payment relief, which means that customers had the opportunity to either continue paying, to reduce instalments as agreed with the Group or to defer payments for a specified period. Support to corporate and business banking clients was structured based on their unique requirements and operations.

The status of payment arrears is a significant input into the credit models. Deferred or reduced payments could therefore not be taken into account in models to estimate expected credit losses.

For customers that did not meet the payment relief eligibility criteria, the Group's existing credit policies continue to be applied. Therefore, restructures performed for credit reasons were treated as a continuation of the original loan, and defaulted exposures, which include exposures restructured to the extent that economic value is lost (for instance when interest rates are reduced or interest is not accrued during the payment relief period), continue to be classified as Default / Stage 3.

The gross carrying value of loans and advances to customers that were granted payment relief as at 30 June 2020 is as follows:

June 2020 (unaudited)	Consolidated and Company			
	Gross loans and advances to customers P'000	Payment relief gross carrying amount P'000	Percentage of portfolio %	Up to date %
Tourism and hotels	426 037	387 202	90.88	9.12
Commercial real estate	540 655	370 282	68.49	31.51
Construction	77 095	39 899	51.75	48.25
Agriculture, forestry, fishing	520 105	101 926	19.6	80.4
Transport and storage	68 681	7 632	11.11	88.89
Mining and quarrying	472 766	38 964	8.24	91.76
Manufacturing	550 208	36 241	6.59	93.41
Community, social and personal services	885 453	57 470	6.49	93.51
Trade, restaurants and bars	669 855	17 691	2.64	97.36
Residential property	2 167 756	17 372	0.8	99.2
Personal loans	6 129 223	-	-	-
Finance companies	662 966	-	-	-
Credit card loans	457 790	-	-	-
Public sector financial intermediaries	430 485	-	-	-
Motor vehicle	113 667	-	-	-
Public non-financial corporations	98 706	-	-	-
Other	37 423	-	-	-
Loans and advances to customers	14 308 871	1 074 679	7.51	92.49



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

4. Impact of COVID-19 (continued) 4.3 COVID-19 Payment relief (continued)

The gross carrying value of loans and advances to customers that were granted payment relief as at 31 December 2020 is as follows:

December 2020	Consolidated and Company			
	Gross loans and advances to customers P'000	Payment relief gross carrying amount P'000	Percentage of portfolio %	Up to date %
Tourism and hotels	423 335	379 071	89.54	10.46
Commercial real estate	599 002	330 992	55.26	44.74
Construction	61 008	6 356	10.42	89.58
Agriculture, forestry, fishing	464 460	78 699	16.94	83.06
Transport and storage	42 524	1 353	3.18	96.82
Mining and quarrying	317 524	232 592	73.25	26.75
Manufacturing	781 588	448 176	57.34	42.66
Community, social and personal services	475 778	77 873	16.37	83.63
Trade, restaurants and bars	616 670	3 101	0.50	99.50
Residential property	2 219 261	57 423	2.59	97.41
Personal loans	6 804 403	-	-	-
Finance companies	638 411	-	-	-
Credit card loans	447 439	-	-	-
Public sector financial intermediaries	425 313	-	-	-
Motor vehicle	141 948	-	-	-
Public non-financial corporations	61 483	-	-	-
Other	37 963	-	-	-
Loans and advances to customers	14 558 110	1 615 636	11.10	88.90

4.4 Incorporation of forward-looking information into the IFRS 9 modelling

The Group's impairment models consume macroeconomic information to enable the models to provide an output that is based on forward-looking information.

The Group revisited and updated the macroeconomic information utilised at 31 December 2019 taking note of a wide range of possible scenarios and macroeconomic outcomes, as well as the consequences around the uncertainty, duration and likelihood of future outbreaks that COVID-19 will have on the social and economic conditions of society.

The global shocks experienced in the market have led to a highly uncertain and unprecedented environment. To address such uncertainty, the ranges between the baseline and the alternative (upside and downside) macroeconomic scenarios are significantly larger when compared to those presented at 31 December 2019.

As at 31 December 2020, the Group believes that the probability of the baseline scenario presented below is more likely to occur as opposed to the alternative scenarios. The weightings are: Baseline 40%, Downside 30% and Upside 30%.

The following table shows the key forecast assumptions for the economic scenarios as at 31 December 2020:



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

4. Impact of COVID-19 (continued) 4.5 Incorporation of forward-looking information into the IFRS 9 modelling

Consolidated and Company	Baseline				Upside				Downside			
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Real GDP (%)	9.7	5.0	4.2	4.2	5.3	5.1	4.5	4.3	8.9	4.8	4.0	3.7
CPI (%)	3.7	4.1	2.9	2.1	3.2	3.3	3.6	3.8	5.7	4.9	4.3	3.9
Policy rate (%)	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	6.0	6.0	6.0	6.0

The following table shows the key forecast assumptions for the economic scenarios as at 31 December 2019:

Consolidated and Company	Baseline				Upside				Downside			
	2021	2022	2023	2024	2021	2022	2023	2024	2021	2022	2023	2024
Real GDP (%)	3.7	4.2	4.3	4.3	8.7	4.8	4.3	4.3	0.4	5.1	5.8	4.9
CPI (%)	3.6	4.1	4.1	4.0	2.8	4.3	4.1	4.0	5.1	4.0	4.0	4.0
Policy rate (%)	4.8	5.6	5.8	6.2	4.2	5.6	5.8	6.2	6.6	5.6	5.8	6.2

4.6 Impact of COVID-19 on PDs and LGDs

Existing models are not calibrated for stress scenarios such as the COVID-19 pandemic, and the estimation of PDs and LGDs have therefore been amended as detailed below:

- Retail PDs and LGDs were adjusted for current and forward looking information on a portfolio basis. The resultant management adjustment was calculated by applying a scaling factor to each product's modelled PDs and LGDs. The scaling factor was in turn stressed for impacted industry exposures and tested using sophisticated analytical tools and appropriate sense checks.
- The PDs and LGDs of the Group's Wholesale exposures were determined individually per obligor, and subsequently stressed collectively per industry, and for forward looking information.
- PD and LGD scaling factors will be reassessed as the impact of COVID-19 pandemic becomes known and the level of customer distress becomes evident.

4.7 Impact of COVID-19 on SICR (significant increase in credit risk):

The impact of COVID-19 on PDs and LGDs above, as well as the provision of payment relief, were considered in order to determine whether a SICR event, which would result in a shift in the exposure from Stage 1 (12-month expected losses) to Stage 2 (full lifetime expected losses), has taken place. As payment arrears are a significant input into the Retail credit models, deferred or reduced payments could not be considered in determining whether a SICR has occurred. All available information was considered, including, whether a client is experiencing a short-term liquidity constraint, the respective industry and the anticipated arrears in a COVID-19 environment. This methodology is in compliance with the Bank of Botswana circular-"Circular to banks on the guidance on the regulatory treatment of IFRS 9 in the context of Covid 19" (Ref1/20, Issue Date: April, 1 2020) and those issued by the South African Prudential Authority to ensure that the Group's approach was appropriate.

The table below provides a breakdown of the total ECL recognised at 31 December 2020 to reflect the impairment charge calculated using the Group's approved models and the management adjustments raised to incorporate the effects of COVID-19.



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

4. Impact of COVID-19 (continued)

4.8 Impact of COVID-19 on SICR (significant increase in credit risk)

	Consolidated and Company		
	2020 P'000	2019 P'000	% change YTD
Retail and Business Banking	(220 718)	80 171	(376)
Corporate and Investment Banking	(42 517)	(46 148)	(8)
Total	(263 235)	34 023	(874)
Gross loans and advances to customers:			
Stage 1	12 447 442	12 280 482	1
Stage 2	1 086 899	916 634	19
Stage 3	1 023 770	683 241	50
Gross loans and advances to customers	14 558 111	13 880 357	5
Less: Expected credit losses			
		Restated*	
Stage 1	(141 396)	(93 217)	52
Stage 2	(165 340)	(93 789)	76
Stage 3	(347 065)	(330 924)	5
Allowance for impairment	(653 801)	(517 930)	26
Net loans and advances to customers	13 904 310	13 362 427	4

*The comparative components of the ECL staging have been restated to align to the ECL models as at 31 December 2019. Refer to note 22 for details of the restatement.

4.9 Sensitivity of expected credit losses

	Consolidated and Company	
	2020 P'000	% change
ECL allowance on stage 1 and stage 2 loans and advances to customers	306 736	
Baseline	122 694	150%
Upside	92 021	233%
Downside	92 021	233%

	Consolidated and Company	
	2020 P'000	2019 P'000
Financial assets at fair value through OCI	43 311	41 056
Loans to related parties (note 52)	9 701	22 976
Loans and advances to banks	3 434	6 600
Loans and advances to customers	1 286 217	1 268 247
Total interest income	1 342 663	1 338 879

5. Effective interest income

Notes to the annual financial statements (continued)

for the year ended 31 December 2020

6. Effective interest expense

	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Deposits from banks	(7 920)	(2 927)	(7 920)	(2 927)
Customer deposits	(218 263)	(197 909)	(218 263)	(197 909)
Debt securities in issue	(13 367)	(17 925)	(13 367)	(17 925)
Subordinated debt	(6 807)	(19 396)	(6 807)	(19 396)
Interest on lease liabilities	(4 381)	(4 147)	(4 381)	(4 147)
Loans from related parties (note 52)	(36 922)	(36 040)	(36 922)	(36 040)
Total interest expense	(287 660)	(278 344)	(287 660)	(278 344)

7. Net fee and commission income*

Fee and commission income at a point in time				
Insurance commissions	49 048	50 640	1 452	2 975
Interchange fees	200 565	194 894	200 565	194 894
Withdrawal and application banking fees	59 827	50 018	59 827	50 018
	309 440	295 552	261 844	247 887

Fee and commission income over time				
Maintenance charges	93 068	94 615	93 068	94 615
Service fees	87 046	91 056	87 046	91 056
	180 114	185 671	180 114	185 671

Fee and commission income*	489 554	481 223	441 958	433 558
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Foreign exchange losses	(1 011)	(3 381)	(1 011)	(3 381)
Fee and commission income*	488 543	477 842	440 947	430 177

Fee and commission expense				
Inter-bank transaction fees	(109 999)	(90 462)	(109 999)	(89 263)
Fee and commission expense	(109 999)	(90 462)	(109 999)	(89 263)
Net fee and commission income	378 544	387 380	330 948	340 914

* Previously the fee and commission income was disclosed as risk-related services (insurance commission, arrangement fees and other non-banking product incomes) and non-risk-related services (foreign exchange income, monthly charges, card fee charges, visa fees, maintenance charges and premier bank fees). These amounts have been disaggregated in the current period with comparatives adjusted accordingly.

8. Net trading income

	Consolidated and Company	
	2020 P'000	2019 P'000
Trading income exchange gain	30 241	33 904
Net movement from financial assets measured at fair value	(413)	(195)
Treasury sales activities	87 243	108 409
Market making activities	23 970	27 736
Exchange gains and losses	(2 411)	(2 962)
Net trading income	138 630	166 892



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
9. Other income				
Gain on disposal of property and equipment	48	13 673	48	13 673
Rental income	3 364	3 393	3 364	3 393
Management fee income*	-	-	31 227	34 168
Total other income	3 412	17 066	34 639	51 234

*Other income includes management fee income received from the Bank's subsidiary, Absa Insurance Services (Proprietary) Limited. Management fee income has been presented previously within the administrative and general expenses account. As management income is not wholly reimbursed and in order to improve the understanding of the users of the financial statements, management fees income from the subsidiary is presented under other income account with the comparatives being restated. The management fees income of P31 227 000 (2019: P34 168 000) has been reclassified to other income in the current year.

	Consolidated and Company	
	2020 P'000	2019 P'000
10. Expected credit losses		
Stage 3 expected losses	(133 146)	(36 861)
Stage 2 expected losses	(102 893)	(43 569)
Stage 1 expected losses	(49 583)	20 674
Expected losses raised during the reporting period	(285 622)	(59 756)
Recoveries of loans and advances to customers previously written off	22 387	25 733
Statement of comprehensive income charge	(263 235)	(34 023)

*The comparative components of the ECL staging have been restated to align to the ECL models as at 31 December 2019. Refer to note 22 for further details on how the amount was previously disclosed.

	Consolidated and Company	
	2020 P'000	2019 P'000
11. Staff costs		
Salaries and current services costs*	(350 681)	(343 182)
Training costs	(3 450)	(8 249)
Staff medical costs	(22 233)	(19 954)
Leave pay	(753)	5 420
Allowances	(43 616)	(44 401)
Staff welfare	(15 963)	(10 104)
Pension cost - defined contribution plan contributions	(40 700)	(44 438)
Cash-settled share based payments	26	1 355
Equity-settled share based payments	(2 203)	(175)
Total staff costs	(479 573)	(463 728)

Average number of employees during period

1 101 **1 155**

*Salaries and current service costs include once off costs relating to the employee voluntary separation scheme incurred in May 2020. Under the scheme, colleagues were offered an opportunity to retire early, resulting in once off costs P25 million.



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
12. Infrastructure costs				
Property costs	(16 198)	(15 319)	(16 198)	(15 319)
Equipment costs	(20 925)	(21 179)	(20 925)	(21 179)
Depreciation of property, plant and equipment	(38 366)	(36 348)	(38 366)	(36 348)
Right of use depreciation	(23 376)	(21 249)	(23 376)	(21 249)
Operating lease rentals	(6 395)	(10 321)	(6 395)	(10 321)
Amortisation of intangible assets	(652)	(322)	(652)	(322)
Straight line lease expenses on short-term leases and low value assets	(3 017)	(2 696)	(3 017)	(2 696)
Software licensing and other information technology	(19 997)	(8 348)	(19 997)	(8 348)
Total Infrastructure costs	(128 926)	(115 782)	(128 926)	(115 782)
13. Administrative and general expenses				
Auditors' remuneration:				*Restated
Audit related services	(4 700)	(4 963)	(4 700)	(4 963)
Total	(4 700)	(4 963)	(4 700)	(4 963)
Consultancy, legal and professional fees	(47 038)	(37 544)	(47 038)	(37 544)
Marketing, advertising and sponsorship	(28 213)	(29 880)	(28 213)	(29 880)
Travel and accommodation	(2 815)	(8 432)	(2 815)	(8 432)
Cash transport	(18 574)	(19 497)	(18 574)	(19 497)
Directors' fees	(2 626)	(2 134)	(2 626)	(2 134)
Donations	(2 181)	(3 571)	(2 181)	(3 571)
Stationery and postage	(20 510)	(16 932)	(20 510)	(16 932)
Telephone	(16 476)	(19 566)	(16 476)	(19 566)
Total	(138 433)	(137 556)	(138 433)	(137 556)
Included as part of the administrative and general are expenses incurred with related parties				
Administrative and management fees charged*	(84 303)	(65 923)	(84 554)	(100 091)
Transitional service costs - recharges by related parties	(10 223)	(25 411)	(10 223)	(25 411)
Transitional service costs - related party balances	(24 598)	(30 986)	(24 598)	(30 986)
Recoveries	(7 362)	746	(7 362)	746
Total related party expenses (note 52)	(126 486)	(121 574)	(126 737)	(155 742)
Transitional service costs - other non-related party	(30 263)	(27 350)	(30 263)	(27 350)
Other costs - general non-related party	(40 030)	(49 325)	(40 030)	(15 157)
Total	(196 779)	(198 249)	(197 030)	(198 249)
Total administrative and general expenses	(339 912)	(340 768)	(340 163)	(340 768)

*The comparative disclosure of administrative and general expenses has been changed due to the reclassification of management fee income to other income. Refer to note 9 for details.



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
14. Taxation expense				
Current tax				
Normal tax - current year	(99 820)	(145 846)	(96 247)	(143 455)
Prior year over/ under provision	(5 016)	(3 810)	(807)	(3 810)
	(104 836)	(149 656)	(97 054)	(147 265)
Deferred tax				
Movement in deferred tax asset	17 021	(7 308)	19 532	(7 259)
Prior year under provision	20 618	-	20 618	-
	37 639	(7 308)	40 150	(7 259)
Total income tax recognised in the current year	(67 197)	(156 964)	(56 904)	(154 524)

14.1 Income tax recognised in profit or loss

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the statutory tax rate applicable to the profits of the consolidated entities as follows:

	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Reconciliation between operating profit and tax expense				
Profit before tax for the year	363 943	677 572	347 323	665 274
Income tax expense calculated at 22% (2019: 22%)	80 067	149 065	76 411	146 360
Tax on non-deductible expenses	3 291	7 899	3 291	7 899
Effect of deferred tax not recognised	(1 257)	-	(2 987)	-
Prior year under provision-current tax	5 016	-	807	265
Prior year over provision-deferred tax	(19 920)	-	(20 618)	-
Income tax expense recognised in profit or loss	67 197	156 964	56 904	154 524
Effective tax rate	18.5%	23.2%	16.4%	23.2%

14.2 Reconciliation or breakdown of nondeductible expenses

Brand and name change	15 868	26 792	15 868	26 792
Donations	(910)	9 112	(910)	9 112
Total non-deductible differences	14 958	35 904	14 958	35 904
Tax on non-deductible expenses at 22% (note 14.1)	3 291	7 899	3 291	7 899

15. Earnings per share

	Thebe	Thebe
	P'000	P'000
Basic earnings per share	34.82	61.09
Basic earnings attributable to ordinary shareholders	296 746	520 608
	Number of shares	Number of shares
Issued shares at the beginning of the year	852 161	852 161
Weighted average number of ordinary shares	852 161	852 161

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

There were no potentially dilutive shares at 31 December 2020 (31 December 2019 Nil).



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

	Consolidated and Company	
	2020 P'000	2019 P'000
16. Balances at central bank		
Current account	104 881	169 310
Statutory reserve	210 986	599 482
Repurchase agreement	459 923	121 720
Gross balances at central bank	775 790	890 512
Expected credit losses	(3)	(73)
Carrying value	775 787	890 439

The minimum statutory reserve with the Bank of Botswana is calculated at 2.5% (2019: 5%) of the average local currency customer deposits. The statutory reserve is not available for use in the day-to-day operations of the Bank and is non-interest bearing. The Group holds a reverse repo with the Central Bank as an overnight lending placement for liquidity purposes. The balance is interest earning and the carrying value of the balance approximates the fair value.

	Consolidated and Company	
	2020 P'000	2019 P'000
17. Trading portfolio assets		
Debt securities	212 332	-
Trading portfolio assets	212 332	-
Maturity analysis		
Between 1-3 years	612	-
Between 4- 5 years	137 374	-
Between 6-10 years	35 826	-
Over 11 years	39 020	-
Total	212 832	-
Fair value adjustment	(500)	-
Trading portfolio assets	212 332	-

	Notional Contract Amount Assets P'000	Notional Contract Amount Liabilities P'000	Consolidated and Company	
			Assets P'000	Liabilities P'000
Consolidated and Company				

18. Derivative financial instruments

	2020			
	Notional Contract Amount Assets P'000	Notional Contract Amount Liabilities P'000	Assets P'000	Liabilities P'000
Foreign exchange derivatives				
Forward foreign exchange	1 272 187	1 253 982	18 205	28 612
Currency swap	449 956	417 075	29 277	12 763
Over the counter options bought and sold	1 897	948	948	1 021
Foreign exchange derivatives	1 724 040	1 671 975	48 430	42 396
Total derivatives	1 724 040	1 671 975	48 430	42 396

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

	Notional Contract Amount P'000	Assets P'000	Liabilities P'000
Consolidated and Company			
18. Derivative financial instruments (continued)			
2019			
Foreign exchange derivatives			
Forward foreign exchange	926 418	23 957	15 061
Currency swap	839 533	24 632	20 833
Over the counter options bought and sold	359	180	180
Foreign exchange derivatives	1 766 310	48 769	36 074
Total derivatives	1 766 310	48 769	36 074

	Consolidated and Company	
	2020 P'000	2019 P'000
19. Financial assets at fair value through other comprehensive income		
Bank of Botswana certificates		
Less than 1 month	749 914	1 496 518
1-3 months	219 917	284 000
3-12 months	229 064	-
Total	1 198 895	1 780 518
Treasury bonds		
1- 5 years	746 061	470 499
Over 6 years	97 416	-
Total	843 477	470 499
Debt securities		
Over 5 years	80	80
Total	80	80
Total gross amount financial assets at FV through OCI	2 042 452	2 251 097
Expected credit losses	(227)	-
Total carrying amount financial assets at FV through OCI	2 042 225	2 251 097

Financial assets at fair value through other comprehensive income (OCI) include Bank of Botswana Certificates, Treasury Bills and Government bonds. Bank of Botswana certificates amounting to P400 million (2019: P405 million) have been pledged as collateral for the use of the secured intra-day trading facilities with Bank of Botswana.

The Group holds debt securities relating to debentures in private schools and sport clubs.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

	Consolidated and Company	
	2020 P'000	2019 P'000
20. Loans and advances to banks		
Current accounts	767 081	562 279
Fixed term	243 594	497 386
	1 010 675	1 059 665
Expected credit losses	(142)	(145)
Total carrying amount of loans and advances to banks	1 010 533	1 059 520

The fixed term placements and current account balances are accounts held with other banks, both local and foreign banks. The carrying amount of the balances approximates their fair value.

	Consolidated and Company	
	2020 P'000	2019 P'000
21. Loans and advances to customers		
Mortgages	2 219 261	2 182 257
Personal and term loans	4 443 061	4 337 945
Credit cards	447 439	460 390
Finance leases (note 26)	436 804	417 171
Overdrafts	757 332	676 818
Foreign currency loans	1 604 581	1 986 304
Scheme loans	4 649 633	3 819 472
Gross loans and advances to customers	14 558 111	13 880 357
Less: Expected credit losses		
Stage 3	(347 065)	(330 924)
Stage 2	(165 340)	(93 789)
Stage 1	(141 396)	(93 217)
Allowance for impairment	(653 801)	(517 930)
Net loans and advances to customers	13 904 310	13 362 427

Loans and advance to customers include finance lease receivables as disclosed in note 26.

