Standard Chartered

ANNUAL REPORT 2018

Here for good

Driving commerce and prosperity through our unique diversity

Who we are

We are a leading international banking group committed to building a sustainable business over the long-term.

Standard Chartered Bank first opened for business in Botswana in 1897 in Francistown, making it the country's oldest bank. In 1956, we were given full branch status and this was followed by the opening of our first branch in Lobatse. The Bank was locally incorporated in 1975 with a full board and is listed on the Botswana Stock Exchange (BSE Code: STANCHART).

Today, with approximately 700 employees, we operate a network of 19 branches, agencies and a Priority Banking centre, all of which are supported by a Loan Centre and 24-hour Customer Call Centre. With a wide branch network, large sales force, and award-winning digital banking platforms, the Bank offers clients in the Retail, Commercial and Corporate segments international standards of customer service and excellence.

The Bank is in a