*The comparative components of the ECL staging have been restated. Refer to note 22 for details.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

22. Credit risk reconciliation- expected loss allowance

	Balances at the beginning of the reporting year P'000	Asset moved / Allowance transferred to stage 1 P'000	Asset moved / Allowance transferred to stage 2 P'000	Asset moved / Allowance transferred to stage 3 P'000	Current period provision P'000	Amounts written off P'000	Total P'000
2020							
Financial assets at fair value through OCI							
Stage 1	73	-	-	-	154	-	227
Total expected credit losses	73	-	-	-	154	-	227
Balances with central bank							
Stage 1	3	1	(1)	-	-	-	3
Stage 2	1	(1)	-	-	-	-	-
Total expected credit losses	4	-	(1)	-	-	-	3
Loans and advances to banks							
Stage 1	145	-	-	-	(3)	-	142
Total expected credit losses	145	-	-	-	(3)	-	142
Loans and advances to customers							
Stage 1	*Restated 93 217	15 744	(10 551)	(1 532)	44 518	-	141 396
Stage 2	93 789	(15 331)	13 589	(27 115)	100 408	-	165 340
Stage 3	330 924	(413)	(3 038)	28 647	132 896	(141 951)	347 065
Total expected credit losses	517 930	-	-	-	277 822	(141 951)	653 801
Provisions for undrawn facilities and guarantees							
Stage 1	5 040	-	-	-	4 303	-	9 343
Stage 2	-	-	-	-	2 883	-	2 883
Stage 3	-	-	-	-	372	-	372
Total expected credit losses	5 040	-	-	-	7 558	-	12 598

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

22. Credit risk reconciliation- expected loss allowance (continued)

	Balances at the beginning of the reporting year P'000	Asset moved / Allowance transferred to stage 1 P'000	Asset moved / Allowance transferred to stage 2 P'000	Asset moved / Allowance transferred to stage 3 P'000	Current period provision P'000	Amounts written off P'000	Total P'000
2020							
Loans to Absa Group companies							
Stage 1	-	-	-	-	252	-	252
Total expected credit losses	-	-	-	-	252	-	252
2019							
Financial assets at fair value through OCI							
Stage 1	238	-	-	-	(165)	-	73
Total expected credit losses	238	-	-	-	(165)	-	73
Balances with central bank							
Stage 1	3	2	(2)	-	-	-	3
Stage 2	-	(1)	1	-	1	-	1
Total expected credit losses	3	1	(1)	-	1	-	4
Loans and advances to banks							
Stage 1	51	-	-	-	94	-	145
Total expected credit losses	51	-	-	-	94	-	145
Loans and advances to customers (*restated)							
Stage 1	100 128	21 734	(4 719)	(1 919)	(22 007)	-	93 217
Stage 2	88 226	(15 770)	4 792	(27 733)	44 274	-	93 789
Stage 3	368 911	(5 964)	(73)	29 652	48 830	(110 432)	330 924
Total expected credit losses	557 265	-	-	-	71 097	(110 432)	517 930
Provisions for undrawn facilities and guarantees							
Stage 1	4 351	-	-	-	689	-	5 040
Stage 2	-	-	-	-	-	-	-
Stage 3	-	-	-	-	-	-	-
Total expected credit losses	4 351	-	-	-	689	-	5 040

*The comparative components of the ECL staging have been restated to align to the ECL models as at 31 December 2019. The amounts were previously disclosed as below:

Loans and advances to customers							
Stage 1	77 151	21 554	(15 590)	(5 964)	(22 007)	-	54 964
Stage 2	86 562	(4 719)	4 792	(73)	44 273	-	131 015
Stage 3	393 552	(1 919)	(27 733)	29 652	48 831	(110 432)	331 951
Total expected credit losses	557 265	14 916	(38 531)	23 615	71 097	(110 432)	517 930

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

23. Property, plant and equipment

Consolidated and Company	Land and buildings P'000	Assets under construction P'000	Motor vehicles P'000	Computers and equipment P'000	Furniture and fittings P'000	Right of use assets P'000	Total P'000
Cost - 2020							
Balance at beginning of the year	294 052	20 088	12 877	148 750	55 815	81 033	612 615
Transfer from assets under construction	11 499	(17 156)	-	55	5 602	-	-
Additions	15 357	10 838	1 046	8 621	33 640	-	69 502
Right of use assets	-	-	-	-	-	46 688	46 688
Disposals	(30 190)	-	(4 034)	-	(21)	(1 649)	(35 894)
Balance at end of the year	290 718	13 770	9 889	157 426	95 036	126 072	692 911
Accumulated depreciation - 2020							
Balance at beginning of the year	(223 415)	-	(8 241)	(120 293)	(41 782)	(21 249)	(414 980)
Depreciation	(13 846)	-	(1 197)	(13 941)	(9 382)	-	(38 366)
Right of use asset depreciation	-	-	-	-	-	(23 376)	(23 376)
Disposals	30 190	-	4 034	-	21	1 649	35 894
Balance at end of the year	(207 071)	-	(5 404)	(134 234)	(51 143)	(42 976)	(440 828)
Carrying amount at end of year	83 647	13 770	4 485	23 192	43 893	83 096	252 083
Cost or valuation - 2019							
Balance at beginning of the year	285 510	12 520	12 170	146 551	49 468	-	506 219
Transfer from assets under construction	94	-	(98)	-	4	-	-
Additions	9 587	7 568	3 438	14 983	6 905	-	42 481
Right of use assets	-	-	-	-	-	81 033	81 033
Disposals	(1 139)	-	(2 633)	(12 784)	(562)	-	(17 118)
Balance at end of the year	294 052	20 088	12 877	148 750	55 815	81 033	612 615
Accumulated depreciation - 2019							
Balance at beginning of the year	(204 079)	-	(10 463)	(119 842)	(38 699)	-	(373 083)
Depreciation	(20 439)	-	(449)	(11 816)	(3 644)	-	(36 348)
Transfer to/(from) assets held for sale	(36)	-	37	-	(1)	-	-
Right of use assets depreciation	-	-	-	-	-	(21 249)	(21 249)
Disposals	1 139	-	2 634	11 365	562	-	15 700
Balance at end of the year	(223 415)	-	(8 241)	(120 293)	(41 782)	(21 249)	(414 980)
Carrying amount at end of year	70 637	20 088	4 636	28 457	14 033	59 784	197 635

Assets under construction relate to assets not yet commissioned for use.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

24. Intangible assets

Consolidated and Company	Other software 2020 P'000	Total 2020 P'000	Internally generated software 2019 P'000	Other software 2019 P'000	Total 2019 P'000
Cost					
Balance at beginning of the year	23 048	23 048	61 558	23 048	84 606
Acquisitions	2 552	2 552	-	-	-
Balance at end of the year	25 600	25 600	61 558	23 048	84 606
Accumulated amortisation					
Balance at beginning of the year	(22 231)	(22 231)	(61 558)	(21 910)	(83 468)
Amortisation charge (note 12)	(652)	(652)	-	(321)	(321)
Balance at end of the year	(22 883)	(22 883)	(61 558)	(22 231)	(83 789)
Carrying amount at end of year	2 717	2 717	-	817	817

*The comparative disclosure of the intangible assets has been changed in description to reflect the amortisation amount under the correct caption.

25. Other receivables

	Consolidated and Company	
	2020 P'000	2019 P'000
Other receivables		
Prepayments	5 057	6 834
Settlement accounts	28 645	37 970
Clearing accounts	6 085	66 427
Card transactions	57 336	57 667
Staff related receivables	37 648	36 314
Other receivables	18 004	15 027
Other receivables*	152 775	220 239
Maturity analysis		
Current	115 127	183 925
Between 2-5 years	37 648	36 314
	152 775	220 239

*Previously the total of other receivables was disclosed as current year, but these amounts have been disaggregated to show the different maturities.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

	Consolidated and Company	
	2020 P'000	2019 P'000
26. Finance lease receivables		
Current finance lease receivables	26 443	13 248
Non-current finance lease receivables	410 361	403 923
Finance lease receivables	436 804	417 171
Minimum lease payments		*Restated
Not later than one year	26 443	13 248
Between 1-2 years	71 129	49 851
Between 2-3 years	113 389	85 937
Between 3-4 years	72 701	148 623
Between 4-5 years	96 340	85 387
Later than 5 years	111 950	92 750
	491 952	475 796
Less: unearned finance income	(55 148)	(58 625)
Present value of minimum lease payments receivable	436 804	417 171
Expected Credit Loss	(8 857)	(24 099)
	427 947	393 072

The Bank enters into finance leasing arrangements in respect of motor vehicles, machinery and equipment. All of the leases are denominated in Pula except for P1.5 million contracted in USD (2019: P2.3 million), the foreign exchange movement in the lease payments is not material and will not be disclosed separately. The average term of the finance leases entered into is five years. Under the terms of the lease arrangements, no contingent rentals are receivable.

*The comparative components of the minimum lease payments have been restated to align to the gross advances as at 31 December 2019. The amounts were previously disclosed as follows:

	Consolidated and Company	
	2019 P'000	2019 P'000
Minimum lease payments		
Not later than one year		35 876
Between 1-2 years		65 058
Between 2-3 years		145 486
Between 3-4 years		58 698
Between 4-5 years		71 528
Later than 5 years		40 525
		417 171
Less: unearned finance income		(58 611)
Present value of minimum lease payments receivable		358 560
Expected Credit Loss		(24 099)
		334 461

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

	Consolidated and Company	
	2020 P'000	2019 P'000
27. Cash		
Local currency (Pula)	624 029	496 119
Foreign currency	21 755	33 331
Cash	645 784	529 450
28. Deposits from banks		
Fixed deposits accounts	309 405	148 094
Current accounts	244 218	154 878
Deposits from banks	553 623	302 972

The fixed terms deposits are short term deposits due to local bank, with an average maturity period of 1- 3 months. The carrying amount of both fixed and current approximates its fair value.

	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
29. Customer deposits				
Cheque account deposits	3 654 768	3 220 134	3 654 768	3 219 133
Savings and transmission accounts	7 466 139	6 404 699	7 466 139	6 404 699
Fixed deposits accounts	4 782 240	4 752 709	4 782 240	4 752 709
Customer deposits	15 903 147	14 377 542	15 903 147	14 376 541
Interest bearing deposits	12 248 378	11 153 927	12 248 378	11 153 927
Non- interest bearing deposits	3 654 769	3 223 615	3 654 769	3 222 614
	15 903 147	14 377 542	15 903 147	14 376 541
Maturity analysis				
On demand	11 149 298	9 621 352	11 149 298	9 620 351
Maturing within one year	4 490 944	4 321 898	4 490 944	4 321 898
Maturing after one year	262 905	434 292	262 905	434 292
	15 903 147	14 377 542	15 903 147	14 376 541
Category analysis of customer deposits				
Pula	2 543 141	2 289 184	2 543 141	2 288 183
Foreign currency	1 111 627	930 950	1 111 627	930 950
Current account	3 654 768	3 220 134	3 654 768	3 219 133
Pula	6 179 581	5 620 856	6 179 581	5 620 856
Foreign currency	1 286 558	783 843	1 286 558	783 843
Savings account	7 466 139	6 404 699	7 466 139	6 404 699
Pula	4 007 336	4 227 036	4 007 336	4 227 036
Foreign currency	774 904	525 673	774 904	525 673
Term deposits	4 782 240	4 752 709	4 782 240	4 752 709
	15 903 147	14 377 542	15 903 147	14 376 541
Sector analysis of customer deposits				
Private individuals	4 744 141	4 267 829	4 744 141	4 267 829
Other financial institutions	3 595 037	3 366 814	3 595 037	3 366 814
Parastatals	575 074	911 500	575 074	911 500
Business	5 743 180	4 397 177	5 743 180	4 396 176
Local government	1 239 824	1 425 564	1 239 824	1 425 564
Central government	5 891	8 658	5 891	8 658
	15 903 147	14 377 542	15 903 147	14 376 541



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

30. Retirement benefit plans

30.1 Defined benefit plans

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Consolidated and Company	
	Valuation at 2020	2019
Discount rate	4.50%	5.0%
Change in pensions	2.50%	2.5%
Expected return on plant assets	4.50%	5.0%
	Company	
	2020 P'000	2019 P'000
Defined benefits plans:		
Interest on obligation	(5 798)	(5 861)
Interest income on assets	5 798	5 967
Interest cost on irrecoverable surplus	-	(106)
Amounts recognised in profit or loss	-	-
Actuarial gain financial assumptions:		
Assumption adjustment on liabilities	(5 675)	-
Experience adjustment on liabilities	(2 398)	(2 125)
Return on plan assets	8 073	(106)
Change in irrecoverable surplus other than interest	-	2 231
Amounts recognised in other comprehensive	-	-

In the past, the Bank operated a defined benefit pension plan for its employees ("the Fund"). The Bank has since discontinued this Fund and currently there are no active employees within this Fund. All active employees have joined on a defined contribution basis only. The Board of Trustees of the Fund have obtained relevant regulatory approvals, and have wound up the defined benefit Fund by converting the deferred members within this Fund to transfer relevant member credits to their new employers' pension plans or purchase annuities from other service providers in the market. This process was concluded by 31 May 2015.

There were no contractual agreements in place for the transaction regarding the pensioners as at 31 December 2015, and as such during 2016, there was an agreement signed between Botswana Life (the insurer) and the Fund and the agreement has been treated as qualifying plan asset in terms of the requirements of IAS 19, as it was the Group's view that since pensioners have not explicitly acknowledged the transfer of liability, in the event of insurer failure, the pensioner could still come back to the Fund / Bank and require to be paid a pension.

The fair value of Insurance Policy is aligned to the defined benefit obligation and any change in fair value of this plan asset was considered to arise from remeasurement and accounted within other comprehensive income. The amount included in the statement of financial position arising from the Group's obligation in respect of its defined benefit plans is as follows:

	Consolidated and Company	
	2020 P'000	2019 P'000
Present value of funded defined benefit obligation	(125 036)	(120 630)
Fair value of plan assets	125 036	120 630
Deficit	-	-
Restrictions on asset recognised	-	-
Net liability arising from defined benefit obligation	-	-



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

30. Retirement benefit plans (continued)

30.1 Defined benefit plans (continued)

In line with paragraph 115 of IAS19, we have set the value of the insurance asset equal to the value of the pensioner liabilities (based on revised current assumptions).

Movements in the present value of the defined benefit obligation in the current year were as follows:

	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Opening defined benefit obligation	(120 630)	(121 790)	(120 630)	(121 790)
Interest expense	(5 798)	(5 861)	(5 798)	(5 861)
Actuarial gains - financial assumption	(8 073)	(2 212)	(8 073)	(2 212)
Benefits paid	9 464	9 233	9 464	9 233
Closing defined benefit obligation	(125 037)	(120 630)	(125 037)	(120 630)

Movements in the present value of the plan assets in the current year were as follows:

	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Opening fair value of plan assets	120 630	123 915	120 630	123 915
Interest income	(5 798)	(19)	(5 798)	(19)
Actuarial gains- financial assumption	(8 073)	5 967	(8 073)	5 967
Benefits paid	9 464	(9 233)	9 464	(9 233)
Closing fair value of plan assets	125 037	120 630	125 037	120 630

Movements in irrecoverable surplus in the prior year were as follows:

	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Opening irrecoverable surplus	-	(2 212)	-	(2 212)
Interest Cost on (Irrecoverable Surplus)	-	(19)	-	(19)
Change in (Irrecoverable Surplus) in Excess of Interest	-	2 231	-	2 231
Closing irrecoverable surplus	-	-	-	-

30.2 Sensitivity analysis

The liability values are sensitive to the assumptions used. The impact on the results due to changes in the main assumptions are shown in the table below:

Consolidated and Company	DR-1%	DR-1%	DR+0.5%	Age rating -1
2020				
Pensioner liability	125 036	137 909	119 362	129 701
2019				
Pensioner liability	120 630	132 965	115 190	124 835

DR – Discount Rate;

The estimated duration of the liabilities is approximately 10 years.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

31. Deferred tax assets

	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Deferred tax balances				
The net deferred tax asset at the end of the year is as follows:				
Deferred tax assets	110 635	69 576	110 087	66 517

31.1 Deferred tax assets and liabilities are attributable to the following:

	Balance at 1 January P'000	Recognised in profit or loss P'000	Recognised in OCI P'000	Balance at 31 December P'000
Consolidated				
2020				
Property, plant and equipment	12 537	(4 323)	-	8 214
Receivables	1 605	(1 933)	-	(328)
Expected credit losses	73 819	21 765	-	95 584
Other financial liabilities	(16 328)	20 595	-	4 267
Financial assets at fair value through OCI	(2 057)	1 535	3 420	2 898
	69 576	37 639	3 420	110 635

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 difference will be utilised in the foreseeable future, with the exception of a component of deferred revenue and expenses where the probability of deduction in the foreseeable future is uncertain.

	Balance at 1 January P'000	Recognised in profit or loss P'000	Recognised in OCI P'000	Balance at 31 December P'000
Consolidated				
2019				
Intangible assets	10	(10)	-	-
Property, plant and equipment	(3 285)	15 822	-	12 537
Receivables	4 521	(2 916)	-	1 605
Expected credit losses	55 720	18 099	-	73 819
Other financial liabilities	8 290	(24 618)	-	(16 328)
Financial assets at fair value through OCI	(1 642)	463	(878)	(2 057)
	63 614	6 840	(878)	69 576

	Balance at 1 January P'000	Recognised in profit or loss P'000	Recognised in OCI P'000	Balance at 31 December P'000
Company				
2020				
Property, plant and equipment	12 537	(4 323)	-	8 214
Receivables	1 605	(1 933)	-	(328)
Expected credit losses	73 819	21 765	-	95 584
Other financial liabilities	(19 387)	23 106	-	3 719
Financial assets at fair value through OCI	(2 057)	1 535	3 420	2 898
	66 517	40 150	3 420	110 087

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 difference will be utilised in the foreseeable future, with the exception of a component of deferred revenue and expenses where the probability of deduction in the foreseeable future is uncertain.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

31. Deferred tax assets (continued)**31.1 Deferred tax assets and liabilities are attributable to the following (continued):**

	Balance at 1 January P'000	Recognised in profit or loss P'000	Recognised in OCI P'000	Balance at 31 December P'000
Company				
2019				
Intangible assets	10	(10)	-	-
Property, plant and equipment	(3 285)	15 822	-	12 537
Receivables	4 521	(2 916)	-	1 605
Expected credit losses	55 720	18 099	-	73 819
Other financial liabilities	4 764	(24 151)	-	(19 387)
Financial assets at fair value through OCI	(1 642)	463	(878)	(2 057)
	60 088	7 307	(878)	66 517

31.2 Reconciliation of deferred tax asset (expense movements)

	2020			2019		
	Recognised in profit or loss P'000	Recognised in OCI P'000	Total movement P'000	Recognised in profit or loss P'000	Recognised in OCI P'000	Total movement P'000
Consolidated						
Intangible assets				(10)	-	(10)
Property, plant and equipment	(4 323)	-	(4 323)	15 822	-	15 822
Receivables	(1 933)	-	(1 933)	(2 916)	-	(2 916)
Expected credit losses	21 765	-	21 765	18 099	-	18 099
Other financial liabilities	20 595	-	20 595	(24 618)	-	(24 618)
Financial assets at fair value through OCI	1 535	3 420	4 955	463	(878)	(415)
	37 639	3 420	41 059	6 840	(878)	5 962

	2020			2019		
	Recognised in profit or loss P'000	Recognised in OCI P'000	Total movement P'000	Recognised in profit or loss P'000	Recognised in OCI P'000	Total movement P'000
Company						
Intangible assets				(10)	-	(10)
Property, plant and equipment	(4 323)	-	(4 323)	15 822	-	15 822
Receivables	(1 933)	-	(1 933)	(2 916)	-	(2 916)
Expected credit losses	21 765	-	21 765	18 099	-	18 099
Other financial liabilities	23 106	-	23 106	(24 151)	-	(24 151)
Financial assets at fair value through OCI	1 535	3 420	4 955	463	(878)	(415)
	40 150	3 420	43 570	7 307	(878)	6 429

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

32. Provisions

	Sundry provisions P'000	Fees refundable P'000	Commission refundable P'000	Provision for undrawn facilities and guarantees P'000	Total P'000
Consolidated					
Balance at 1 January 2020	5 361	10 181	14 830	5 040	35 412
Provisions recognised during the year	30	-	13 746	7 558	21 334
Provisions paid during the year	(5 391)	-	(13 527)	-	(18 918)
Balance at 31 December 2020	-	10 181	15 049	12 598	37 828
Balance at 1 January 2019	18 151	10 181	16 027	4 351	48 710
Provisions made during the year	1 025	-	6 827	689	8 541
Provisions paid during the year	(13 815)	-	(8 024)	-	(21 839)
Balance at 31 December 2019	5 361	10 181	14 830	5 040	35 412

Refer to note 22 for the ECL movements of the provision for undrawn facilities and guarantees.

	Sundry provisions P'000	Fees refundable P'000	Provision for undrawn facilities and guarantees P'000	Total P'000
Company				
Balance at 1 January 2020	5 361	10 181	5 040	20 582
Provisions recognised during the year	30	-	7 558	7 588
Provisions paid during the year	(5 391)	-	-	(5 391)
Balance at 31 December 2020	-	10 181	12 598	22 779
Balance at 1 January 2019	18 151	10 181	4 351	32 683
Provisions made during the year	1 025	-	689	1 714
Provisions paid during the year	(13 815)	-	-	(13 815)
Balance at 31 December 2019	5 361	10 181	5 040	20 582

Refer to note 22 for the ECL movements of the provision for undrawn facilities and guarantees.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

32. Provisions (continued)

Sundry provisions comprise of provision for claims against the Bank and provision for operational losses.

Fees refundable relates to a provision raised as a result of Optional Issuer fees charged to customers in prior years. The bank will continue with its efforts to identify and refund this to the relevant customers until 2021 as per the Bank of Botswana directive to refund all customers affected. Any amount outstanding at that point will be treated as unclaimed funds accordingly and be remitted to Bank of Botswana.

Commission refundable relates to a provision for Absa Insurance Services (Pty) Limited as a result of policy surrenders by customers should the loans be early settled.

Provision for undrawn facilities and guarantees arises from estimated credit losses on off balance sheet exposures as a result of the application of IFRS 9: Financial Instruments as well as expected credit losses on letters of credit qualifying as on balance sheet as per The Uniform Customs & Practice for Documentary Credits (UCP 600) rules.

	Consolidated 2020 P'000	2019 P'000	Company 2020 P'000	2019 P'000
33. Other payables				
Trade payables	5 867	5 780	5 867	5 780
Accrued expenses	38 039	24 770	42 625	23 850
Lease liability	91 260	67 712	91 260	67 712
Value added taxation	18 646	9 813	18 787	9 270
Settlement accounts	80 153	89 868	80 153	89 868
Clearing accounts	55 940	207 698	55 940	207 698
Card transactions	26 246	67 522	26 246	67 522
Other liabilities	12 946	23 157	12 946	23 157
Withholding tax	16 545	28 579	16 545	28 579
Staff related accruals	29 997	32 110	29 997	32 110
Cash-settled share based payments	219	403	219	403
	375 858	557 412	380 585	555 949

Other liabilities comprise of other suspense account balances other than those listed above, sundry bills payable and liabilities control account.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

34. Lease liabilities

	Consolidated and Company	
	2020 P'000	2019 P'000
Leases as lessee		
Movement in lease liability		
Opening balance	67 712	72 518
New leases	5 360	14 463
Modifications	42 019	-
Interest expense	4 380	-
Payments	(28 211)	(19 269)
	91 260	67 712
		Restated
Maturity analysis of lease liabilities *		
Less than one year	26 663	24 602
Between one and five years	65 622	36 556
More than five years	8 884	14 025
	101 169	75 183

*The comparative components of the maturity analysis of lease liabilities have been restated to align to the undiscounted payments as at 31 December 2019. The amounts were previously disclosed as follows:

	Consolidated and Company	
	2019 P'000	
Leases as lessee	Restated	
Maturity analysis of lease liabilities		
Less than one year	26 670	
Between one and five years	20 423	
More than five years	20 619	
	67 712	

35. Debt securities in issue

	Consolidated and Company	
	2020 P'000	2019 P'000
Floating rate medium term notes	394 192	350 673
	394 192	350 673

Floating rate notes

In 2014, the Bank established a floating rate debt securities products placed with institutional investors. These comprise of various maturities and interest rates that are linked to market reference rates. In 2020 the Bank issued new notes with nominal value of P131 million (2019: P94 million) and redeemed notes with nominal a value P88 million (2019: P279 million).

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

35. Debt securities in issue (continued)

Issuance date	Principal (P'000)	Balance (P'000)	2020		Interest basis	Redemption date	Stock code
			Interest Rate %				
15-Nov-18	97 410	98 051	5.00%		Floating	14-Nov-23	Listed
15-Aug-18	78 701	79 127	4.30%		Floating	16-Aug-21	Unlisted
16-Aug-18	60 000	60 344	4.55%		Floating	16-Aug-21	Unlisted
09-May-19	2 000	2 015	5.00%		Floating	10-May-24	Unlisted
23-May-19	7 500	7 536	4.00%		Floating	21-May-21	Unlisted
03-Jun-19	3 000	3 012	5.00%		Floating	03-Jun-24	Unlisted
25-Jun-19	1 500	1 502	4.75%		Floating	24-Jun-24	Unlisted
28-Jun-19	4 200	4 203	6.00%		Floating	28-Jun-24	Unlisted
01-Nov-19	6 000	6 049	5.00%		Floating	01-Nov-24	Unlisted
27-Jan-20	2 000	2 048	5.50%		Floating	27-Jan-25	Unlisted
29-Jan-20	1 000	1 027	5.50%		Floating	29-Jan-25	Unlisted
05-Feb-20	3 000	3 077	6.25%		Floating	05-Feb-25	Unlisted
05-Feb-20	2 000	2 051	6.25%		Floating	05-Feb-25	Unlisted
02-Mar-20	2 500	2 546	5.50%		Floating	03-Mar-25	Unlisted
02-Apr-20	3 000	3 041	5.50%		Floating	02-Apr-25	Unlisted
08-Apr-20	3 000	3 038	5.50%		Floating	08-Apr-25	Unlisted
08-Apr-20	500	506	4.75%		Floating	08-Apr-22	Unlisted
24-Apr-20	5 000	5 155	4.50%		Floating	23-Apr-21	Unlisted
30-Apr-20	16 000	16 110	4.00%		Floating	30-Apr-21	Unlisted
07-May-20	16 000	16 081	3.50%		Floating	07-May-21	Unlisted
05-Jun-20	7 000	7 027	5.00%		Floating	04-Jun-25	Unlisted
05-Jun-20	3 000	3 011	4.65%		Floating	05-Jun-23	Unlisted
27-Jul-20	5 000	5 038	4.25%		Floating	27-Jul-21	Unlisted
01-Sep-20	8 000	8 029	4.25%		Floating	01-Sep-21	Unlisted
09-Sep-20	30 000	30 501	5.35%		Floating	09-Mar-22	Unlisted
25-Sep-20	6 000	6 046	5.00%		Floating	27-Sep-21	Unlisted
19-Nov-20	18 000	18 021	4.30%		Floating	22-Jun-21	Unlisted
	391 311	394 192					

As at 31 December 2020 there were no defaults on the above debt securities.

Issuance date	Principal (P'000)	Balance (P'000)	2019		Interest basis	Redemption date	Stock code
			Interest Rate %				
15-Nov-18	97 410	98 178	6.25%		Floating	14-Nov-23	Listed
22-Jun-18	18 000	18 023	5.25%		Floating	22-Jun-21	Unlisted
15-Aug-18	78 700	79 237	5.30%		Floating	16-Aug-21	Unlisted
16-Aug-18	60 000	60 401	5.55%		Floating	16-Aug-21	Unlisted
09-May-19	2 000	2 017	6.00%		Floating	10-May-24	Unlisted
16-May-19	70 000	70 446	4.75%		Floating	14-May-20	Unlisted
23-May-19	7 500	7 543	5.00%		Floating	21-May-21	Unlisted
03-Jun-19	3 000	3 015	6.25%		Floating	03-Jun-24	Unlisted
25-Jun-19	1 500	1 502	5.75%		Floating	24-Jun-24	Unlisted
28-Jun-19	4 200	4 251	5.75%		Floating	28-Jun-24	Unlisted
01-Nov-19	6 000	6 060	6.00%		Floating	01-Nov-24	Unlisted
	348 310	350 673					

As at 31 December 2019 there no defaults on the above debt securities.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

36. Subordinated debt

Consolidated and Company

	Initial call date	Interest rate	Maturity	2020 P'000	2019 P'000
Subordinated debt from Absa Group Limited entity	30/01/2015	4.98%	30/01/2025	254 671	255 282
Subordinated debt issued through medium term programme	15/11/2018	4.75%	14/11/2028	103 400	103 534
Subordinated debt from Absa Group Limited entity	18/03/2020	2.93%	18/03/2029	216 405	-
				574 476	358 816

In 2020 the Bank increased its subordinated debt securities P216 million (2019: P94 nil.)

Subordinated debt from Absa Group Limited entity	Interest rate at aggregate of i) Margin (Spread -Fixed) at 3.10% ii)182 Day Treasury Bill Rate 1.30% (Variable)
Subordinated debt issued through medium term programme	Interest rate at aggregate i)Margin (Spread -Fixed) at 2.25% ii)Bank Rate 3.75%(Variable)
Subordinated debt from Absa Group Limited entity	Interest rate at aggregate of i) Margin (Spread -Fixed) at 2.7% up to fifth year, then 3.8% till tenth year. ii)3 month Libor (Variable) as at 31 December 2020 was 0.2384

As at 31 December 2020 there no defaults on the above.

37. Stated capital

The total authorised and issued 852 161 250 shares at no par value (2019: 852 161 250 Authorised and issued shares at no par value).

All issued shares are fully paid. There were no shares issued during the current year (2019: none). There were no changes to authorised share capital during the current year (2019: none).

No preference shares are currently in issue by the Group.

Every shareholder shall have one vote for every share held. All dividends shall be declared and paid to the members in proportion to the shares held by them respectively.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

Issued share capital

	Consolidated and Company	
	2020 P'000	2019 P'000
852 161 250 (2019: 852 161 250) shares of stated capital	17 108	17 108
	17 108	17 108

38. Reserves

All reserves are shown net of deferred tax where applicable.

Share capital reserve

The share capital reserve is a contingency reserve set aside by the Group.

General risk reserve

General risk reserve was created in accordance with previous requirement of the regulator Bank of Botswana to hold a general risk reserve base on the excess of 1.25% of the Bank's risk weighted assets. This requirement is no longer applicable as expected credit losses held under IFRS 9 requirements exceed this threshold and no transfer has been made in the current or previous year. The Group is awaiting confirmation from the regulator on whether to release the reserve. The Group treats the reserve as non-distributable reserve (NDR).

Retained earnings

The retained earnings comprises of the cumulative total comprehensive income recognised from inception (reduced by any amounts transferred to as separate reserve) and reduced by dividends paid to date.

Fair value reserve

The fair value reserve comprises only the cumulative net change in the fair value of debt instruments measured at FVOCI, until such time as they are derecognised. Upon derecognition of debt instruments measured at FVOCI, the cumulative amount recognised in other comprehensive income is released to profit or loss. Since the cumulative net change in the fair value of equity instruments designated as at FVOCI is not recycled to profit or loss upon derecognition, the Group recognises the cumulative net change in fair value of these instruments in retained earnings.

Share based payment reserve

The reserve comprises the credit to equity for equity-settled share-based payment arrangements in terms of IFRS 2. The standard requires that the expense be charged to the profit and loss component of the statement of comprehensive income, while a credit needs to be raised against equity over the vesting period (i.e. the period between the allocation date and the date on which employees will become entitled to their options). When options are exercised, the reserve related to the specific options is transferred to share capital and/or share premium. If the options lapse after vesting, the related reserve is transferred to retained earnings. If the options lapse before vesting, the related reserve is reversed through the profit and loss component of the statement of comprehensive income.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
39. Cash used in operations				
Profit for the period	296 746	Restated 520 608	290 419	Restated 510 750
Adjustments for:				
Income tax expense	67 197	157 792	56 904	154 524
Net interest income	(1 055 003)	(1 060 535)	(1 055 003)	(1 060 535)
Gain on disposal of property, plant and equipment	(48)	(13 673)	(48)	(13 673)
Net loss arising on foreign exchange gains and losses	(4 617)	-	(4 617)	-
Net loss/(gain) arising on financial assets measured at fair value through profit or loss	(413)	(195)	(413)	(195)
Expected credit losses	285 622	59 756	285 622	59 756
Depreciation	61 742	57 597	61 742	57 597
Amortisation	652	321	652	321
Cash used in operations before working capital changes*	(348 122)	(278 329)	(364 742)	(291 455)
Changes in working capital				
Movement in other receivables	67 464	(34 073)	67 464	(34 101)
Movement in other payables	(205 102)	169 469	(202 991)	172 665
Movement in provisions	(5 143)	13 298	5 361	12 101
Movement in amounts owing to related parties	(44 560)	(42 352)	(44 560)	(42 352)
Total changes in working capital	(187 341)	106 342	(174 726)	108 313
Cash used in operations*	(535 463)	(171 987)	(539 468)	(183 142)

*Prior year numbers have been restated, further details provided in note 45.

	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
40. Taxation				
Opening balance	(4 568)	(16 514)	(11 078)	(16 514)
Current year tax charge	(99 820)	(145 846)	(96 247)	(145 605)
Tax paid	115 166	157 792	113 242	151 041
Prior year under provision	(5 016)	-	(807)	-
	5 762	(4 568)	5 110	(11 078)
40.1 Reconciliation of tax paid				
Receipts during the year	(1 763)	-	(253)	-
Payments during the year	116 929	157 792	113 495	151 041
Total tax paid	115 166	157 792	113 242	151 041
41. Proceeds on disposal of property, plant and equipment				
Disposal proceeds	48	15 091	48	15 091
	48	15 091	48	15 091
42. Dividends paid				
Prior year final year dividend paid during the current year	169 693	189 995	169 693	189 995
Interim dividend paid	-	110 000	-	110 000
	169 693	299 995	169 693	299 995

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

	Consolidated and Company	
	2020 P'000	2019 P'000
42. Dividends paid		
Prior year final year dividend paid during the current year	169 693	189 995
Interim dividend paid	-	110 000
	169 693	299 995
A dividend of P213 040 000 was declared and from this, Absa Bank Limited waived P43 348 000 and this was considered as treated as a capital reinvestment		
43. Interest paid		
Interest paid per profit and loss	(287 660)	(278 344)
IFRS 16 interest expense	4 380	-
	(283 280)	(278 344)
44. Interest received		
Interest received per profit and loss	1 342 663	1 338 879
Accrued interest	(54 862)	(54 888)
	1 287 801	1 283 991
45. Cash and cash equivalents		
Current account (note 16)	104 881	169 310
Repurchase agreements (note 16)	459 924	121 720
Cash (Note 27)	645 784	529 450
Loans and advances to banks (note 20)	1 010 675	1 059 665
Bank of Botswana notes (note 19)	969 831	1 780 518
Loans and advances from related parties (note 52)	1 401 021	154 963
	4 592 116	3 815 626

*Restated

The statutory reserve is not available for use in the day-to-day operations of the Bank. Balances above consist of balances held on a short time basis

Restatement

The comparative components of cash and cash equivalents have been restated to show balances that qualify as short term highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value.

In the prior years, the Bank had included the following balances as part of cash and cash equivalents:

- Deposits from banks which amounted to P 302 972 000 in December 2019.
- Amounts due to related companies which amounted to P282 291 000 in December 2019.

The balances were excluded from the determination of cash and cash equivalents as they are not borrowings which are considered part of financing activities and do not meet the criteria for components of cash and cash equivalents per IAS 7 paragraph 8.

This has resulted in a restatement of cash and cash equivalents and "Cash generated from operating activities".

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

45. Cash and cash equivalents (continued)

In addition to the above, the statement of cash flows for the year ended 31 December 2019 was restated as follows:

Statement of cash flows for the year ended 31 December 2019

	Restated P'000	Consolidated Original P'000	Difference P'000	Note
Profit for the period	520 608	520 608	-	
Adjustments for:				
Income tax expense	157 792	157 792	-	
Interest income	(1 060 535)	(1 060 535)	-	
Gain on disposal of property, plant and equipment	(13 673)	(13 673)	-	
Net loss arising on foreign exchange gains and losses	-	-	-	
Net loss/(gain) arising on financial assets measured at fair value through profit or loss	(195)	(30 747)	30 552	a
Expected credit losses*	59 756	34 023	25 733	b
Depreciation	57 597	57 597	-	
Amortisation	321	321	-	
Lease payments for IFRS 16 exempt assets	-	(34 127)	34 127	c
Cash used in operations before working capital changes*	(278 329)	(368 741)	90 412	
Movement in other receivables	(34 073)	(34 073)	-	
Movement in other payables	169 469	169 469	-	
Movement in provisions	13 298	13 298	-	
Movement in amounts owing to related parties	(42 352)	(42 352)	-	
Total changes in working capital	106 342	106 342	-	
Cash used in operations	(171 987)	(262 399)	90 412	
Net increase in loans and advances to customers	(1 532 808)	(1 527 748)	(5 060)	d
Interest received	1 283 991	1 338 879	(54 888)	e
Interest paid	(278 344)	(278 344)	-	
Income taxes paid net of refunds	(157 792)	(157 792)	-	
Increase in deposits due to customers	2 522 922	2 522 922	-	
Increase in amounts due from related parties	(20 099)	(1 142 654)	1 122 555	f
(Decrease)/increase in deposits due to other banks	(55 000)	-	(55 000)	g
(Decreased)/ Increase in amounts due to related parties	(907 367)	8 403	(915 770)	h
Increase in trading portfolio assets	513	513	-	
Increase/(decrease) in statutory reserve with the Central Bank	(94 398)	(94 398)	-	
Increase in derivative financial instruments	(5 965)	(5 965)	-	
Net cash generated used in operating activities*	583 666	401 417	182 249	
Cash flows from investing activities				
Payments for property, plant and equipment	(42 481)	(42 481)	-	
Proceeds from disposal of property, plant and equipment	15 091	15 091	-	
Payments for intangible assets	-	-	-	
Decrease in long term financial instruments held at fair value through OCI	(316 238)	(316 238)	-	
Net cash used in investing activities	(343 628)	(343 628)	-	

*Increase in trading portfolio assets were reclassified from operating activities to investing activities.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

45. Cash and cash equivalents (continued)**Statement of cash flows for the year ended 31 December 2019 (continued)**

	Restated P'000	Consolidated Original P'000	Difference P'000	Note
Cash flows from financing activities				
Dividends paid to shareholders	(299 995)	(299 995)	-	
Issuance of debt securities	94 200	94 200	-	
Redemption of debt securities	(278 800)	(278 800)	-	
Proceeds from subordinated debt	-	-	-	
Payment of lease liabilities	(49 935)	(32 754)	(17 181)	i
Net cash used in financing activities	(534 530)	(517 349)	(17 181)	
Net decrease in cash and cash equivalents	(294 492)	(459 560)	165 068	
Cash and cash equivalents at the beginning of the year	4 110 118	3 689 922	420 196	
Cash and cash equivalents at the end of the year*	3 815 626	3 230 362	585 264	

Notes to the restated cash flow

- a) the net gains arising on financial assets measured at fair value through profit and loss was overstated by P 30 552 000.
- b) the expected credit losses amount was understated by recoveries received from previously written off loans of P25 733 000.
- c) lease payments relating to IFRS 16 exempt assets of P34 127 000 were inaccurately deducted from profit to derive 'cash used in operations before working capital changes.
- d) the net increase in loans and advances to customers amount was previously understated by P5 060 000 resulting from :
 - Understatement in the ECL movement of P59 756 000
 - Understatement in accrued interest of P54 888 000
 - Other misstatement of P192 000
- e) the interest received amount was overstated by P54 888 000 relating to accrued interest (note d)
- f) the movement in amounts due from related parties was overstated by P1 122 555 000.
- g) the decrease in deposits due to other banks was previously understated by P55 000 000:
 - P16 454 000 movement relates to amounts previously classified as cash and cash equivalents
 - P38 546 000 understatement of movement in the deposits due to banks previously presented as cash and cash equivalents
- h) the due to related parties amount was understated by P915 770 000 resulting from:
 - P148 613 000 was previously included in cash and cash equivalents
 - P767 157 000 understatement in the movement in amounts due to related parties as previously presented
- i) the payment of lease liabilities was understated by P17 181 000.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

45. Cash and cash equivalents (continued)

In addition to the above, the statement of cash flows for the year ended 31 December 2019 was restated as follows:

Statement of cash flows for the year ended 31 December 2019

	Restated P'000	Company Original P'000	Difference P'000	Note
Profit for the period	510 750	510 750	-	
Adjustments for:				
Income tax expense	154 524	154 524	-	
Interest income	(1 060 535)	(1 060 535)	-	
Gain on disposal of property, plant and equipment	(13 673)	(13 673)	-	
Net loss arising on foreign exchange gains and losses	-	-	-	
Net loss/(gain) arising on financial assets measured at fair value through profit or loss	(195)	(30 747)	30 552	a
Expected credit losses*	59 756	34 023	25 733	b
Depreciation	57 597	57 597	-	
Amortisation	321	321	-	
Lease payments for IFRS 16 exempt assets	-	(34 127)	34 127	c
Cash used in operations before working capital changes*	(291 455)	(381 867)	90 412	
Movement in other receivables	(34 101)	(34 101)	-	
Movement in other payables	172 665	227 199	(54 534)	d
Movement in provisions	12 101	(12 101)	24 202	e
Movement in amounts owing to related parties	(42 352)	(10 059)	(32 293)	f
Total changes in working capital	108 313	170 938	(62 625)	
Cash used in operations	(183 142)	(210 929)	27 787	
Net increase in loans and advances to customers	(1 532 808)	(1 527 748)	(5 060)	g
Interest received	1 283 991	1 338 879	(54 888)	h
Interest paid	(278 344)	(278 344)	-	
Income taxes paid net of refunds	(151 041)	(154 227)	3 186	i
Increase in deposits due to customers	2 522 922	2 522 887	35	j
Increase in amounts due from related parties	(20 099)	(1 142 654)	1 122 555	k
(Decrease)/increase in deposits due to other banks	(55 000)	(55 000)	-	
(Decreased)/ Increase in amounts due to related parties	(902 963)	8 403	(911 366)	l
Increase in trading portfolio assets	513	513	-	m
Increase/(decrease) in statutory reserve with the Central Bank	(94 398)	(94 398)	-	
Increase in derivative financial instruments	(5 965)	(5 965)	-	
Net cash generated used in operating activities*	583 666	401 417	182 249	
Cash flows from investing activities				
Payments for property, plant and equipment	(42 481)	(42 481)	-	
Proceeds from disposal of property, plant and equipment	15 091	15 091	-	
Payments for intangible assets	-	-	-	
Decrease in long term financial instruments held at fair value through OCI	(316 238)	(316 238)	-	
Net cash used in investing activities	(343 628)	(343 628)	-	

*Increase in trading portfolio assets were reclassified from operating activities to investing activities.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

45. Cash and cash equivalents (continued)**Statement of cash flows for the year ended 31 December 2019 (continued)**

	Restated P'000	Company Original P'000	Difference P'000	Note
Cash flows from financing activities				
Dividends paid to shareholders	(299 995)	(299 995)	-	
Issuance of debt securities	94 200	94 200	-	
Redemption of debt securities	(278 800)	(278 800)	-	
Proceeds from subordinated debt	-	-	-	
Payment of lease liabilities	(49 935)	(32 754)	(17 181)	n
Net cash used in financing activities	(534 530)	(517 349)	(17 181)	
Net decrease in cash and cash equivalents	(294 492)	(459 560)	165 068	
Cash and cash equivalents at the beginning of the year	4 110 118	3 689 922	420 196	
Cash and cash equivalents at the end of the year*	3 815 626	3 230 362	585 264	

Notes to the restated cash flow

- a) the net gains arising on financial assets measured at fair value through profit and loss was overstated by P 30 552 000.
- b) the expected credit losses amount was understated by recoveries received from previously written off loans of P25 733 000.
- c) lease payments relating to IFRS 16 exempt assets of P34 127 000 were inaccurately deducted from profit to derive 'cash used in operations before working capital changes'.
- d) the movement in amounts other payables was overstated by P54 534 000.
- e) the movement in provisions was understated by P24 202 000.
- f) the movement in amounts owing to related parties was overstated by P32 293 000.
- g) the net increase in loans and advances to customers amount was previously understated by P5 060 000 resulting from:
- Understatement in the ECL movement of P59 756 000
 - Understatement in accrued interest of P54 888 000
 - Other misstatement of P192 000
- h) the interest received amount was overstated by P54 888 000 relating to accrued interest (note d)
- i) income taxes paid net of refunds was overstated by P3 186 000.
- j) the increase in deposits due to customers was understated by P35 000.
- k) the movement in amounts due from related parties was overstated by P1 122 555 000.
- l) the due to related parties' amount was understated by P911 366 000 resulting from:
- P144 209 000 was previously included in cash and cash equivalents
 - P767 157 000 understatement in the movement in amounts due to related parties as previously presented
- m) Increase in trading portfolio assets of P513 000 was reclassified to cash flows from investing activities on the statement of cash flows.
- n) the payment of lease liabilities was understated by P17 181 000.



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

46. Financial instruments

46.1. Categories of financial instruments

Consolidated

2020	Fair value through profit/loss - Mandatory P'000	Fair value OCI - Debt instruments P'000	Amortised cost - Debt instruments P'000	Outside the scope of IFRS 9 P'000	Total assets and liabilities P'000
Assets as per Statement of Financial Position					
Cash	-	-	645 784	-	645 784
Cash and balances at central bank	-	-	775 787	-	775 787
Trading portfolio assets	212 332	-	-	-	212 332
Balances with related companies	-	-	1 404 496	-	1 404 496
Loans and advances to banks	-	-	1 010 533	-	1 010 533
Derivative financial instruments	48 430	-	-	-	48 430
Financial assets at fair value through OCI	-	2 042 225	-	-	2 042 225
Loans and advances to customers	-	-	13 904 310	-	13 904 310
Other assets	-	-	110 610	413 362	523 972
Total	260 762	2 042 225	17 851 520	413 362	20 567 869

Liabilities as per Statement of Financial Position

Deposits from banks	-	-	553 623	-	553 623
Balances with related companies	-	-	350 958	-	350 958
Derivative financial instruments	42 396	-	-	-	42 396
Deposits due to customers	-	-	15 903 147	-	15 903 147
Debt securities in issue	-	-	394 192	-	394 192
Other liabilities	-	-	350 848	62 838	413 686
Subordinated debt	-	-	574 476	-	574 476
Total	42 396	-	18 127 244	62 838	18 232 478

2019	Fair value through profit/loss - Mandatory P'000	Fair value OCI - Debt instruments P'000	Amortised cost - Debt instruments P'000	Outside the scope of IFRS 9 P'000	Total assets and liabilities P'000
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Assets as per Statement of Financial Position

Cash	-	-	529 450	-	529 450
Cash and balances at central bank	-	-	890 439	-	890 439
Balances with related companies	-	-	191 990	-	191 990
Loans and advances to banks	-	-	1 059 520	-	1 059 520
Derivative financial instruments	48 769	-	-	-	48 769
Financial assets at fair value through OCI	-	2 251 097	-	-	2 251 097
Loans and advances to customers	-	-	13 362 427	-	13 362 427
Other assets	-	-	177 091	311 176	488 267
Total	48 769	2 251 097	16 210 917	311 176	18 821 959

Liabilities as per Statement of Financial Position

Deposits from banks	-	-	302 972	-	302 972
Balances with related companies	-	-	575 824	-	575 824
Derivative financial instruments	36 074	-	-	-	36 074
Deposits due to customers	-	-	14 377 542	-	14 377 542
Debt securities in issue	-	-	350 673	-	350 673
Other liabilities	-	-	495 863	101 529	597 392
Subordinated debt	-	-	358 816	-	358 816
Total	36 074	-	16 461 690	101 529	16 599 293



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

46. Financial instruments

46.1. Categories of financial instruments

Company

2020	Fair value through profit/loss - Mandatory P'000	Fair value OCI - Debt instruments P'000	Amortised cost - Debt instruments P'000	Outside the scope of IFRS 9 P'000	Total assets and liabilities P'000
Assets as per Statement of Financial Position					
Cash	-	-	645 784	-	645 784
Cash and balances at central bank	-	-	775 787	-	775 787
Trading portfolio assets	212 332	-	-	-	212 332
Balances with related companies	-	-	1 547 126	-	1 547 126
Loans and advances to banks	-	-	1 010 533	-	1 010 533
Derivative financial instruments	48 430	-	-	-	48 430
Financial assets at fair value through OCI	-	2 042 225	-	-	2 042 225
Loans and advances to customers	-	-	13 904 310	-	13 904 310
Other assets	-	-	110 610	412 162	522 772
Total	260 762	2 042 225	17 994 150	412 162	20 709 299

Liabilities as per Statement of Financial Position

Deposits from banks	-	-	553 623	-	553 623
Balances with related companies	-	-	536 810	-	536 810
Derivative financial instruments	42 396	-	-	-	42 396
Deposits due to customers	-	-	15 903 147	-	15 903 147
Debt securities in issue	-	-	394 192	-	394 192
Other liabilities	-	-	350 848	52 516	403 364
Subordinated debt	-	-	574 476	-	574 476
Total	42 396	-	18 313 096	52 516	18 408 008

2019	Fair value through profit/loss - Mandatory P'000	Fair value OCI - Debt instruments P'000	Amortised cost - Debt instruments P'000	Outside the scope of IFRS 9 P'000	Total assets and liabilities P'000
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Assets as per Statement of Financial Position

Cash	-	-	529 450	-	529 450
Cash and balances at central bank	-	-	890 439	-	890 439
Balances with related companies	-	-	191 990	-	191 990
Loans and advances to banks	-	-	1 059 520	-	1 059 520
Derivative financial instruments	48 769	-	-	-	48 769
Financial assets at fair value through OCI	-	2 251 097	-	-	2 251 097
Loans and advances to customers	-	-	13 362 427	-	13 362 427
Other assets	-	-	177 091	308 117	485 208
Total	48 769	2 251 097	16 210 917	308 117	18 818 900

Liabilities as per Statement of Financial Position

Deposits from banks	-	-	302 972	-	302 972
Balances with related companies	-	-	611 322	-	611 322
Derivative financial instruments	36 074	-	-	-	36 074
Deposits due to customers	-	-	14 376 541	-	14 376 541
Debt securities in issue	-	-	350 673	-	350 673
Other liabilities	-	-	495 863	91 746	587 609
Subordinated debt	-	-	358 816	-	358 816
Total	36 074	-	16 496 187	91 746	16 624 007



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

47. Risk management

47.1 Capital risk management

The Group manages its capital at group level, considering both regulatory and economic capital. The Group's lead regulator Bank of Botswana sets and monitors capital requirements for the Group. The Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Group has adopted the standardised and basic indicator approaches to credit and operational risk management respectively. The Group calculates requirements for market risk in its trading and banking portfolios based upon the Group's value at risk (VaR) models.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position. The Group's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Group manages its capital at group level, considering both regulatory and economic capital. The Group's lead regulator Bank of Botswana sets and monitors capital requirements for the Group. The Group is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Group has adopted the standardised and basic indicator approaches to credit and operational risk management respectively. The Group calculates requirements for market risk in its trading and banking portfolios based upon the Group's value at risk (VaR) models.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and exposures not recognised in the statement of financial position. The Group's policy is to maintain a strong capital base so as to ensure investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

Unaudited	Consolidated		Company	
	2020 P'000	2019 P'000	2020 P'000	2019 P'000
Tier 1 Capital				
Stated capital	8 522	8 522	8 522	8 522
Share premium	8 586	8 586	8 586	8 586
Share capital reserve	2 060	2 060	2 060	2 060
General risk reserve	118 347	118 347	118 347	118 347
Other reserves	(8 093)	-	(8 093)	-
Retained earnings	2 206 509	2 079 455	2 206 509	2 079 455
Proposed dividends	(175 533)	(213 000)	(175 533)	(213 000)
Less: Intangible assets	(2 717)	(817)	(2 717)	(817)
Total Tier 1 Capital	2 157 681	2 003 153	2 157 681	2 003 153
Tier 2 Capital				
Subordinated redeemable debt	518 749	352 590	518 749	352 590
Unencumbered general provisions	174 371	143 694	174 371	143 694
Total Tier 2 Capital	693 120	496 284	693 120	496 284
Total regulatory capital	2 850 801	2 499 437	2 850 801	2 499 437
Risk weighted assets				
Credit risk weighted assets	13 949 641	11 495 500	13 949 641	11 495 500
Market risk weighted assets	173 402	169 074	173 402	169 074
Operational risk weighted assets	1 528 640	1 334 155	1 528 640	1 334 155
Total risk weighted assets	15 651 683	12 998 729	15 651 683	12 998 729
Capital adequacy ratio	18.21%	19.23%	18.21%	19.23%

Tier 1 (or core) capital ratio (Basel Committee guide: minimum 4%) was 13.79% at year-end (2019: 15.41%).



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

47. Risk management (continued)

47.2 Financial risk management objectives

Risk management processes

The Group's approach is to provide direction on:

- understanding the principal risks to achieving Group strategy;
- establishing risk appetite; and
- establishing and communicating the risk management framework.

The process is then broken down into five steps: identify, assess, control, report and manage/challenge. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.

Steps and Activities are:

Identify

- Establish the process for identifying and understanding business-level risks.

Assess

- Agree and implement measurement and reporting standards and methodologies.

Control

- Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements.
- Monitor the operation of the controls and adherence to risk direction and limits.
- Provide early warning of control or appetite breaches.
- Ensure that risk management practices and conditions are appropriate for the business environment

Report

- Interpret and report on risk exposures, concentrations and risk-taking outcomes.
- Interpret and report on sensitivities and Key Risk Indicators.
- Communicate with external parties.

Manage and challenge

- Review and challenge all aspects of the Bank's risk profile.
- Assess new risk-return opportunities.
- Advise on optimising the Bank's risk profile.
- Review and challenge risk management practices.

Market risk is the risk of a reduction in the Group's earnings or capital due to:

Traded market risk

The risk of the Group being impacted by changes in the level or volatility of market rates or prices. This includes changes in interest rates, inflation rates, credit spreads, property prices, commodity prices, equity and bond prices and foreign exchange levels.

Non-traded market risk

The risk of the Group being exposed to interest rate risk arising from loans, deposits and similar instruments held for longer term strategic purposes rather than for the purpose of profiting from changes in interest rates.

Market risk exposure arises from equity commodity investments (listed or unlisted), loans or deposits that are interest bearing, any assets and liabilities in foreign currencies, or any investments in tradable securities, indices, etc.

The Group's market risk management objectives include: the protection and enhancement of the statement of financial position and statement of comprehensive income and facilitating business growth within a controlled and transparent risk management framework.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.3 Market risk****Market risk measurement**

The techniques used to measure and control market risk include:

- Daily value at risk (DVaR)
- Stress tests
- Stop loss

Daily value at risk (DVar)

DVar is an estimate of the potential loss which might arise from unfavourable market movements, if the current positions were to be held unchanged for one business day. DVar is calculated using the historical simulation method with a historical sample of two years.

The Group uses an internal DVaR model based on the historical simulation method to derive the quantitative market risk measures under normal conditions. The DVaR model utilises a two-year data history of unweighted historical price and rate data and a holding period of one day with a confidence interval of 95%. This internal model is also used for measuring VaR over both a one-day and a 10-day holding period at a 99% confidence level (Stressed VaR). The VaR model however has a limitation of assuming normal conditions. To complement it; tail metrics, stress testing and other sensitivity measures are used.

Stress tests

Stress tests provide an indication of the potential size of the losses that could arise in extreme conditions. If the potential losses exceed the trigger limit, the positions captured by the stress test are reviewed by Assets and Liabilities Committee (ALCO).

Stop loss

A stop loss policy has been instituted incorporating a 'management trigger level' at USD100,000. If this trigger level is reached then all open positions must be closed immediately so as to protect the group against any further exchange rate losses.

Analysis of trading market risk exposures

The table below shows the DVaR statistics:

	Consolidated and Company		
	12 months to 31 December 2020		
	Average P'000	High P'000	Low P'000
Interest rate risk	64	117	35
Foreign currency risk	1 059	1 824	172
	1 123	1 941	207

	12 months to 31 December 2019		
	Average P'000	High P'000	Low P'000
Interest rate risk	77	88	13
Foreign currency risk	142	893	113
	219	981	126

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.3 Market risk measurement (continued)**

The high (and low) DVaR figures reported for each category did not necessarily occur on the same day as the high (and low) Dvar reported as a whole. The management of interest rate risk against interest rate exposure limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bps) parallel fall or rise in the local yield curve and a 50 bps rise or fall. This is done for both the 12 month and in the greater than 12 month portion of the yield curve. An analysis of the Group's sensitivity showing an increase or decrease in profits to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

	Consolidated and Company			
	100 basis points parallel increase P'000	100 basis points parallel decrease P'000	50 basis points increase after 1 year P'000	50 basis points decrease after 1 year P'000
2020				
At 31 December	81 331	(81 331)	40 665	(40 665)
Average for the year	75 492	(75 492)	37 746	(37 746)
Maximum for the year	90 006	(90 006)	45 000	(45 000)
2019				
At 31 December	68 500	(68 500)	34 250	(34 250)
Average for the year	70 563	(70 563)	35 281	(35 281)
Maximum for the year	79 000	(79 000)	36 750	(36 750)

Overall non-trading interest rate risk positions are managed by Treasury function, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's non-trading activities. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group 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 Board sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored by the Treasury division at least monthly through the Assets and Liabilities Committee.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.3 Market risk measurement (continued)**

Consolidated and Company

	2020			2019		
	Interest rates Average	Interest rates High	Interest rates Low	Interest rates Average	Interest rates High	Interest rates Low
Assets						
Loans and advances to banks:						
BWP	1.00%	2.00%	0.55%	1.10%	1.50%	1.00%
USD	0.80%	1.60%	0.05%	1.20%	1.45%	1.00%
ZAR	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Bank of Botswana certificates						
14 day	1.08%	1.46%	1.01%	1.57%	1.63%	1.39%
91 day	1.25%	1.52%	1.04%	1.61%	1.70%	1.48%
Loans and advances:						
Corporate	5.76%	9.75%	2.50%	6.86%	10.75%	3.75%
Retail	11.44%	30.25%	2.25%	12.60%	36.00%	6.25%
Staff	3.53%	6.25%	3.25%	4.65%	4.75%	4.25%
Balances with related parties						
USD	2.43%	3.45%	1.35%	2.15%	3.45%	1.60%
ZAR	6.82%	7.48%	6.48%	7.25%	7.58%	6.45%

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.3 Market risk measurement (continued)**

Consolidated and Company

	2020			2019		
	Interest rates Average	Interest rates High	Interest rates Low	Interest rates Average	Interest rates High	Interest rates Low
Liabilities						
Deposits due to customers:						
Corporate	0.30%	4.35%	0.10%	0.40%	3.00%	0.10%
Retail	1.07%	4.70%	0.00%	1.33%	4.25%	0.00%
Staff	1.15%	2.48%	0.00%	1.33%	4.25%	0.00%
Deposits from banks:						
BWP	1.00%	5.00%	0.80%	1.10%	2.75%	1.00%
USD	0.10%	1.00%	0.00%	1.00%	1.00%	1.00%
Balances with related parties						
USD	2.93%	2.93%	2.93%	3.29%	3.80%	2.78%
	5.11%	5.11%	5.11%			
Medium term notes	5.65%	7.00%	4.40%	6.00%	7.00%	4.98%
Floating rate notes	4.85%	6.25%	3.50%	5.50%	6.25%	4.75%

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47.4 Foreign currency risk

The Group undertakes transactions denominated in foreign currencies; consequently, exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising forward foreign exchange contracts.

Additional foreign exchange exposure is taken through the trading book; in particular, through FX forwards (including unmatured spot transactions), FX Swaps, and other market making activities.

The Group manages foreign exchange exposures in line with ALCO and Absa Bank Botswana market risk guidelines. Typically, all currencies other than the US dollar are fully matched with open positions being taken on the US dollar up to a maximum open position of US\$25million. The limit was adhered to throughout the year.

The Group conducts its foreign currency operations in accordance with guidelines periodically received from its regulator Bank of Botswana. The current intraday limit is set at US\$50million and the overnight limit is US\$25 million. These limits were adhered to throughout the year.

Market risk regulatory capital calculations (Trading and Banking Books)

The Group is required to hold adequate capital to cover losses due to exposures to Market Risk. For day to day risk management, the Bank uses internal models such as Daily Value at Risk (DVaR), Net interest income and Economic Value of Equity (EVE) sensitivity, etc. However, for regulatory capital calculations, and as required by the Bank of Botswana, the Bank uses the Standardised Measurement Method. This entails using the prescribed methods to calculate the capital charge for the market risk that the Bank is exposed to. The Internal Models Approach (use of DVaR, Stressed Value at Risk SVaR) for regulatory capital calculations is not permitted under current Bank of Botswana regulatory guidelines.

The risks that form part of the Group's capital charge are as follows: the interest rate and equity risks pertaining to financial instruments in the trading book; and Foreign exchange risk and commodities risk in the trading and banking books. In particular; the General and Specific Interest rate risk, the general and specific equity risks, the FX risks (including banking book) and commodity risks. The Group uses the standardised maturity method for calculating its general interest rate risk, with adjustments for basis and correlation effects. The measurement methods are in line with Basel 2, which became effective 1 January 2016.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.4 Foreign currency risk (continued)**

2020	Consolidated						
	BWP P'000	USD P'000	ZAR P'000	GBP P'000	EUR P'000	Other P'000	Total P'000
Assets							
Cash	624 029	4 723	15 004	1 187	523	318	645 784
Balances at the Central Bank	775 787	-	-	-	-	-	775 787
Trading portfolio assets	212 332	-	-	-	-	-	212 332
Derivative financial instruments	48 430	-	-	-	-	-	48 430
Financial assets at fair value through OCI	1 877 178	165 047	-	-	-	-	2 042 225
Loans and advances to banks	243 540	189 510	66 631	239 218	268 612	3 022	1 010 533
Due from related companies	1 116	1 352 484	49 629	-	-	1 267	1 404 496
Loans and advances to customers	12 299 730	1 355 375	249 202	1	2	-	13 904 310
Other receivables	110 610	-	-	-	-	-	110 610
Total assets	16 192 752	3 067 139	380 466	240 406	269 137	4 607	20 154 507
Liabilities							
Deposits from banks	53 571	404 587	281	11 741	80 595	2 848	553 623
Due to related companies	13 536	-	336 866	-	-	556	350 958
Customer deposits	12 846 578	2 564 164	155 602	279 103	57 686	14	15 903 147
Derivative financial instruments	42 396	-	-	-	-	-	42 396
Other payables	350 848	-	-	-	-	-	350 848
Debt securities in issue	394 192	-	-	-	-	-	394 192
Subordinated debt	358 317	216 159	-	-	-	-	574 476
Total liabilities	14 059 438	3 184 910	492 749	290 844	138 281	3 418	18 169 640
Net position	2 133 314	(117 771)	(112 283)	(50 438)	130 856	1 189	1 984 867
	BWP P'000	USD P'000	ZAR P'000	GBP P'000	EUR P'000	Other P'000	Total P'000
2019							
Assets							
Cash	496 170	11 849	17 408	1 443	2 338	242	529 450
Balances at the Central Bank	890 439	-	-	-	-	-	890 439
Derivative financial instruments	48 769	-	-	-	-	-	48 769
Financial assets at fair value through OCI	2 251 097	-	-	-	-	-	2 251 097
Loans and advances to banks	696 730	38 930	-	200 222	118 041	5 597	1 059 520
Due from related companies	-	176 960	15 030	-	-	-	191 990
Loans and advances to customers	11 376 124	1 735 024	251 279	-	-	-	13 362 427
Other receivables	177 091	-	-	-	-	-	177 091
Total assets	15 936 420	1 962 763	283 717	201 665	120 379	5 839	18 510 783
Liabilities							
Deposits from banks	146 687	56 222	11 127	-	88 936	-	302 972
Due to related companies	-	268 792	304 930	1 095	-	1 007	575 824
Customer deposits	12 247 881	1 772 221	88 652	237 797	30 991	-	14 377 542
Derivative financial instruments	36 074	-	-	-	-	-	36 074
Other payables	495 863	-	-	-	-	-	495 863
Debt securities in issue	350 673	-	-	-	-	-	350 673
Subordinated debt	358 816	-	-	-	-	-	358 816
Total liabilities	13 635 994	2 097 235	404 709	238 892	119 927	1 007	16 497 764
Net position	2 300 426	(134 472)	(120 992)	(37 227)	452	4 832	2 013 019

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.4 Foreign currency risk (continued)**

2020	Company							Total P'000
	BWP P'000	USD P'000	ZAR P'000	GBP P'000	EUR P'000	Other P'000		
Assets								
Cash	624 029	4 723	15 004	1 187	523	318		645 784
Balances at the Central Bank	775 787	-	-	-	-	-		775 787
Trading portfolio assets	212 332	-	-	-	-	-		212 332
Derivative financial instruments	48 430	-	-	-	-	-		48 430
Financial assets at fair value through OCI	1 877 178	165 047	-	-	-	-		2 042 225
Loans and advances to banks	243 540	189 510	66 631	239 218	268 612	3 022		1 010 533
Due from related companies	1 116	1 495 114	49 629	-	-	1 267		1 547 126
Loans and advances to customers	12 299 730	1 355 375	249 202	1	2	-		13 904 310
Other receivables	110 610	-	-	-	-	-		110 610
Total assets	16 192 752	3 209 769	380 466	240 406	269 137	4 607		20 297 137
Liabilities								
Deposits from banks	53 571	404 587	281	11 741	80 595	2 848		553 623
Due to related companies	13 536	-	522 718	-	-	556		536 810
Customer deposits	12 846 578	2 564 164	155 602	279 103	57 686	14		15 903 147
Derivative financial instruments	42 396	-	-	-	-	-		42 396
Other payables	350 848	-	-	-	-	-		350 848
Debt securities in issue	394 192	-	-	-	-	-		394 192
Subordinated debt	358 317	216 159	-	-	-	-		574 476
Total liabilities	14 059 438	3 184 910	678 601	290 844	138 281	3 418		18 355 492
Net position	2 133 314	24 859	(298 135)	(50 438)	130 856	1 189		1 941 645
	BWP P'000	USD P'000	ZAR P'000	GBP P'000	EUR P'000	Other P'000		Total P'000
2019								
Assets								
Cash	496 170	11 849	17 408	1 443	2 338	242		529 450
Balances at the Central Bank	890 439	-	-	-	-	-		890 439
Derivative financial instruments	48 769	-	-	-	-	-		48 769
Financial assets at fair value through OCI	2 251 097	-	-	-	-	-		2 251 097
Loans and advances to banks	696 730	38 930	-	200 222	118 041	5 597		1 059 520
Due from related companies	-	176 960	15 030	-	-	-		191 990
Loans and advances to customers	11 376 124	1 735 024	251 279	-	-	-		13 362 427
Other receivables	177 091	-	-	-	-	-		177 091
Total assets	15 936 420	1 962 763	283 717	201 665	120 379	5 839		18 510 783
Liabilities								
Deposits from banks	146 687	56 222	11 127	-	88 936	-		302 972
Due to related companies	-	304 290	304 930	1 095	-	1 007		611 322
Customer deposits	12 247 881	1 771 220	88 652	237 797	30 991	-		14 376 541
Derivative financial instruments	36 074	-	-	-	-	-		36 074
Other payables	495 863	-	-	-	-	-		495 863
Debt securities in issue	350 673	-	-	-	-	-		350 673
Subordinated debt	358 816	-	-	-	-	-		358 816
Total liabilities	13 635 994	2 131 732	404 709	238 892	119 927	1 007		16 532 261
Net position	2 300 426	(168 969)	(120 992)	(37 227)	452	4 832		1 978 522

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.4 Foreign currency risk (continued)****Sensitivity of currency**

The following sensitivity analysis is monitored on the following major currencies of non-equity instruments, had a 5% increase or decrease arose on the various currencies.

	Consolidated and Company	
	2020 P'000	2019 P'000
5% movement in US Dollar/BWP exchange rate (P'000)	(5 913)	(6 616)
As a percentage of total shareholders' equity	-0.25%	-0.30%
5% movement in ZAR/BWP exchange rate (P'000)	(5 783)	(6 438)
As a percentage of total shareholders' equity	-0.25%	-0.29%
5% movement in GBP/BWP exchange rate (P'000)	(2 527)	(1 875)
As a percentage of total shareholders' equity	-0.11%	-0.08%
5% movement in EUR/BWP exchange rate (P'000)	6 475	(46)
As a percentage of total shareholders' equity	0.28%	0.00%

Sensitivity analysis

A reasonably possible strengthening of the US dollar, ZAR, GBP, EUR against all other countries as at 31 December 2020 would have affected the measured of financial instruments denominated in foreign currency and affected equity and profit or loss by amounts shown above. This analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecast sales and purchase.

47.5 Interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for interest rate exposure. The Assets and Liabilities Committee (ALCO) is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities. The table below shows the repricing profile of the Bank's non-trading portfolios:

2020	Consolidated							Total P'000
	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000		
Assets								
Cash	-	-	-	-	-	-		645 784
Balances at central banks	459 924	-	-	-	-	-		315 863
Trading portfolio assets	-	-	-	137 985	74 347	-		212 332
Derivative financial instruments	48 430	-	-	-	-	-		48 430
Fair value through OCI Investments	749 969	384 964	229 064	581 013	97 215	-		2 042 225
Loans and advances to banks	1 010 533	-	-	-	-	-		1 010 533
Due from related parties	1 079 142	324 262	1 092	-	-	-		1 404 496
Loans and advances to customers	14 107 871	40 473	177 386	231 466	915	(653 801)		13 904 310
Other receivables	-	-	-	-	-	-		110 610
	17 455 869	749 699	407 542	950 464	172 477	418 456		20 154 507

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.5 Interest rate risk (continued)**

2020	Consolidated							Total P'000
	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000		
Liabilities								
Deposits from banks	481 993	-	71 630	-	-	-	-	553 623
Due to related parties	110 789	-	-	240 169	-	-	-	350 958
Customer accounts	8 481 660	1 401 865	2 123 269	246 478	-	3 649 875	15 903 147	
Derivative financial instruments	42 396	-	-	-	-	-	-	42 396
Debt securities in issue	8 000	340 492	45 700	-	-	-	-	394 192
Subordinated debt	-	574 476	-	-	-	-	-	574 476
Other payables	-	-	-	-	-	350 848	-	350 848
	9 124 838	2 316 833	2 240 599	486 647	-	4 000 723	-	18 169 640
Interest rate sensitivity gap	8 331 031	(1 567 134)	(1 833 057)	463 817	172 477	(3 582 267)	-	1 984 867

2019	Consolidated							Total P'000
	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000		
Assets								
Cash	-	-	-	-	-	529 450	-	529 450
Balances at central banks	890 439	-	-	-	-	-	-	890 439
Trading portfolio assets	-	-	-	-	-	-	-	-
Derivative financial instruments	48 769	-	-	-	-	-	-	48 769
Fair value through OCI Investments	1 183 256	150 000	491 125	308 641	118 075	-	-	2 251 097
Loans and advances to banks	1 059 520	-	-	-	-	-	-	1 059 520
Due from related parties	191 990	-	-	-	-	-	-	191 990
Loans and advances to customers	12 892 076	42 909	187 845	238 619	978	-	-	13 362 427
Other receivables	-	-	-	-	-	177 091	-	177 091
	16 266 050	192 909	678 970	547 260	119 053	706 541	-	18 510 783

Above table was updated to only include financial assets.

2019	Consolidated							Total P'000
	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000		
Liabilities								
Deposits from banks	302 972	-	-	-	-	-	-	302 972
Due to related parties	-	311 422	264 402	-	-	-	-	575 824
Customer accounts	7 264 643	1 513 736	1 851 004	388 590	-	3 359 569	14 377 542	
Derivative financial instruments	36 074	-	-	-	-	-	-	36 074
Debt securities in issue	-	256 473	94 200	-	-	-	-	350 673
Subordinated debt	358 816	-	-	-	-	-	-	358 816
Other payables	-	-	-	-	-	495 863	-	495 863
	7 962 505	2 081 631	2 209 606	388 590	-	3 855 432	-	16 497 764
Interest rate sensitivity gap	8 303 545	(1 888 722)	(1 530 636)	158 670	119 053	(3 148 891)	-	2 013 019

The above table has been updated to only include financial liabilities.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.5 Interest rate risk (continued)**

2020	Company							Total P'000
	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000		
Assets								
Cash	-	-	-	-	-	-	645 784	645 784
Balances at central banks	459 924	-	-	-	-	-	315 863	775 787
Trading portfolio assets	-	-	-	137 985	-	-	-	212 332
Derivative financial instruments	48 430	-	-	-	-	-	-	48 430
Fair value through OCI Investments	749 969	384 964	229 064	581 013	97 215	-	-	2 042 225
Loans and advances to banks	1 010 533	-	-	-	-	-	-	1 010 533
Due from related parties	1 221 772	324 262	1 092	-	-	-	-	1 547 126
Loans and advances to customers	14 107 871	40 473	177 386	231 466	915	(653 801)	-	13 904 310
Other receivables	-	-	-	-	-	-	110 610	110 610
	17 598 499	749 699	407 542	950 464	172 477	418 456	-	20 297 137

2020	Company							Total P'000
	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000		
Liabilities								
Deposits from banks	481 993	-	71 630	-	-	-	-	553 623
Due to related parties	296 641	-	-	240 169	-	-	-	536 810
Customer accounts	8 481 660	1 401 865	2 123 269	246 478	-	3 649 875	15 903 147	
Derivative financial instruments	42 396	-	-	-	-	-	-	42 396
Debt securities in issue	8 000	340 492	45 700	-	-	-	-	394 192
Subordinated debt	-	574 476	-	-	-	-	-	574 476
Other payables	-	-	-	-	-	350 848	-	350 848
	9 310 690	2 316 833	2 240 599	486 647	-	4 000 723	-	18 355 492
Interest rate sensitivity gap	8 287 809	(1 567 134)	(1 833 057)	463 817	172 477	(3 582 267)	-	1 941 645

2019	Company							Total P'000
	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000		
Assets								
Cash	-	-	-	-	-	529 450	-	529 450
Balances at central banks	890 439	-	-	-	-	-	-	890 439
Trading portfolio assets	-	-	-	-	-	-	-	-
Derivative financial instruments	48 769	-	-	-	-	-	-	48 769
Fair value through OCI Investments	1 183 256	150 000	491 125	308 641	118 075	-	-	2 251 097
Loans and advances to banks	1 059 520	-	-	-	-	-	-	1 059 520
Due from related parties	191 990	-	-	-	-	-	-	191 990
Loans and advances to customers	12 892 076	42 909	187 845	238 619	978	-	-	13 362 427
Other receivables	-	-	-	-	-	177 091	-	177 091
	16 266 050	192 909	678 970	547 260	119 053	706 541	-	18 510 783

Above table was updated to only include financial assets.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.5 Interest rate risk (continued)**

2019	Consolidated							Total P'000
	Up to 1 month P'000	1 - 3 months P'000	3 - 12 months P'000	1 - 5 years P'000	Over 5 years P'000	Non-interest bearing P'000		
LIABILITIES								
Deposits from Banks	302 972	-	-	-	-	-	-	302 972
Due to related parties	-	346 920	264 402	-	-	-	-	611 322
Customer accounts	7 263 642	1 513 736	1 851 004	388 590	-	3 359 569	14 376 541	
Derivative financial instruments	36 074	-	-	-	-	-	-	36 074
Debt securities in issue	-	256 473	94 200	-	-	-	-	350 673
Subordinated debt	358 816	-	-	-	-	-	-	358 816
Other payables	-	-	-	-	-	495 863	495 863	
	7 961 504	2 117 129	2 209 606	388 590	0	3 855 432	16 532 261	
Interest rate sensitivity gap	8 304 546	(1 924 220)	(1 530 636)	158 670	119 053	(3 148 891)	1 978 522	

The above table has been updated to only include financial liabilities.

47.6 Other price risks**Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address Operational risk is delegated to senior management within each Business unit. This responsibility is supported by implementation of the localised operational risk standards for the management of risk in the following areas:

- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- compliance with regulatory and other legal requirements
- reporting of operational losses and proposed remedial action

Compliance with the operational risk standards is supported by a programme of periodic conformance and internal audit reviews undertaken by assurance providers. The results of reviews are tracked for resolution by management and the respective governance forums.

47.7 Credit risk

The Group's approach is to provide direction on:

- understanding the principal risks to achieving Group strategy;
- establishing risk appetite; and
- establishing and communicating the risk management framework.

The process is then broken down into five steps: identify, assess, control, report and manage/challenge. Each of these steps is broken down further, to establish end-to-end activities within the risk management process and the infrastructure needed to support it.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)**

Steps and activities are:

Identify

- Establish the process for identifying and understanding business-level risks.

Assess

- Agree and implement measurement and reporting standards and methodologies.

Control

- Establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements.
- Monitor the operation of the controls and adherence to risk direction and limits.
- Provide early warning of control or appetite breaches.
- Ensure that risk management practices and conditions are appropriate for the business environment

Report

- Interpret and report on risk exposures, concentrations and risk-taking outcomes.
- Interpret and report on sensitivities and Key Risk Indicators.
- Communicate with external parties.

Manage and challenge

- Review and challenge all aspects of the Group's risk profile.
- Assess new risk-return opportunities.
- Advise on optimising the Group's risk profile.
- Review and challenge risk management practices.

47.7.1. Maximum credit risk exposure

2020	Consolidated			
	Gross Maximum Exposure P'000	12 months expected credit losses - stage 1 P'000	Lifetime expected credit losses - stage 2 P'000	Credit impaired - stage 3 P'000
Balances at central banks	775 791	775 791	-	-
Loans and advances to Banks	1 010 676	1 010 676	-	-
Financial assets at fair value through OCI	2 042 452	2 042 452	-	-
Loans and advances to Customers	14 558 110	12 447 441	1 086 899	1 023 770
Due from related parties	1 404 747	1 404 747	-	-
Total gross maximum exposure to credit risk (excluding derivatives)	19 791 776	17 681 107	1 086 899	1 023 770
Expected credit losses	(654 425)	(141 942)	(165 339)	(347 144)
Total net exposure to credit risk as disclosed on the statement of financial position	19 137 351	-	-	-
Assets not subject to IFRS 9 ECL requirements	1 017 156	-	-	-
Total financial assets	20 154 507	17 539 165	921 560	676 626
Gross off balance sheet exposures	2 438 677	2 333 002	77 119	28 556
Expected credit losses and provision	(12 598)	(9 343)	(2 883)	(372)
Net off balance sheet exposures	2 426 079	2 323 659	74 236	28 184

The write-off amount for the year is P141 951 000 (2019: P110 432 000) refer to note 22.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.7.1. Maximum credit risk exposure (continued)**

2019	Consolidated			
	Gross Maximum Exposure P'000	12 months expected credit losses - stage 1 P'000	Lifetime expected credit losses - stage 2 P'000	Credit impaired - stage 3 P'000
Balances at central banks	890 512	890 512	-	-
Loans and advances to Banks	1 059 665	1 059 665	-	-
Financial assets at fair value through OCI	2 251 097	2 251 097	-	-
Loans and advances to Customers	13 880 357	12 280 482	916 634	683 241
Due from related parties	191 990	191 990	-	-
Total gross maximum exposure to credit risk (excluding derivatives)	18 273 621	16 673 746	916 634	683 241
Expected credit losses	(518 148)	(55 182)	(131 015)	(331 951)
Total net exposure to credit risk as disclosed on the statement of financial position	17 755 473	-	-	-
Assets not subject to IFRS 9 ECL requirements	755 310	-	-	-
Total financial assets	18 510 783	16 618 564	785 619	351 290
Gross off balance sheet exposures	2 621 230	2 621 230	-	-
Expected credit losses and provision	(5 040)	(5 040)	-	-
Net off balance sheet exposures	2 616 190	2 616 190	-	-

The following significant changes in the gross carrying amount of loans and advances to customers during the period contributed to changes in the loss allowance:

- The Group did not originate any credit impaired assets during the current reporting period.
- The total write-offs recognised during the current period related predominantly to exposures in the Retail portfolios.

2020	Company			
	Gross Maximum Exposure P'000	12 months expected credit losses - stage 1 P'000	Lifetime expected credit losses - stage 2 P'000	Credit impaired - stage 3 P'000
Balances at central banks	775 791	775 791	-	-
Loans and advances to Banks	1 010 676	1 010 676	-	-
Financial assets at fair value through OCI	2 042 452	2 042 452	-	-
Loans and advances to Customers	14 558 110	12 447 441	1 086 899	1 023 770
Due from related parties	1 547 378	1 547 378	-	-
Total gross maximum exposure to credit risk (excluding derivatives)	19 934 407	17 823 738	1 086 899	1 023 770
Expected credit losses	(654 425)	(141 942)	(165 339)	(347 144)
Total net exposure to credit risk as disclosed on the statement of financial position	19 279 982	-	-	-
Assets not subject to IFRS 9 ECL requirements	1 017 155	-	-	-
Total financial assets	20 297 137	17 681 796	921 560	676 626
Gross off balance sheet exposures	2 438 677	2 333 002	77 119	28 556
Expected credit losses and provision	(12 598)	(9 343)	(2 883)	(372)
Net off balance sheet exposures	2 426 079	2 323 659	74 236	28 184

The write-off amount for the year is P141 951 000 (2019: P110 432 000) refer to note 22.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.7.1. Maximum credit risk exposure (continued)**

2019	Company			
	Gross Maximum Exposure P'000	12 months expected credit losses - stage 1 P'000	Lifetime expected credit losses - stage 2 P'000	Credit impaired - stage 3 P'000
Balances at central banks	890 512	890 512	-	-
Loans and advances to Banks	1 059 665	1 059 665	-	-
Financial assets at fair value through OCI	2 251 097	2 251 097	-	-
Loans and advances to Customers	13 880 357	12 280 482	916 634	683 241
Due from related parties	191 990	191 990	-	-
Total gross maximum exposure to credit risk (excluding derivatives)	18 273 621	16 673 746	916 634	683 241
Expected credit losses	(518 148)	(55 182)	(131 015)	(331 951)
Total net exposure to credit risk as disclosed on the statement of financial position	17 755 473	-	-	-
Assets not subject to IFRS 9 ECL requirements	755 310	-	-	-
Total financial assets	18 510 783	16 618 564	785 619	351 290
Gross off balance sheet exposures	2 621 230	2 621 230	-	-
Expected credit losses and provision	(5 040)	(5 040)	-	-
Net off balance sheet exposures	2 616 190	2 616 190	-	-

The following significant changes in the gross carrying amount of loans and advances to customers during the period contributed to changes in the loss allowance:

- The Group did not originate any credit impaired assets during the current reporting period.
- The total write-offs recognised during the current period related predominantly to exposures in the Retail portfolios.

47.7.2. Enforcement of collateral

Carrying value of assets held by the Bank at the reporting date as a result of the enforcement of collateral is as follows:

	Consolidated and Company	
	2020 P'000	2019 P'000
Finance leases- movable property	1 008	2 064
Residential property	12 531	14 036
Balance at the end of the reporting period	13 539	16 100

The policy for financial assets that are written off but still subject to enforcement activity is disclosed under note 2.16.3

Growth

The loans and advances to customers experienced growth of 4% year on year. The growth was mainly driven by expansionary appetite to supported targeted growth on unsecured lending through the scheme platform followed by secured mortgages.

Portfolio Performance

The quality of the retail portfolio improved evidenced by a continued reduction in coverage. The growth in impairment charge in comparison to the previous year is driven mainly by the significant growth of the portfolio and MEV adjustments outline in Note 4. The current normalised year impairment performance has been stable and improving. This was achieved through use of data analytics to enhance collection and lending strategies to navigate against threats of general distress in market caused by economic downturn.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.7.3 Loans and advances to customers credit mitigation**

Analysis of credit risk exposure mitigation and collateral	Consolidated					
	Gross maximum exposure (excluding impairment) P'000	Guarantees credit insurance and credit derivatives P'000	Physical collateral P'000	Cash collateral P'000	Other P'000	Net unsecured exposure P'000
2020						
On-statement of financial position exposure						
Balances at central bank	775 787	-	-	-	-	775 787
Financial assets at fair value OCI	2 042 452	-	-	-	-	2 042 452
Trading portfolio assets	212 332	-	-	-	-	212 332
Due from related parties	1 404 747	-	-	-	-	1 404 747
Loans and advances to banks	1 010 675	-	-	-	-	1 010 675
Derivative financial assets	48 430	-	-	-	-	48 430
Loans and advances to customers	14 558 110	1 098 880	3 170 677	21 700	265 047	10 001 806
Other receivables	110 610	-	-	-	-	110 610
Total exposures subject to credit risk	20 163 143	1 098 880	3 170 677	21 700	265 047	15 606 839
2019						
On-statement of financial position exposure						
Balances at central bank	529 450	-	-	-	-	529 450
Financial assets at fair value OCI	2 251 097	-	-	-	-	2 251 097
Trading portfolio assets	-	-	-	-	-	-
Due from related parties	191 990	-	-	-	-	191 990
Loans and advances to banks	1 059 665	-	-	-	-	1 059 665
Derivative financial assets	48 769	-	-	-	-	48 769
Loans and advances to customers	13 880 357	1 047 441	2 877 096	16 889	77 810	9 861 121
Other receivables	177 091	-	-	-	-	177 091
Total exposures subject to credit risk	18 138 419	1 047 441	2 877 096	16 889	77 810	14 119 183

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.7.3 Loans and advances to customers credit mitigation (continued)**

Analysis of credit risk exposure mitigation and collateral	Company					
	Gross maximum exposure (excluding impairment) P'000	Guarantees credit insurance and credit derivatives P'000	Physical collateral P'000	Cash collateral P'000	Other P'000	Net unsecured exposure P'000
2020						
On-statement of financial position exposure						
Balances at central bank	775 787	-	-	-	-	775 787
Financial assets at fair value OCI	2 042 452	-	-	-	-	2 042 452
Trading portfolio assets	212 332	-	-	-	-	212 332
Due from related parties	1 547 378	-	-	-	-	1 547 378
Loans and advances to banks	1 010 675	-	-	-	-	1 010 675
Derivative financial assets	48 430	-	-	-	-	48 430
Loans and advances to customers	14 558 110	1 098 880	3 170 677	21 700	265 047	10 001 806
Other receivables	110 610	-	-	-	-	110 610
Total exposures subject to credit risk	20 305 774	1 098 880	3 170 677	21 700	265 047	15 749 470
2019						
On-statement of financial position exposure						
Balances at central bank	529 450	-	-	-	-	529 450
Financial assets at fair value OCI	2 251 097	-	-	-	-	2 251 097
Trading portfolio assets	-	-	-	-	-	-
Due from related parties	191 990	-	-	-	-	191 990
Loans and advances to banks	1 059 665	-	-	-	-	1 059 665
Derivative financial assets	48 769	-	-	-	-	48 769
Loans and advances to customers	13 880 357	1 047 441	2 877 096	16 889	77 810	9 861 121
Other receivables	177 091	-	-	-	-	177 091
Total exposures subject to credit risk	18 138 419	1 047 441	2 877 096	16 889	77 810	14 119 183

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.7.4 Credit exposure by industry**

Consolidated	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000
2020			
Private individuals	9 647 635	-	-
Mining companies	317 524	-	-
Parastatals	61 483	-	-
Private sector	3 467 670	-	-
Financial institutions	1 063 799	1 010 675	1 404 748
Gross exposure	14 558 111	1 010 675	1 404 748
Expected credit losses	(653 801)	(142)	(252)
Net exposure	13 904 310	1 010 533	1 404 496

2019

Private individuals	8 646 758	-	-
Mining companies	441 764	-	-
Parastatals	101 026	-	-
Private sector	3 665 964	-	-
Financial institutions	1 024 845	1 059 665	191 990
Gross exposure	13 880 357	1 059 665	191 990
Expected credit losses	(517 930)	(145)	-
Net exposure	13 362 427	1 059 520	191 990

Company	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000
2020			
Private individuals	9 647 635	-	-
Mining companies	317 524	-	-
Parastatals	61 483	-	-
Private sector	3 467 670	-	-
Financial institutions	1 063 799	1 010 675	1 547 378
Gross exposure	14 558 111	1 010 675	1 547 378
Expected credit losses	(653 801)	(142)	(252)
Net exposure	13 904 310	1 010 533	1 547 126

2019

Private individuals	8 646 758	-	-
Mining companies	441 764	-	-
Parastatals	101 026	-	-
Private sector	3 665 964	-	-
Financial institutions	1 024 845	1 059 665	191 990
Gross exposure	13 880 357	1 059 665	191 990
Expected credit losses	(517 930)	(145)	-
Net exposure	13 362 427	1 059 520	191 990

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

Derivative financial instruments P'000	Balances at central bank P'000	Financial assets at fair value through OCI P'000	Trading portfolio assets P'000	Other receivables P'000	Total P'000
-	-	-	-	-	9 647 635
-	-	-	-	-	317 524
-	-	-	-	-	61 483
-	-	-	-	-	3 467 670
48 430	775 790	2 042 452	212 332	110 610	6 668 836
48 430	775 790	2 042 452	212 332	110 610	20 163 148
-	(3)	(227)	-	-	(654 425)
48 430	775 787	2 042 225	212 332	110 610	19 508 723

-	-	-	-	-	8 646 758
-	-	-	-	-	441 764
-	-	-	-	-	101 026
-	-	-	-	-	3 665 964
48 769	890 512	2 251 097	-	177 091	5 643 969
48 769	890 512	2 251 097	-	177 091	18 499 481
-	(73)	-	-	-	(518 148)
48 769	890 439	2 251 097	-	177 091	17 981 333

Derivative financial instruments P'000	Balances at central bank P'000	Financial assets at fair value through OCI P'000	Trading portfolio assets P'000	Other receivables P'000	Total P'000
-	-	-	-	-	9 647 635
-	-	-	-	-	317 524
-	-	-	-	-	61 483
-	-	-	-	-	3 467 670
48 430	775 790	2 042 452	212 332	110 610	6 811 466
48 430	775 790	2 042 452	212 332	110 610	20 305 778
-	(3)	(227)	-	-	(654 425)
48 430	775 787	2 042 225	212 332	110 610	19 651 353

-	-	-	-	-	8 646 758
-	-	-	-	-	441 764
-	-	-	-	-	101 026
-	-	-	-	-	3 665 964
48 769	890 512	2 251 097	-	177 091	5 643 969
48 769	890 512	2 251 097	-	177 091	18 499 481
-	(73)	-	-	-	(518 148)
48 769	890 439	2 251 097	-	177 091	17 981 333

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.7.5 Credit exposure by area**

Consolidated	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000
2020			
Botswana	14 558 111	243 547	-
South Africa	-	66 765	1 404 748
SADC	-	49	-
UK	-	239 218	-
Europe	-	269 971	-
Other	-	1 615	-
USA	-	189 510	-
Gross exposure	14 558 111	1 010 675	1 404 748
Expected credit losses	(653 801)	(142)	(252)
Net exposure	13 904 310	1 010 533	1 404 496
2019			
Botswana	13 856 510	461 313	-
South Africa	-	74 487	191 990
SADC	23 847	225	-
UK	-	164 148	-
Europe	-	121 871	-
Other	-	1 637	-
USA	-	235 984	-
Gross exposure	13 880 357	1 059 665	191 990
Expected credit loss	(517 930)	(145)	-
Net exposure	13 362 427	1 059 520	191 990

Concentration of credit risk exists when a number of counterparties are located in a geographical region, and/or are engaged in similar activities and/or have similar economic characteristics such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

Derivative financial instruments P'000	Balances at central bank P'000	Financial assets at fair value through OCI P'000	Trading portfolio assets P'000	Other receivables P'000	Total P'000
48 430	775 790	2 042 452	212 332	110 610	17 991 272
-	-	-	-	-	1 471 513
-	-	-	-	-	49
-	-	-	-	-	239 218
-	-	-	-	-	269 971
-	-	-	-	-	1 615
-	-	-	-	-	189 510
48 430	775 790	2 042 452	212 332	110 610	20 163 148
-	(3)	(227)	-	-	(654 425)
48 430	775 787	2 042 225	212 332	110 610	19 508 723
48 769	890 512	2 251 097	-	177 091	17 685 292
-	-	-	-	-	266 477
-	-	-	-	-	24 072
-	-	-	-	-	164 148
-	-	-	-	-	121 871
-	-	-	-	-	1 637
-	-	-	-	-	235 984
48 769	890 512	2 251 097	-	177 091	18 499 481
-	(73)	-	-	-	(518 148)
48 769	890 439	2 251 097	-	177 091	17 981 333

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.7.5 Credit exposure by area (continued)**

Company	Loans and advances to customers P'000	Loans and advances to banks P'000	Balances with related companies P'000
2020			
Botswana	14 558 111	243 547	-
South Africa	-	66 765	1 547 378
SADC	-	49	-
UK	-	239 218	-
Europe	-	269 971	-
Other	-	1 615	-
USA	-	189 510	-
Gross exposure	14 558 111	1 010 675	1 547 378
Expected credit losses	(653 801)	(142)	(252)
Net exposure	13 904 310	1 010 533	1 547 126
2019			
Botswana	13 856 510	461 313	-
South Africa	-	74 487	191 990
SADC	23 847	225	-
UK	-	164 148	-
Europe	-	121 871	-
Other	-	1 637	-
USA	-	235 984	-
Gross exposure	13 880 357	1 059 665	191 990
Expected credit loss	(517 930)	(145)	-
Net exposure	13 362 427	1 059 520	191 990

Concentration of credit risk exists when a number of counterparties are located in a geographical region, and/or are engaged in similar activities and/or have similar economic characteristics such that their ability to meet contractual obligations is similarly affected by changes in economic or other conditions.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

	Derivative financial instruments P'000	Balances at central bank P'000	Financial assets at fair value through OCI P'000	Trading portfolio assets P'000	Other receivables P'000	Total P'000
	48 430	775 790	2 042 452	212 332	110 610	17 991 272
	-	-	-	-	-	1 614 143
	-	-	-	-	-	49
	-	-	-	-	-	239 218
	-	-	-	-	-	269 971
	-	-	-	-	-	1 615
	-	-	-	-	-	189 510
	48 430	775 790	2 042 452	212 332	110 610	20 305 778
	-	(3)	(227)	-	-	(654 425)
	48 430	775 787	2 042 225	212 332	110 610	19 651 353
	48 769	890 512	2 251 097	-	177 091	17 685 292
	-	-	-	-	-	266 477
	-	-	-	-	-	24 072
	-	-	-	-	-	164 148
	-	-	-	-	-	121 871
	-	-	-	-	-	1 637
	-	-	-	-	-	235 984
	48 769	890 512	2 251 097	-	177 091	18 499 481
	-	(73)	-	-	-	(518 148)
	48 769	890 439	2 251 097	-	177 091	17 981 333

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.7.6 Off – Balance sheet industrial analysis**

	Consolidated and Company	
	Commitments not on the statement of financial position P'000 2020	Total P'000 2019
Private individuals	373 788	411 533
Mining companies	206 330	244 075
Parastatals	28 935	66 680
Private sector	1 807 218	1 876 080
Financial institutions	22 406	22 862
Net exposure	2 438 677	2 621 230

47.8 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

Liquidity and interest risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period. The contractual maturity is based on the earliest date on which the Group may be required to pay.

Consolidated	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2020								
Assets								
Cash	645 784	-	-	-	-	645 784	-	645 784
Balances at central banks	775 790	-	-	-	-	775 790	(3)	775 787
Trading portfolio assets	-	-	-	137 486	74 846	212 332	-	212 332
Fair value through OCI Investments	749 914	219 917	229 064	-	843 330	2 042 225	-	2 042 225
Loans and advances to banks	766 940	243 594	-	-	-	1 010 534	(1)	1 010 533
Due from related parties	1 079 293	324 262	1 092	-	-	1 404 647	(151)	1 404 496
Loans and advances to customers	1 329 565	494 704	698 497	4 887 878	6 543 337	13 953 981	(49 671)	13 904 310
Other assets	-	-	110 610	-	-	110 610	-	110 610
	5 347 286	1 282 477	1 039 263	5 025 364	7 461 513	20 155 903	(49 826)	20 106 077

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.8 Liquidity risk (continued)**

Consolidated	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2020								
Liabilities								
Due to related parties	351 411	-	-	-	-	351 411	(453)	350 958
Customer accounts	12 760 727	1 402 513	2 706 258	308 757	-	17 178 255	(1 275 108)	15 903 147
Debt Securities in issue	-	-	417	1 264	395 213	396 894	(2 702)	394 192
Subordinated debt	-	-	-	-	579 938	579 938	(5 462)	574 476
Deposits from Banks	244 218	309 419	-	-	-	553 637	(14)	553 623
Other payables	350 848	-	-	-	-	350 848	-	350 848
Total liabilities	13 707 204	1 711 932	2 706 675	310 021	975 151	19 410 983	(1 283 739)	18 127 244
Off balance sheet	2 438 677	-	-	-	-	2 438 677	-	2 438 677
Total liabilities exposure	16 145 881	1 711 932	2 706 675	310 021	975 151	21 849 660	(1 283 739)	20 565 921
Liquidity gap (excluding derivatives)	(10 798 595)	(429 455)	(1 667 412)	4 715 343	6 486 362	(1 693 757)	1 233 913	(459 844)

*The comparative amounts of the liquidity risk have been restated to show the undiscounted amounts.

Consolidated	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2019								
Assets								
Cash	529 450	-	-	-	-	529 450	-	529 450
Balances at central banks	890 441	-	-	-	-	890 441	(2)	890 439
Trading portfolio assets	-	-	-	-	-	-	-	-
Fair value through OCI Investments	1 496 518	284 000	-	-	470 579	2 251 097	-	2 251 097
Loans and advances to banks	562 298	497 241	-	-	-	1 059 539	(19)	1 059 520
Due from related parties	154 944	-	37 773	-	-	192 717	(727)	191 990
Loans and advances to customers	907 437	480 827	747 649	5 121 625	6 152 624	13 410 162	(47 735)	13 362 427
Other assets	70 393	-	106 698	-	-	177 091	-	177 091
	4 611 481	1 262 068	892 120	5 121 625	6 623 203	18 510 497	(48 483)	18 462 014

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.8 Liquidity risk (continued)**

Consolidated	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2019								
Liabilities								
Due to related parties	576 610	-	-	-	-	576 610	(786)	575 824
Customer accounts	11 284 314	1 442 970	2 245 350	512 552	-	15 485 186	(1 107 645)	14 377 542
Debt securities in issue	-	-	426	954	349 293	350 673	(2 193)	350 673
Subordinated debt	-	-	-	-	358 816	358 816	(5 933)	358 816
Deposits from banks	157 730	147 746	-	-	-	305 476	(2 504)	302 972
Other payables	495 863	-	-	-	-	495 863	-	495 863
Total liabilities	12 514 517	1 590 716	2 245 776	513 506	708 109	17 710 228	(1 119 061)	16 599 293
Off balance sheet	2 621 230	-	-	-	-	-	-	2 621 230
Total liabilities exposure	15 135 747	1 590 716	2 245 776	513 506	708 109	17 710 228	(1 119 061)	19 220 523
Liquidity gap (excluding derivatives)	(10 475 497)	(328 648)	(1 240 116)	4 608 119	6 112 729	1 160 214	1 070 578	(398 565)

*The comparative amounts of the liquidity risk have been restated to show the undiscounted amounts.

Company	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2020								
Assets								
Cash	645 784	-	-	-	-	645 784	-	645 784
Balances at central banks	775 790	-	-	-	-	775 790	(3)	775 787
Trading portfolio assets	-	-	-	137 486	74 846	212 332	-	212 332
Fair value through OCI Investments	749 914	219 917	229 064	-	843 330	2 042 225	-	2 042 225
Loans and advances to banks	766 940	243 594	-	-	-	1 010 534	(1)	1 010 533
Due from related parties	1 221 923	324 262	1 092	-	-	1 547 277	(151)	1 547 126
Loans and advances to customers	1 329 565	494 704	698 497	4 887 878	6 543 337	13 953 981	(49 671)	13 904 310
Other assets	-	-	110 610	-	-	110 610	-	110 610
Total	5 489 916	1 282 477	1 039 263	5 025 364	7 461 513	20 298 533	(49 826)	20 248 707

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.8 Liquidity risk (continued)**

Company	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2020								
Liabilities								
Due to related parties	537 263	-	-	-	-	537 263	(453)	536 810
Customer accounts	12 760 727	1 402 513	2 706 258	308 757	-	17 178 255	(1 275 108)	15 903 147
Debt securities in issue	-	-	417	1 264	395 213	396 894	(2 702)	394 192
Subordinated debt	-	-	-	-	579 938	579 938	(5 462)	574 476
Deposits from banks	244 218	309 419	-	-	-	553 637	(14)	553 623
Other payables	350 848	-	-	-	-	350 848	-	350 848
Total liabilities	13 893 056	1 711 932	2 706 675	310 021	975 151	19 596 835	(1 283 739)	18 313 096
Off balance sheet	2 438 677	-	-	-	-	2 438 677	-	2 438 677
Total liabilities exposure	16 331 733	1 711 932	2 706 675	310 021	975 151	22 035 512	(1 283 739)	20 751 773
Liquidity gap (excluding derivatives)	(10 841 817)	(429 455)	(1 667 412)	4 715 343	6 486 362	(1 736 979)	1 233 913	(503 066)

Company	Less than 1month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2019								
Assets								
Cash	529 450	-	-	-	-	529 450	-	529 450
Balances at central banks	890 441	-	-	-	-	890 441	(2)	890 439
Trading portfolio assets	-	-	-	-	-	-	-	-
Fair value through OCI Investments	1 496 518	284 000	-	-	470 579	2 251 097	-	2 251 097
Loans and advances to banks	562 298	497 241	-	-	-	1 059 539	(19)	1 059 520
Due from related parties	154 944	-	37 773	-	-	192 717	(727)	191 990
Loans and advances to customers	907 437	480 827	747 649	5 121 625	6 152 624	13 410 162	(47 735)	13 362 427
Other assets	70 393	-	106 698	-	-	177 091	-	177 091
Total	4 611 481	1 262 068	892 120	5 121 625	6 623 203	18 510 497	(48 483)	18 462 014

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.8 Liquidity risk (continued)**

Company	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	5+ years P'000	Nominal amount P'000	Discount effect P'000	Total P'000
2019								
Liabilities								
Due to related parties	612 108	-	-	-	-	612 108	(786)	611 322
Customer accounts	11 283 314	1 442 970	2 245 350	512 552	-	15 484 186	(1 107 645)	14 376 541
Debt Securities in issue	-	-	426	954	351 486	352 866	(2 193)	350 673
Subordinated debt	-	-	-	-	364 749	364 749	(5 933)	358 816
Deposits from banks	157 730	147 746	-	-	-	305 476	(2 504)	302 972
Other payables	495 863	-	-	-	-	495 863	-	495 863
Total liabilities	12 549 015	1 590 716	2 245 776	513 506	716 235	17 615 248	(1 119 061)	16 496 187
Off balance sheet	2 621 230	-	-	-	-	-	-	2 621 230
Total liabilities exposure	15 170 245	1 590 716	2 245 776	513 506	716 235	17 615 248	(1 119 061)	19 117 417
Liquidity gap (excluding derivatives)	(10 558 764)	(328 648)	(1 353 656)	4 608 119	5 906 968	895 249	1 070 578	(655 403)

*The comparative amounts of the liquidity risk have been restated to show the undiscounted amounts.

The following table details the Group's liquidity analysis for its derivative instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period.

	Consolidated and Company	
	Less than 1 year P'000	Total P'000
2020		
Gross settled:		
Derivative financial assets	1 724 039	1 724 039
Derivative financial liabilities	1 671 975	1 671 975
2019		
Gross settled:		
Derivative financial assets	926 418	926 418
Derivative financial liabilities	839 892	839 892

Stress liquidity risk

Stress liquidity risk management refers to the management of liquidity risk during times of unexpected outflows arising from bank specific or systemic stress events. Treasury regularly performs liquidity scenario analyses and stress tests to assess the adequacy of the Bank's stress funding sources, liquidity buffers and contingency funding strategies in the event of such a stressed scenario. Scenario analysis and stress testing encompasses a range of realistic adverse events which, while remote, could have a material impact on the liquidity of the Bank's operations.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

47. Risk management (continued)**47.7 Credit risk (continued)****47.8 Liquidity risk (continued)****Stress liquidity risk (continued)**

Through scenario analysis and stress testing, the Bank aims to manage and mitigate liquidity risk by:

- determining, evaluating and testing the impact of adverse liquidity scenarios;
- identifying appropriate rapid and effective responses to a crisis; and
- setting liquidity limits, sources of stress funding and liquidity buffers as well as formulating a funding strategy designed to minimise liquidity risk.

The Bank's overall objective is to ensure that during a liquidity stress event, the Bank's stress funding sources and liquidity buffers exceed the estimated stress funding requirements for a period of at least 30 days. Stress testing and scenario analysis are used to evaluate the efficiency of identified sources of stress funding along a continuum of risk scenarios and to formulate and test contingency plans. A detailed contingent funding and liquidity plan has been designed to protect depositors, creditors and shareholders during adverse liquidity conditions. The plan includes early warning indicators and sets out the crisis response strategy addressing sources of stress funding, strategies for crisis avoidance/minimisation and the internal and external communication strategy. Liquidity simulation exercises are conducted regularly to test the robustness of the plan and to ensure that key stakeholders remain up to date on liquidity matters.

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. To monitor the percentage of long-term assets maturing after 1 year as a percentage of total liabilities, a medium term mismatch ratio for both foreign currency and local currency is performed individually. Net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Bank's lead regulator, the Bank of Botswana. Primary reserve held is 2.5% of net local currency deposits and liquid asset ratio is 10% of net local currency deposits.

	Consolidated and Company	
	2020	2019
At 31 December		
Foreign currency	14%	12%
Local currency	37%	39%
Average for the period		
Foreign currency	12%	9%
Local currency	36%	36%
Maximum for the period		
Foreign currency	14%	12%
Local currency	45%	40%
Minimum for the period		
Foreign currency	3%	5%
Local currency	30%	31%

48. Fair value of financial instruments not held at fair value

All of the below financial assets and financial liabilities have carrying amounts that approximate their fair values except for debt securities in issue and subordinated debt.

The disclosed fair value of these financial assets and financial liabilities measured at amortised cost approximate their carrying value for the following reasons:

- The loans and advances carrying amount approximates fair value by use of expected cash flows and the frequent repricing of instruments
- The deposits, debt securities in issue and borrowed funds fair value of amortised cost deposits repayable on demand is considered to be equal to their carrying value
- Other financial assets liabilities are short-term in nature or have interest rates that reprice frequently

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

48. Fair value of financial instruments not held at fair value (continued)

Consolidated	2020		2019	
	Carrying amount P'000	Fair value P'000	Carrying amount P'000	Fair value P'000
Financial Assets				
Cash	645 784	645 784	529 450	529 450
Balances at central bank	775 787	775 783	890 439	890 434
Due from related companies	1 404 496	1 351 115	191 990	178 587
Loans and advances to banks	1 010 533	1 194 256	1 059 520	1 023 805
Loans and advances to customers	13 904 310	13 904 310	13 362 427	13 362 427
Other receivables	110 610	110 610	177 091	177 091
Total	17 851 520	17 981 858	16 210 917	16 161 794
Financial liabilities				
Deposits from banks	553 623	532 754	302 972	323 038
Due from related companies	350 958	333 029	575 824	473 680
Deposits due to customers	15 903 147	15 907 479	14 377 542	14 383 775
Debt securities in issue	394 192	394 192	350 673	350 673
Other payables	350 848	350 848	495 863	495 863
Subordinated debt	574 476	574 476	358 816	358 816
Total	18 127 244	18 092 778	16 461 690	16 385 845

Company	2020		2019	
	Carrying amount P'000	Fair value P'000	Carrying amount P'000	Fair value P'000
Financial Assets				
Cash	645 784	645 784	529 450	529 450
Balances at central bank	775 787	775 787	890 439	890 434
Due from related companies	1 547 126	1 493 745	191 990	178 587
Loans and advances to banks	1 010 533	1 010 533	1 059 520	1 023 805
Loans and advances to customers	13 904 310	13 904 310	13 362 427	13 362 427
Other receivables	110 610	110 610	177 091	177 091
Total	17 994 150	17 940 769	16 210 917	16 161 794
Financial liabilities				
Deposits from banks	553 623	553 623	302 972	302 972
Due from related companies	536 810	518 881	611 322	611 322
Deposits due to customers	15 903 147	15 903 147	14 376 541	14 376 541
Debt securities in issue	394 192	394 192	350 673	350 673
Other payables	350 848	350 848	495 863	495 863
Subordinated debt	574 476	574 476	358 816	358 816
Total	18 313 096	18 295 167	16 496 187	16 496 187

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

48. Fair value of financial instruments not held at fair value (continued)**48.1. Fair value hierarchy**

The following table provides an analysis of the Group's financial assets and financial liabilities that are not measured at fair value subsequent to initial recognition, grouped into Levels 1 to 3 based on the degree to which the instrument's fair value is observable. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are defined below.

Level 1

Items valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis

Level 2

Items valued using inputs other than quoted prices as described above for Level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/corroborated by observable market data.

Level 3

Items valued using significant inputs that are not only based on observable market data. These include inputs based on an entity's own assumptions and assumptions applied by other market participants in pricing similar assets.

Consolidated

Category of asset/liability	Valuation techniques applied	Significant unobservable inputs	2020	2019
			Range of unobservable inputs applied	
Loans and advances to banks and customers	Discounted cash flow and/or yield for debt instruments	Credit spreads	0.1% to 2.9%	0.513% to 3.235%
Investment securities and investments linked to investment contracts	Discounted cash flow models, third-party valuations, earnings multiples and/or income capitalisation valuations		7.75% to 8%	Discount rate of 7.75% to 8%
Trading and hedging portfolio assets and liabilities				
Debt instruments	Discounted cash flow models	Credit spreads	0.5% to 12.8%	0.15% to 8.2%
Derivative assets	Discounted cash flow and/or credit default swap (hazard rate) models	Credit spreads, recovery rates and/or quanto ratio	0.02% to 26%, 15% to 93.2%, 60% to 90%	0.03% to 14%, 15% to 76%, 60% to 90%
Deposits due to customers	Discounted cash flow models	Absa Group Limited's funding spreads (greater than 5 years)	1.13% to 1.7%	1.3% to 1.8%
Debt securities in issue	Discounted cash flow models	Funding curves (greater than 5 years)	1.13% to 1.7%	1.3% to 1.8%

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

48. Fair value of financial instruments not held at fair value (continued)**48.1. Fair value hierarchy (continued)**

Consolidated	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2020				
Financial assets				
Cash	645 784	-	-	645 784
Balances at central bank	775 787	-	-	775 787
Balances with related parties	-	1 404 496	-	1 404 496
Loans and advances to banks	-	1 010 533	-	1 010 533
Loans and advances to customers	-	973 625	12 930 685	13 904 310
	1 421 571	3 388 654	12 930 685	17 740 910
Financial liabilities				
Deposits from banks	-	553 623	-	553 623
Balances with related parties	-	350 958	-	350 958
Deposits due to customers	-	15 903 147	-	15 903 147
Debt securities in issue	-	394 192	-	394 192
Subordinated debt	-	574 476	-	574 476
	-	17 776 396	-	17 776 396

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

48. Fair value of financial instruments not held at fair value (continued)**48.1. Fair value hierarchy (continued)**

Consolidated	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2019				
Financial assets				
Cash	529 450	-	-	529 450
Balances at central bank	890 439	-	-	890 439
Balances with related parties	-	191 990	-	191 990
Loans and advances to banks	-	1 059 520	-	1 059 520
Loans and advances to customers	-	680 000	12 682 427	13 362 427
	1 419 889	1 931 510	12 682 427	16 033 826
Financial liabilities				
Deposits from banks	-	302 972	-	302 972
Balances with related parties	-	575 824	-	575 824
Deposits due to customers	-	14 377 542	-	14 377 542
Debt securities in issue	-	350 673	-	350 673
Subordinated debt	-	358 816	-	358 816
	-	15 965 827	-	15 965 827

Company	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2020				
Financial assets				
Cash	645 784	-	-	645 784
Balances at central bank	775 787	-	-	775 787
Balances with related parties	-	1 404 496	142 630	1 547 126
Loans and advances to banks	-	1 010 533	-	1 010 533
Loans and advances to customers	-	973 625	12 930 685	13 904 310
	1 421 571	3 388 654	13 073 315	17 883 540
Financial liabilities				
Deposits from banks	-	553 623	-	553 623
Balances with related parties	-	337 422	199 388	536 810
Deposits due to customers	-	15 903 147	-	15 903 147
Debt securities in issue	-	394 192	-	394 192
Subordinated debt	-	574 476	-	574 476
	-	17 762 860	-	17 962 248

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

48. Fair value of financial instruments not held at fair value (continued)

Company	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
2019				
Financial assets				
Cash	529 450	-	-	529 450
Balances at central bank	890 439	-	-	890 439
Balances with related companies	-	191 990	-	191 990
Loans and advances to banks	-	1 059 520	-	1 059 520
Loans and advances to customers	-	680 000	12 682 427	13 362 427
	1 419 889	1 931 510	12 682 427	16 033 826
Financial liabilities				
Deposits from banks	-	302 972	-	302 972
Balances with related companies	-	611 322	-	611 322
Deposits due to customers	-	14 376 541	-	14 376 541
Debt securities in issue	-	350 673	-	350 673
Subordinated debt	-	358 816	-	358 816
	-	16 000 324	-	16 000 324

49. Financial instruments measured at fair value

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Consolidated and Company	Level 1 P'000	Level 2 P'000	Total P'000
2020			
Recurring fair value measurements			
Financial assets			
Derivative financial instruments	-	48 430	48 430
Trading portfolio assets	-	212 332	212 332
	-	260 762	260 762
Fair value through other comprehensive income			
Treasury bills and other eligible bills	1 199 029	-	1 199 029
Treasury bonds	843 423	-	843 423
	2 042 452	-	2 042 452
Financial liabilities			
Fair value through profit or loss - Held for trading			
Derivative financial instruments	-	42 396	42 396
	-	42 396	42 396

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

49. Financial instruments measured at fair value (continued)

Consolidated and Company	Level 1 P'000	Level 2 P'000	Total P'000
2019			
Financial assets			
Derivative financial instruments	-	48 769	48 769
	-	48 769	48 769
Fair value through other comprehensive income			
Treasury bills and other eligible bills	1 746 517	-	1 746 517
Treasury bonds	504 580	-	504 580
	2 251 097	-	2 251 097
Financial liabilities			
Fair value through profit or loss - Held for trading			
Derivative financial instruments	-	36 074	36 074
	-	36 074	36 074

Sensitivity analysis of valuations using unobservable inputs

As part of the Group's risk management processes, we perform a sensitivity analysis on the significant unobservable parameters, in order to determine the impact of reasonably possible alternative assumptions on the valuation of level 3 financial assets and liabilities. The assets and liabilities that impact this sensitivity analysis most are those with more illiquid and/or structured portfolios. The alternative assumptions are applied independently and do not take account of any cross correlation between assumptions that would reduce the overall effect on the valuations.

The following tables reflect the reasonable possible variances applied to significant parameters utilized in our valuations:

Significant unobservable parameter	Positive/ (negative) variance applied to parameters
Credit spreads	100/(100) bps
Volatilities	10/(10) %
Basis curves	100/(100) bps
Yield curves and repo curves	100/(100) bps
parameters Future earnings and marketability discounts	15/(15) %
Funding spreads	100/(100) bps

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

50. Segmental reporting

The Group comprises the following main business segments:

- Corporate and Investment Banking (CIB)
- Retail, Business Banking and Other (RBB)

The Group has identified its reportable segments based on a combination of products and services offered to customers and clients and in the manner in which the Group's businesses are managed and reported to the CODM.

The following summary describes the operations in each of the Group's reportable segments:

CIB: This segment offers corporate and investment banking solutions. The business models centre on delivering specialist investment banking, financing, risk management and advisory solutions across asset classes to corporates, financial institutions and government clients. Corporate and Markets have been aggregated into CIB.

RBB: This segment provides a comprehensive range of commercial banking products and services to medium, small businesses and retail customers. Retail, Business Banking, Head Office and Treasury have been aggregated into the RBB segment. Absa Insurance Services (Pty) Ltd is included in this segment.

Retail Banking: offers various products and services to customers through the following divisions:

- Home Loans: offers residential property-related finance solutions to customers.
- Vehicle and Asset Finance (VAF): offers customised vehicle and asset finance products and services through vehicle dealers as well as directly to retail and business customers.
- Card: provides credit cards and merchant acquiring. It includes financial services, which offers credit cards.
- Personal Loans: offers unsecured instalment loans
- Transactional and Deposits: offers a range of transactional banking, savings and investment products, customer loyalty programme and services.
- Other: head office costs, which are non-banking costs.

Other reconciling items

Barclays PLC separation costs: Barclays PLC separation costs: The Barclays PLC separation costs have been shown separately to differentiate between the normal business activities and the impact of separation.

Segment results

The measurement of segment results is in line with the basis of information presented to the chief operating decision maker (CODM) for internal management reporting purposes.

Assets excluding loans and advances to customers, financial instruments, trading portfolio assets and derivative instruments and liabilities excluding deposits due to customers, derivative financial instruments and debt securities in issue are not identifiable to any one of the reportable segments and can be used interchangeably between segments. As a result, these are not reviewed by the chief operating decision maker. Therefore, segmental disclosure relating to these has not been provided.

All transactions between segments are carried out in the normal course of business. Our management reporting systems report our inter-segment service as a cost reduction and do not recognise them as internal revenue. Inter-segment service mainly represent utilisation of manpower resource of one segment by another on a project-by-project basis. Inter-segment services are charged based on an internal cost rate including certain indirect and direct overhead costs, but without profit margin.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

50. Segmental reporting (continued)**50.1 Statement of financial position**

Consolidated	Retail & Business Banking P'000	Corporate & Investment Banking P'000	Other P'000	Total P'000
2020				
Assets				
Derivative financial instruments	-	48 430	-	48 430
Fair value through OCI	2 042 225	-	-	2 042 225
Loans and advances to customers	10 098 810	3 805 500	-	13 904 310
Trading portfolio assets	-	212 332	-	212 332
Other assets	-	-	4 360 572	4 360 572
Total	12 141 035	4 066 262	4 360 572	20 567 869
Liabilities				
Customer accounts	9 079 250	6 823 897	-	15 903 147
Derivative financial instruments	-	42 396	-	42 396
Debt securities in issue	394 192	-	-	394 192
Subordinated debt	574 476	-	-	574 476
Other liabilities	-	-	1 318 267	1 318 267
Total	10 047 918	6 866 293	1 318 267	18 232 478
2019				
Assets				
Derivative financial instruments	-	48 769	-	48 769
Fair value through OCI	2 251 097	-	-	2 251 097
Loans and advances to customers	9 175 457	4 186 970	-	13 362 427
Other assets	-	-	3 159 666	3 159 666
Total	11 426 554	4 235 739	3 159 666	18 821 959
Liabilities				
Customer accounts	5 544 337	8 833 205	-	14 377 542
Derivative financial instruments	-	36 074	-	36 074
Debt securities in issue	350 673	-	-	350 673
Subordinated debt	358 816	-	-	358 816
Other liabilities	-	-	1 476 188	1 476 188
Total	6 253 826	8 869 279	1 476 188	16 599 293

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

50. Segmental reporting (continued)

Company	Retail & Business Banking P'000	Corporate & Investment Banking P'000	Other P'000	Total P'000
2020				
Assets				
Derivative financial instruments	-	48 430	-	48 430
Fair value through OCI	2 042 225	-	-	2 042 225
Loans and advances to customers	10 098 810	3 805 500	-	13 904 310
Trading portfolio assets	-	212 332	-	212 332
Other assets	-	-	4 502 002	4 502 002
Total	12 141 035	4 066 262	4 502 002	20 709 299
Liabilities				
Customer accounts	9 079 250	6 823 897	-	15 903 147
Derivative financial instruments	-	42 396	-	42 396
Debt securities in issue	394 192	-	-	394 192
Subordinated debt	574 476	-	-	574 476
Other liabilities	-	-	1 493 797	1 493 797
Total	10 047 918	6 866 293	1 493 797	18 408 008
2019				
Assets				
Derivative financial instruments	-	48 769	-	48 769
Fair value through OCI	2 251 097	-	-	2 251 097
Loans and advances to customers	9 175 457	4 186 970	-	13 362 427
Other assets	-	-	3 156 607	3 156 607
Total	11 426 554	4 235 739	3 156 607	18 818 900
Liabilities				
Customer accounts	5 544 337	8 833 205	-	14 377 542
Derivative financial instruments	-	36 074	-	36 074
Debt securities in issue	350 673	-	-	350 673
Subordinated debt	358 816	-	-	358 816
Other liabilities	-	-	1 500 902	1 500 902
Total	6 253 826	8 869 279	1 500 902	16 624 007

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

50. Segmental reporting (continued)**50.2 Statement of comprehensive income**

Consolidated	Retail & Business Banking P'000	Corporate & Investment Banking P'000	Other P'000	Total P'000
2020				
Net interest income	801 054	253 949	-	1 055 003
Net fee and commission income	337 889	40 655	-	378 544
Net trading income and other income	28 405	113 637	-	142 042
Total income	1 167 348	408 241	-	1 575 589
Expected credit losses	(220 718)	(42 517)	-	(263 235)
Net operating income	946 630	365 724	-	1 312 354
Operating expenses	(666 538)	(135 556)	(83 923)	(886 017)
Depreciation of PPE and right of use asset	(60 842)	(900)	-	(61 742)
Amortisation of intangible assets	(652)	-	-	(652)
Total expenses	(728 032)	(136 456)	(83 923)	(948 411)
Profit before tax	218 598	229 268	(83 923)	363 943
Taxation	(60 278)	(25 382)	18 463	(67 197)
Profit for the year	158 320	203 886	(65 460)	296 746
2019				
Net interest income	778 226	282 309	-	1 060 535
Net fee and commission income	344 133	43 247	-	387 380
Net trading income and other income	52 072	131 886	-	183 958
Total income	1 174 431	457 442	-	1 631 873
Expected Credit Losses	(80 171)	46 148	-	(34 023)
Net operating income	1 094 260	503 590	-	1 597 850
Operating expenses	(601 275)	(177 080)	(83 001)	(861 356)
Depreciation of PPE and right of use asset	(57 597)	(1 004)	-	(58 601)
Amortisation of intangible assets	(321)	-	-	(321)
Total operating expenses	(659 193)	(178 084)	(83 001)	(920 278)
Profit before tax	435 067	325 506	(83 001)	677 572
Taxation	(103 115)	(71 797)	17 948	(156 964)
Profit for the year	331 952	253 709	(65 053)	520 608

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

50. Segmental reporting (continued)**50.2 Statement of comprehensive income**

Company	Retail & Business Banking P'000	Corporate & Investment Banking P'000	Barclays PLC Transactional Costs P'000	Total P'000
2020				
Net interest income	801 054	253 949	-	1 055 003
Net fee and commission income	290 293	40 655	-	330 948
Net trading income and other income	28 405	144 864	-	173 269
Total income	1 119 752	439 468	-	1 559 220
Expected credit losses	(220 718)	(42 517)	-	(263 235)
Net operating income	899 034	396 951	-	1 295 985
Operating expenses	(635 562)	(166 783)	(83 923)	(886 268)
Depreciation of PPE and right of use asset	(60 842)	(900)	-	(61 742)
Amortisation of intangible assets	(652)	-	-	(652)
Total expenses	(697 056)	(167 683)	(83 923)	(948 662)
Profit before tax	201 978	229 268	(83 923)	347 323
Taxation	(49 985)	(25 382)	18 463	(56 904)
Profit for the year	151 993	203 886	(65 460)	290 419

Company	Retail & Business Banking P'000	Corporate & Investment Banking P'000	Barclays PLC Transactional Costs P'000	Total P'000
2019				
Net interest income	778 226	282 309	-	1 060 535
Net fee and commission income	297 667	43 247	-	340 914
Net trading income and other income*	52 072	166 054	-	218 126
Total income	1 127 965	491 610	-	1 619 575
Expected Credit Losses	(80 171)	46 148	-	(34 023)
Net operating income	1 047 794	537 758	-	1 585 552
Operating expenses	(567 107)	(211 248)	(83 001)	(861 356)
Depreciation of PPE and right of use asset	(57 597)	(1 004)	-	(58 601)
Amortisation of intangible assets	(321)	-	-	(321)
Total operating expenses	(625 025)	(212 252)	(83 001)	(920 278)
Profit before tax	422 769	325 506	(83 001)	665 274
Taxation	(100 675)	(71 797)	17 948	(154 524)
Profit for the year	322 094	253 709	(65 053)	510 750

*Other income includes management fee income received for the Bank's subsidiary, Absa Insurance Services (Proprietary) Limited. The management fee income of P34 168 000 which was previously classified under administrative and general expenses. Refer to note 9 for details.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

51. Share-based payments**Description of the share-based payment arrangements**

The following share-based payment arrangements were in existence during the current and prior years:

51.1 Share options expense recognised during the year

	Consolidated and Company	
	2020 P'000	2019 P'000
Employee expenses		
Equity-settled share based payments	(2 203)	(175)
Cash-settled share based payments	(26)	(1 355)
Total expense recognised as employee costs	(2 229)	(1 530)

Share based reserves comprise of the Incentive Share Plan Scheme (Incentive Shares). Incentive Shares are granted to participants in the form of a provisional allocation of Absa Group shares which vest upon achieving continued service after three years. Participants do not pay to receive an award or to receive a release of shares.

Absa Group Limited Share Incentive Plan Retention Buyout Award (previously Joiners Share Value Plan - JSVP)

The Share Value Plan ("SVP") is a share-based payment arrangement. The SVP awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest in equal tranches after one, two and three years, with each tranche subject to its own independent non-market-related performance condition. The amount that is paid to the participants is equal to the market value of a number of Absa Group Limited ordinary shares, as determined on the vesting date, to the extent that the non-market-related conditions attached to the awards are met. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the period.

Absa Group Limited Share Incentive Plan Deferred Award (previously Share Value Plan - SVP)

The Share Value Retention Plan ("SVP Cliff") is a share-based payment arrangement. The SVP Cliff awards (and any associated notional dividends) are awarded at no cost to the participants. The awards vest after three years, subject to its own independent non-market related performance condition. The amount that is paid to the participants is equal to the market value of a number of Absa Group Limited's ordinary shares, as determined on the vesting date, to the extent that the non-market related conditions attached to the awards are met. If the Group fails to meet the minimum performance criteria, the awards made in that tranche are forfeited in total. Dividends accumulate and are reinvested over the vesting period.

Absa Bank Limited Share Incentive Plan Performance Award (previously Long-Term Incentive Plan - LTIP)

Qualifying participants of the Share Incentive Plan Performance Award (SIPP) will be entitled to Absa Bank Limited ordinary shares either by way of a share award or a cash award that must be used to purchase Absa Bank Limited ordinary shares. The Bank retains the obligation to settle in cash certain SIPP awards that are prohibited from being equity-settled. The award will be issued by the employing entity or subsidiary in the Bank. In order for the participant to be entitled to these awards, the participant needs to render three years or five years (depending on the grant received) of service and the requisite performance conditions need to be met. Dividends accumulate and are reinvested over the vesting period.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

51. Share-based payments (continued)**51.1 Share options expense recognised during the year (continued)**

Consolidated and Company	Opening balance	Granted	Forfeited	Exercised	Closing balance
	P'000				
2020					
Equity Settled					
Long term incentive plan (LTIP)	104 885	58 480	(17 445)	(13 955)	131 965
Joiners share value plan (JSVP)	3 634	-	(2 009)	(1 625)	-
Share value plan (SVP)	1 729	2 338	-	(407)	3 660
2019					
Equity Settled					
Long term incentive plan (LTIP)	91 779	23 334	(10 228)	-	104 885
Joiners share value plan (JSVP)	-	5 480	-	(1 846)	3 634
Share value plan (SVP)	7 647	(2 020)	(889)	(3 009)	1 729

Consolidated and Company	Weighted average share price at the exercise date		Weighted average contractual life of awards outstanding (years)		Weighted average fair value of options granted during the period	
	2020	2019	2020	2019	2020	2019
Equity Settled						
Long term incentive plan (LTIP)	145	-	3	3	-	-
Joiners Share Value Plan (JSVP)	177	177	1	1	177	177
Share value plan (SVP)	171	167	2	2	167	167

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

52. Related parties

Absa Group Limited ("AGL") owns 67.82% of the ordinary shares of Absa Bank Botswana Limited, and is the ultimate holding company. The rest are widely held on the Botswana Stock Exchange.

Significant subsidiaries

The Bank has a wholly owned subsidiary, Absa Insurance Services (Pty) Limited, which is an insurance sales agent.

Consolidated	Admin and management fees received P'000	Admin and management fees paid P'000	Interest received P'000	Interest received P'000	Dividends paid P'000	Recoveries paid P'000	Transitional service costs P'000
2020							
Shareholders							
Absa Group Limited	-	(84 303)	-	-	(101 144)	(7 362)	(34 821)
	-	(84 303)	-	-	(101 144)	(7 362)	(34 821)
Other							
Absa Bank Limited	-	-	9 701	(34 767)	-	(2 511)	-
Other Absa Group Limited subsidiaries	-	-	-	(2 155)	-	(1 189)	-
	-	-	9 701	(36 922)	-	(3 700)	-
2019							
Shareholders							
Absa Group Limited	-	(65 923)	-	-	(299 999)	-	(55 651)
	-	(65 923)	-	-	(299 999)	-	(55 651)
Other							
Absa Bank Limited	-	-	22 479	(30 778)	-	-	-
Other Absa Group Limited subsidiaries	-	-	-	(17 213)	-	746	(6 063)
	-	-	22 479	(47 991)	-	746	(6 063)

A dividend of P144 492 000 was declared for Absa Group Limited, however P43 348 000 was waived and was treated as a capital reinvestment.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

52. Related parties (continued)

Company	Admin and management fees received P'000	Admin and management fees paid P'000	Interest received P'000	Interest received P'000	Dividends paid P'000	Recoveries paid P'000	Transitional service costs P'000
2020							
Shareholders							
Absa Group Limited	-	(84 303)	-	-	(101 144)	(7 362)	(34 821)
	-	(84 303)	-	-	(101 144)	(7 362)	(34 821)
Other							
Absa Bank Limited	-	-	9 701	(34 767)	-	(2 511)	-
Other Absa Group Limited subsidiaries	-	-	-	(2 155)	-	(1 189)	-
Absa Insurance Services Limited (Subsidiary)	31 227	-	-	-	-	-	-
	31 227	-	9 701	(36 922)	-	(3 700)	-
2019							
Shareholders							
Absa Group Limited	-	(65 923)	-	-	(299 999)	-	(55 651)
	-	(65 923)	-	-	(299 999)	-	(55 651)
Other							
Absa Bank Limited	-	-	22 479	(30 778)	-	-	-
Other Absa Group Limited subsidiaries	-	-	-	(17 213)	-	746	(6 063)
Absa Insurance Services Limited (Subsidiary)	34 168	-	-	-	-	-	-
	34 168	-	22 479	(47 991)	-	746	(6 063)

A dividend of P144 492 000 was declared for Absa Group Limited, however P43 348 000 was waived and was treated as a capital reinvestment.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

52. Related parties (continued)**Transactions with key management personnel**

IAS 24 Related Party Disclosures ("IAS 24"), requires the identification of key management personnel, who are individuals responsible for planning, directing and controlling the activities of the entity, including directors. Key management personnel are defined as executive and non-executive directors and members of the Executive Committee ("Exco"). A number of banking transactions are entered into with key management personnel in the normal course of business, under terms that are no more favourable than those arranged with other employees. These include loans, deposits and foreign currency transactions.

Consolidated	Current amounts receivable P'000	Loans to Related parties P'000	Total due from related parties P'000	Current amounts payable P'000	Deposits from Related parties P'000	Total due to Related parties P'000
2020						
Shareholder						
Absa Group Limited	1 373	-	1 373	66 731	-	66 731
	1 373	-	1 373	66 731	-	66 731
Other related parties						
Absa Bank Limited	-	1 401 642	1 401 642	8 809	261 328	270 137
Other Absa Group Limited subsidiaries	1 261	220	1 481	13 536	554	14 090
	1 261	1 401 862	1 403 123	22 345	261 882	284 227
Total	2 634	1 401 862	1 404 496	89 076	261 882	350 958
2019						
Shareholders						
Absa Group Limited	2 494	-	2 494	39 861	-	39 861
	2 494	-	2 494	39 861	-	39 861
Other related parties						
Absa Bank Limited	-	188 793	188 793	-	259 575	260 408
Other Absa Group Limited subsidiaries	703	-	703	9 649	266 739	275 555
	703	188 793	189 496	9 649	526 314	535 963
Total	3 197	188 793	191 990	49 510	526 314	575 824

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

52. Related parties (continued)

Company	Current amounts receivable P'000	Loans to Related parties P'000	Total due from related parties P'000	Current amounts payable P'000	Deposits from Related parties P'000	Total due to Related parties P'000
2020						
Shareholder						
Absa Group Limited	1 373	-	1 373	66 731	-	66 731
	1 373	-	1 373	66 731	-	66 731
Other related parties						
Absa Bank Limited	-	1 401 642	1 401 642	8 809	261 328	270 137
Other Absa Group Limited subsidiaries	1 481	-	1 481	-	554	554
Absa Insurance Services (Subsidiary)	-	142 630	142 630	-	199 388	199 388
	1 481	1 544 272	1 545 753	8 809	461 270	470 079
Total	2 854	1 544 272	1 547 126	75 540	461 270	536 810
2019						
Shareholders						
Absa Group Limited	2 494	-	2 494	39 861	-	39 861
	2 494	-	2 494	39 861	-	39 861
Other related parties						
Absa Bank Limited	-	188 793	188 793	-	259 575	259 575
Other Absa Group Limited subsidiaries	703	-	703	9 649	266 739	276 388
Absa Insurance Services Limited (Subsidiary)	-	-	-	34 497	1 001	35 498
	703	188 793	189 496	44 146	527 315	571 461
Total	3 197	188 793	191 990	84 007	527 315	611 322

Loans include mortgages, asset finance transactions, overdrafts and other credit facilities. Loans to key management personnel are provided on the same terms and conditions as loans to employees of the Group, including interest rates and collateral requirements. No loans to key management personnel or entities controlled by key management personnel were written off as irrecoverable. These loans have been assessed for ECL provisions under IFRS 9.

The Group provides and utilises services of its holding company and other group entities, providing and receiving loans, overdrafts, interest and non-interest bearing deposits and current accounts to these entities as well as other services.

The recharges and other costs are unsecured, interest free and are repayable on demand. Current accounts, fixed deposits, loans and deposits held with the group are at normal commercial terms.

The current amounts payable and receivable relate to management fees receivable and payable from related parties. The loans to and from related parties relate to current accounts and short term fixed deposit accounts. These balances form part of the cash on hand on the Statement of cash flows. There were no impairment provisions that related to balances and transactions with related parties.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

52. Related parties (continued)

Consolidated and Company	Remuneration P'000	Pension contributions P'000	Share-based payments P'000	Interest received P'000	Interest paid P'000	Total P'000
2020						
Directors compensation						
Non-executive directors	(2 626)	-	-	1	-	(2 625)
Executive directors	(8 864)	(576)	(488)	102	-	(9 826)
	(11 490)	(576)	(488)	103	-	(12 451)
Key management compensation						
Key management	(20 117)	(1 209)	(223)	53	(51)	(21 547)
	(31 607)	(1 785)	(711)	156	(51)	(33 998)
2019						
Directors compensation						
Non-executive directors	(2 070)	-	-	36	-	(2 034)
Executive directors	(8 384)	(399)	(143)	132	-	(8 794)
	(10 454)	-	(143)	168	-	(10 828)
Key management compensation						
Key management	(18 253)	(1 217)	(279)	581	(51)	(19 219)
	(28 707)	(1 616)	(422)	749	(51)	(30 047)
Consolidated and Company	2020	2019				
	P'000	P'000				
Amounts owed by related parties						
Non-executive directors	-	129				
Executive directors	5 101	2 290				
	5 101	2 419				
Key management compensation						
Key management	10 615	15 542				
	10 615	15 542				

The Group issues loans to staff at rates less than market value, mortgages are issues to staff at Prime less 2%, personal loans at Prime less and 2% and car loans at Prime less 2%. These loans are included the staff fair value model and disclosed in loans and advances to customers on the balance sheet.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

53. Capital commitments and contingencies

	Consolidated and Company	
	2020 P'000	2019 P'000
Capital commitments		
Commitments in respect of capital expenditure:		
Authorised and contracted for	2 780	17 224
Authorised but not yet contracted for	32 420	14 194
	35 200	31 418
Contingent liabilities		
Undrawn commitments to customers	2 209 233	2 380 886
Letters of credit	31 999	28 591
Guarantees	210 043	216 793
Gross contingent liabilities	2 451 275	2 626 270
Expected credit losses	(12 598)	(5 040)
	2 438 677	2 621 230

Undrawn commitments to customers are commitments to lend funds to customers, subject to certain conditions. Such commitments are generally made for a fixed period. The Group may withdraw from its contractual obligation for the undrawn portion of the agreed facility. Short term commitments are those which have an original maturity of less than a year and may be unconditionally cancelled at any time.

Letters of credit commit the Group to make payments to third parties to facilitate trade. These are short term, self-liquidating contingent liabilities arising from the movement of goods.

During the current year the Group revised the interpretation of ICC Uniform Customs and Practice for Documentary Credits Rules ("UCP 600") which resulted in items that previously classified as off balance sheet to qualify for on balance sheet items. In 2020 LC's valued at P1 462 000 were recognised on balance sheet under other liabilities. (2019; Nil)

Performance and bid bonds are transaction-related contingencies where the Bank guarantees a transaction or performance. They generally attract a 50% risk weighting unless the nature of the counterparty allows otherwise.

54. Events after the reporting date

A final dividend amounting to P176 million was declared on 26 March 2021 subject to regulatory approval.

At the date of finalisation of the annual financial statements, there were no other material events that occurred subsequent to the statement of financial position date that require adjustment to in the financial statements.

**Notes to the annual financial statements (continued)**

for the year ended 31 December 2020

55. New accounting pronouncements**Adoption of new and revised Standards**

During the current year, the Group has adopted all of the new and revised standards and interpretations issued by the IASB and the IFRS-IC that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2020. Apart from the detail included below, the adoption of these new and revised standards and interpretations has not resulted in material changes to the Group's accounting policies.

The Group adopted the following standards, interpretations and amended standards during the year:

The Conceptual Framework	The Conceptual Framework for Financial Reporting sets out a comprehensive set of concepts for financial reporting, standard setting, and guidance for preparers in developing consistent accounting policies, and assistance to others in their efforts to understand and interpret the standards.
IFRS 3	Business Combinations - Amendments to the definitions included in the appendix to IFRS 3 which will assist entities in determining whether an acquisition made is of a business or a group of assets. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others.
Interest Rate Benchmark Reform	Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7. The impact of this standard was not material.
Definition of Material	Definition of Material - Amendments to IAS 1 and IAS 8
COVID-19-Related Rent Concessions	COVID-19-Related Rent Concessions - Amendment to IFRS 16

New and revised International Financial Reporting Standards issued not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

Standard	Effective date
Interest Rate Benchmark Reform - Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	
The Group has established an IBOR Transition steering committee which comprises a series of business and function workstreams, with oversight and coordination provided by a central project team. The key objectives of these workstreams include identifying all contracts in scope of benchmark reform, identifying and communicating to customers with whom repricing and/or re-papering interest rate benchmark referenced contracts is required and executing the necessary modifications to legal contracts. Workstreams actively participate in industry-wide working groups to remain informed of the latest developments and to ensure consistency with the approaches of other market participants	01 Jan 2021
Reference to the Conceptual Framework - Amendments to IFRS 3	01 Jan 2022
Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16	01 Jan 2022
Onerous Contracts - Costs of Fulfilling a Contract - Amendments to IAS 37	01 Jan 2022
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter	01 Jan 2022
AIP IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities	01 Jan 2022
AIP IAS 41 Agriculture - Taxation in fair value measurements	01 Jan 2022
IFRS 17 Insurance Contracts	01 Jan 2023
Classification of Liabilities as Current or Non-current - Amendments to IAS 1	01 Jan 2023

Apart from the instances detailed above the Group is in the process of assessing the potential impact that the adoption of these standards and interpretations may have on its future financial performance or disclosures in the annual financial statements.



Notes to the annual financial statements (continued)

for the year ended 31 December 2020

56. Shareholders' information

Standard	2020		Ranking
	No. of Ordinary shares held	% holding	
Absa Group Limited	577 964 146	67.82	1
FNB Botswana Nominees (Pty) Ltd Re:BIFM BPOPF-Equity	36 298 202	4.26	2
FNB Botswana Nominees (Pty) Ltd Re:AA BPOPF Equity	28 664 335	3.36	3
Fnbbn (Pty) Ltd Re: Ag BPOPF Equity Portfolio B	27 314 605	3.21	4
Motor Vehicle Accident Fund	21 736 440	2.55	5
FNB Botswana Nominees (Pty) Ltd Re:IAM BPOPF Equity	18 926 719	2.22	6
FNB Botswana Nominees (Pty) Ltd Re:Ag BPOPF Equity	14 718 582	1.73	7
FNB Noms Bw (Pty) Ltd Re: BPOPF Equity Portfolio C - Ag	12 150 434	1.43	8
Stanbic Nominees Botswana Re BIFM Plef	10 369 483	1.22	9
Stanbic Nominees Botswana Re BIFM Mif	9 750 267	1.14	10
Stanbic Nominees Botswana Re Investec Debswana Pension Fund	8 583 210	1.01	11
Stanbic Nominees Botswana Re Allan Gray Debswana Pf	5 457 974	0.64	12
Scbn (Pty) Ltd Re: lam 030/30 Metropolitan Life Bw Policy	4 122 931	0.48	13
Stanbic Nominees Botswana Re:Investec Bw Manged Fund	3 326 559	0.39	14
Stanbic Nominees Botswana Re Aa Debswana Pension Fund	2 954 424	0.35	15
Scbn (Pty) Ltd Re: BIFM 028914400011 Ub Dc Pf	2 357 152	0.28	16
FNB Botswana Nominees (Pty) Ltd Re:IAM Bobdcspf	2 249 933	0.26	17
Scbn (Pty) Ltd Re:BIFM WUC Staff Pension Fund	2 085 300	0.24	18
FNB Botswana Nominees (Pty) Ltd Re:BIFM DPPF	1 797 288	0.21	19
Stanbic Nominees Botswana Re :BIFM Burs Employee Pf	1 772 754	0.21	20
Others	59 560 514	6.99	
Total Shareholding	852 161 252	100	

Public Shareholding (Unaudited)	Number	%
Totals shares in issue at 31 December 2020	852 161 252	100.00%
Less: Non public shareholders	577 964 146	67.82%
Shareholders >10% and not Pension Funds regulated by NBFIRA	577 964 146	67.82%
Directors and associates	-	0.00%
Shares held by the public (as defined)	274 197 106	32.18%

There has been no significant movement in shareholding split between 2019 and 2020.

57. Investment in Subsidiary

Absa Insurance Services (Proprietary) Limited is a wholly owned by Absa Bank Botswana Limited. The investment comprises of 30 000 ordinary shares of no par value at P100. All issued shares are fully paid. There were no changes to the investment in, or the stated capital of, Absa Insurance Services (Proprietary) Limited during the current or previous year.



Normalised view vs IFRS view

for the year ended 31 December 2020

Absa Group Limited started a separation journey at a Group level from Barclays Plc in 2017, a process expected to be completed by 2021. As a consequence of the foregoing, the Group is required to incur certain costs as part of the separation from Barclays Plc. These costs are necessary to ensure a seamless separation of the African entities from Barclays Plc.

These separation costs are governed by what is known as a Transitional Services Agreement (TSA) with Absa Group Limited that defines the nature and terms of the costs.

The following statements show a reconciliation of the IFRS view and what is called the normalised view. Normalised view is essentially a term that is meant to give the market a view of what the performance of the business looks like when we exclude the once off transitional costs referred to above.

**Normalised view vs IFRS view (continued)**

for the year ended 31 December 2020

Statement of Comprehensive Income	Consolidated Unaudited		Unaudited Normalised view year ended 2020 P'000
	IFRS View year ended 2020 P'000	Barclays separation costs year ended 2020 P'000	
Effective interest income	1 342 663	-	1 342 663
Effective interest expense	(287 660)	-	(287 660)
Net interest income	1 055 003	-	1 055 003
Fee and commission income	488 543	-	488 543
Fee and commission expense	(109 999)	-	(109 999)
Net fee and commission income	378 544	-	378 544
Net trading and investing income	138 630	-	138 630
Other income	3 412	-	3 412
Total income	1 575 589	-	1 575 589
Expected credit losses/ Impairment losses	(263 235)	-	(263 235)
Net operation income	1 312 354	-	1 312 354
Staff costs	(479 573)	-	(479 573)
Infrastructure costs	(128 926)	-	(128 926)
Administration and general expenses	(339 912)	(83 923)	(255 989)
Operating expenses	(948 411)	(83 923)	(864 488)
Profit before tax	363 943	(83 923)	447 866
Taxation	(67 197)	18 742	(85 939)
Profit for the year	296 746	(65 181)	361 927
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Movement in financial assets at fair value through OCI			
Fair value losses	(15 546)	-	(15 546)
Deferred tax	3 420	-	3 420
	(12 126)	-	(12 126)
Total other comprehensive income/(loss) for the period, net of tax	(12 126)	-	(12 126)
Total comprehensive income for the year, net of tax	284 620	(65 181)	349 801
Earnings per share			
Basic and diluted (thebe per share)	34.82	(7.65)	42.47

**Normalised view vs IFRS view (continued)**

for the year ended 31 December 2020

Statement of Comprehensive Income	Consolidated Unaudited		Unaudited Normalised view year ended 2019 P'000
	IFRS View year ended 2019 P'000	Barclays separation costs year ended 2019 P'000	
Effective interest income	1 338 879	-	1 338 879
Effective interest expense	(278 344)	-	(278 344)
Net interest income	1 060 535	-	1 060 535
Fee and commission income	477 842	-	477 842
Fee and commission expense	(90 462)	-	(90 462)
Net fee and commission income	387 380	-	387 380
Net trading and investing income	166 892	-	166 892
Other income	17 066	-	17 066
Total income	1 631 873	-	1 631 873
Expected credit losses/ Impairment losses	(34 023)	-	(34 023)
Net operation income	1 597 850	-	1 597 850
Staff costs	(463 728)	-	(463 728)
Infrastructure costs	(115 782)	-	(115 782)
Administration and general expenses	(340 768)	(83 001)	(257 767)
Operating expenses	(920 278)	(83 001)	(837 277)
Profit before tax	677 572	(83 001)	760 573
Taxation	(156 964)	17 948	(174 912)
Profit for the year	520 608	(65 053)	585 661
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Movement in financial assets at fair value through OCI			
Fair value losses	3 991	-	3 991
Deferred tax	(878)	-	(878)
Total other comprehensive income/(loss) for the period, net of tax	3 113	-	3 113
Total comprehensive income for the year, net of tax	523 721	(65 053)	588 774
Earnings per share			
Basic and diluted (thebe per share)	61.09	(7.63)	68.72

**Normalised view vs IFRS view (continued)**

for the year ended 31 December 2020

	IFRS View year ended 2020 P'000	Company Unaudited Barclays separation costs year ended 2020 P'000	Unaudited Normalised view year ended 2020 P'000
Statement of Comprehensive Income			
Effective interest income	1 342 663	-	1 342 663
Effective interest expense	(287 660)	-	(287 660)
Net interest income	1 055 003	-	1 055 003
Fee and commission income	440 947	-	440 947
Fee and commission expense	(109 999)	-	(109 999)
Net fee and commission income	330 948	-	330 948
Net trading and investing income	138 630	-	138 630
Other income	34 639	-	34 639
Total income	1 559 220	-	1 559 220
Expected credit losses/ Impairment losses	(263 235)	-	(263 235)
Net operation income	1 295 985	-	1 295 985
Staff costs	(479 573)	-	(479 573)
Infrastructure costs	(128 926)	-	(128 926)
Administration and general expenses	(340 163)	(83 923)	(256 240)
Operating expenses	(948 662)	(83 923)	(864 739)
Profit before tax	347 323	(83 923)	431 246
Taxation	(56 904)	18 742	(75 646)
Profit for the year	290 419	(65 181)	355 600
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Movement in financial assets at fair value through OCI			
Fair value losses	(15 546)	-	(15 546)
Deferred tax	3 420	-	3 420
	(12 126)	-	(12 126)
Total other comprehensive income/(loss) for the period, net of tax	(12 126)	-	(12 126)
Total comprehensive income for the year, net of tax	278 293	(65 181)	343 474

**Normalised view vs IFRS view (continued)**

for the year ended 31 December 2020

	IFRS View year ended 2019 P'000	Company Unaudited Barclays separation costs year ended 2019 P'000	Unaudited Normalised view year ended 2019 P'000
Statement of Comprehensive Income			
Effective interest income	1 338 879	-	1 338 879
Effective interest expense	(278 344)	-	(278 344)
Net interest income	1 060 535	-	1 060 535
Fee and commission income	430 177	-	430 177
Fee and commission expense	(89 263)	-	(89 263)
Net fee and commission income	340 914	-	340 914
Net trading and investing income	166 892	-	166 892
Other income	51 234	-	51 234
Total income	1 619 575	-	1 619 575
Expected credit losses/ Impairment losses	(34 023)	-	(34 023)
Net operation income	1 585 552	-	1 585 552
Staff costs	(463 728)	-	(463 728)
Infrastructure costs	(115 782)	-	(115 782)
Administration and general expenses	(340 768)	(83 001)	(257 767)
Operating expenses	(920 278)	(83 001)	(837 277)
Profit before tax	665 274	(83 001)	748 275
Taxation	(154 524)	17 948	(172 472)
Profit for the year	510 750	(65 053)	575 803
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Movement in financial assets at fair value through OCI			
Fair value losses	3 991	-	3 991
Deferred tax	(878)	-	(878)
Total other comprehensive income/(loss) for the period, net of tax	3 113	-	3 113
Total comprehensive income for the year, net of tax	513 863	(65 053)	578 916

**Normalised view vs IFRS view (continued)**

for the year ended 31 December 2020

Statement of Financial Position	Consolidated Unaudited		Unaudited
	IFRS View as at 2020 P'000	Barclays separation costs as at 2020 P'000	
Assets			
Cash	645 784	-	645 784
Balances at the central bank	775 787	-	775 787
Trading portfolio assets	212 332	-	212 332
Derivative financial instruments	48 430	-	48 430
Financial assets at fair value through OCI	2 042 225	-	2 042 225
Loans and advances to banks	1 010 533	-	1 010 533
Due from related companies	1 404 496	(7 149)	1 397 347
Loans and advances to customers	13 904 310	-	13 904 310
Other receivables	152 775	(196)	152 579
Property, plant and equipment	252 083	1 152	253 235
Intangible assets	2 717	-	2 717
Deferred tax assets	110 635	-	110 635
Current tax asset	5 762	3 025	8 787
Total assets	20 567 869	(3 168)	20 564 701
Equity and liabilities			
Liabilities			
Deposits from banks	553 623	-	553 623
Due to related companies	350 958	-	350 958
Customer deposits	15 903 147	-	15 903 147
Derivative financial instruments	42 396	-	42 396
Other payables	375 858	61 502	437 360
Provisions	37 828	511	38 339
Debt securities in issue	394 192	-	394 192
Subordinated debt	574 476	-	574 476
Total liabilities	18 232 478	62 013	18 294 491
Stated capital	17 108	-	17 108
General risk reserves	118 347	-	118 347
Fair value reserves	(9 753)	-	(9 753)
Share-based payment reserve	1 120	-	1 120
Share capital reserve	2 060	-	2 060
Retained income	2 206 509	(65 181)	2 141 328
Total equity attributable to equity holders	2 335 391	(65 181)	2 270 210
Total equity and liabilities	20 567 869	(3 168)	20 564 701

**Normalised view vs IFRS view (continued)**

for the year ended 31 December 2020

Statement of Financial Position	Consolidated Unaudited		Unaudited
	IFRS View as at 2019 P'000	Barclays separation costs as at 2019 P'000	
Assets			
Cash	529 450	-	529 450
Balances at the Central Bank	890 439	-	890 439
Derivative financial instruments	48 769	-	48 769
Financial assets at fair value through OCI	2 251 097	-	2 251 097
Loans and advances to banks	1 059 520	-	1 059 520
Due from related companies	191 990	23 803	215 793
Loans and advances to customers	13 362 427	-	13 362 427
Other receivables	220 239	(1 124)	219 115
Property, plant and equipment	197 635	(5 496)	192 139
Intangible assets	817	-	817
Deferred tax assets	69 576	-	69 576
Total assets	18 821 959	17 183	18 839 142
Equity and liabilities			
Liabilities			
Deposits from banks	302 972	-	302 972
Due to related companies	575 874	(25 951)	549 873
Customer deposits	14 377 542	-	14 377 542
Derivative financial instruments	36 074	-	36 074
Other payables	557 412	(26 144)	531 268
Provisions	35 412	(681)	34 731
Current tax payable	4 568	4 905	9 473
Debt securities in issue	350 673	-	350 673
Subordinated debt	358 816	-	358 816
Total liabilities	16 599 293	(47 871)	16 551 422
Stated capital	17 108	-	17 108
General risk reserves	118 347	-	118 347
Fair value reserves	2 373	-	2 373
Share-based payment reserve	3 323	-	3 323
Share capital reserve	2 060	-	2 060
Retained income	2 079 455	65 054	2 144 509
Total equity attributable to equity holders	2 222 666	65 054	2 287 720
Total equity and liabilities	18 821 959	17 183	18 839 142

**Normalised view vs IFRS view (continued)**

for the year ended 31 December 2020

Statement of Financial Position	Company Unaudited		Unaudited
	IFRS View as at 2020 P'000	Barclays separation costs as at 2020 P'000	
Assets			
Cash	645 784	-	645 784
Balances at the Central Bank	775 787	-	775 787
Trading portfolio assets	212 332	-	212 332
Derivative financial instruments	48 430	-	48 430
Financial assets at fair value through OCI	2 042 225	-	2 042 225
Loans and advances to banks	1 010 533	-	1 010 533
Due from related companies	1 547 126	(7 149)	1 539 977
Loans and advances to customers	13 904 310	-	13 904 310
Other receivables	152 775	(196)	152 579
Property, plant and equipment	252 083	1 152	253 235
Intangible assets	2 717	-	2 717
Deferred tax assets	110 087	-	110 087
Current tax asset	5 110	3 025	8 135
Total assets	20 709 299	(3 168)	20 706 131
Equity and liabilities			
Liabilities			
Deposits from banks	553 623	-	553 623
Due to related companies	536 810	-	536 810
Customer deposits	15 903 147	-	15 903 147
Derivative financial instruments	42 396	-	42 396
Other payables	380 585	61 502	442 087
Provisions	22 779	511	23 290
Debt securities in issue	394 192	-	394 192
Subordinated debt	574 476	-	574 476
Total liabilities	18 408 008	62 013	18 470 021
Stated capital	17 108	-	17 108
General risk reserves	118 347	-	118 347
Fair value reserves	(9 753)	-	(9 753)
Share-based payment reserve	1 120	-	1 120
Share capital reserve	2 060	-	2 060
Retained income	2 172 409	(65 181)	2 141 328
Total equity attributable to equity holders	2 301 291	(65 181)	2 270 210
Total equity and liabilities	20 709 299	(3 168)	20 740 231

**Normalised view vs IFRS view (continued)**

for the year ended 31 December 2020

Statement of Financial Position	Company Unaudited		Unaudited
	IFRS View as at 2019 P'000	Barclays separation costs as at 2019 P'000	
Assets			
Cash	529 450	-	529 450
Balances at the Central Bank	890 439	-	890 439
Derivative financial instruments	48 769	-	48 769
Financial assets at fair value through OCI	2 251 097	-	2 251 097
Loans and advances to banks	1 059 520	-	1 059 520
Due from related companies	191 990	23 803	215 793
Loans and advances to customers	13 362 427	-	13 362 427
Other receivables	220 239	(1 124)	219 115
Property, plant and equipment	197 635	(5 496)	192 139
Intangible assets	817	-	817
Deferred tax assets	66 517	-	66 517
Total assets	18 836 083	17 183	18 836 083
Equity and liabilities			
Liabilities			
Deposits from banks	302 972	-	302 972
Due to related companies	611 322	(25 951)	14 376 541
Customer deposits	14 376 541	-	14 376 541
Derivative financial instruments	36 074	-	36 074
Other payables	555 949	(26 144)	529 805
Provisions	20 582	(681)	19 901
Current tax payable	11 078	4 905	15 983
Debt securities in issue	350 673	-	350 673
Subordinated debt	358 816	-	358 816
Total liabilities	16 624 007	(47 871)	16 576 136
Stated capital	17 108	-	17 108
General risk reserves	118 347	-	118 347
Fair value reserves	2 373	-	2 373
Share-based payment reserve	3 323	-	3 323
Share capital reserve	2 060	-	2 060
Retained income	2 051 682	65 054	2 116 736
Total equity attributable to equity holders	2 194 893	65 054	2 259 947
Total equity and liabilities	18 818 900	17 183	18 836 083

**Value added statement**

for the year ended 31 December 2020

	Unaudited 2020 P'000	Unaudited 2019 P'000
Value created		
Income from services	1 859 837	1 893 151
Cost of services	(287 660)	(278 344)
Value created by operations	1 572 177	1 614 807
Non-operating income	3 412	17 066
Operating expenditure excluding staff costs and infrastructure costs	(339 912)	(340 768)
Total value created	1 235 677	1 291 105
Value distributed		
Employees - salaries and benefits	479 573	463 728
Shareholders - dividend	345 225	299 995
Government - taxation	67 197	156 964
Total value distributed	891 995	920 687
Value retained		
Retained income	127 054	220 613
Infrastructure costs	128 926	115 782
Total value retained	255 980	336 395
Total value distributed and retained	1 147 975	1 257 082

Notice to shareholders

for the year ended 31 December 2020

Annual General Meeting of the Shareholders of Absa Bank Botswana Limited

Notice is hereby given that the 35th Annual General Meeting of shareholders of Absa Bank Botswana Limited shall be held by means of audio or audio and visual communication on Monday June 28 2021 at/or about 12.30pmⁱ in terms of Section 19.9 of the Constitution of the Company for the following purpose:

- To receive and adopt the Annual Financial Statements for the year ended 31 December 2020 together with the Directors and Independent Auditor's reports thereon.
- Subject to regulatory approval, to appoint Daniel Neo Moroka as Director in accordance with the Constitution.
- To re- elect as a Director, Kgotlayarona Ramaphane who retires by rotation in accordance with the Constitution, and who being eligible, offers himself for re- election.
- To approve the remuneration of the Directors for the ensuing year.
- To approve the remuneration of the Auditors, Ernst and Young Botswana, for the year ended 31 December 2020.
- To approve the appointment of Auditors Ernst and Young Botswana for the ensuing year.
- To approve, by special resolution, any substantial gifts made by the Company, details of which are available at the Company's registered office for perusal.

In the event that you wish to nominate any person(s) as directors or auditors other than one of the directors retiring or incumbent auditors, you must deliver to the Company Secretary, not less than 7 (seven) nor more than 14 (fourteen) clear days before the date of the meeting, a nomination signed by a member qualified to attend and vote at the meeting with notice by the nominated persons that they are willing to be elected as directors or auditors, as the case may be.

Proxies

A member entitled to attend and vote at the above-mentioned meeting is entitled to appoint a proxy to attend, speak and to vote in his/her stead. A proxy need not also be a member. A proxy form is available at the end of the Annual Report.

Proxy forms are also available at the office of the Company Secretary at Absa Bank Botswana Limited, Plot 74358, Building Four, Prime Plaza, Central Business District, Gaborone

Completed proxy forms must be deposited there not less than 48 hours before the meeting.

By order of the Board

Kealeboga N. Bojosi
Company Secretary

Registered office

5th Floor
Building 4 Prime Plaza, Plot 74358
Central Business District
Gaborone
Botswana

- ⁱ Details of the audio and / or visual meeting will be shared with the shareholders no later than 10 days before the meeting. Shareholders are advised to contact contactus@corpservebotswana.com to RSVP for the meeting or further enquires

Annexure to the notice to shareholders

for the year ended 31 December 2020

Annual General Meeting of the Shareholders of Absa Bank Botswana Limited

Resolution 4.

To approve the remuneration of the Directors for the ensuing year.

Non-Executive Director fees per annum are proposed as follows:

	P'000
Board Chairman	618
Board Member	203
Audit Committee Chairman	137
Audit Committee Member	68
Risk Committee Chairperson	80
Risk Committee Member	40
Human Resources Remuneration and Nominations Chairperson	79
Human Resources Remuneration and Nominations Member	39
Credit Committee Chairperson	79
Credit Committee Member	39

Resolution 5.

To approve the remuneration of the Auditors, Ernst and Young Botswana, for the year ended 31 December 2020

Ernst and Young Botswana remuneration of P4.7million for the year ended 31 December 2020.

Resolution 7.

To approve, by special resolution, any substantial gifts made by the Company

1. P 1.5 million donation towards the Government of Botswana COVID-19 Relief Fund
2. P 106,930 donation to scholarship recipients studying at Botswana University of Agriculture and Natural Resources (BUAN)

Proxy form

for the year ended 31 December 2020

Please complete in block letters.

I / We _____
of _____
being a shareholder (s) of Absa Bank Botswana Limited, hereby appoint

or failing him/her _____
or failing him/her _____

as my/our proxy to vote for me/us on my/our behalf at the 35th Annual General Meeting of the Company to be held by means of audio or audio and visual communication on Monday 28th June 2021 at 12:30hrs which will be held for purposes of passing the proposed resolutions and to vote for / against the resolutions and / or abstain from voting in respect of the following:

	For	Against	Abstain
Ordinary resolution 1			
Ordinary resolution 2			
Ordinary resolution 3			
Ordinary resolution 4			
Ordinary resolution 5			
Ordinary resolution 6			
Special resolution 1			

As witness my hand this _____ day of _____ 2021

Signature _____

Witness _____

Note:

1. Each shareholder entitled to attend and vote at this meeting is entitled to appoint one or more proxies to act in the alternative to attend, vote and speak in his stead. A proxy need not be a shareholder of the company.
2. Any alteration or correction made to this form of proxy (including the deletion of alternatives) must be initialled by the signatory/ signatories.
3. This form of proxy should be signed and returned to the Registered Office of the Company, Head Office Fifth Floor, Building 4, Prime Plaza, Plot 74358, Gaborone, Central Business District or emailed to contactus@corpservebotswana.com no later than 48 hours before the meeting.

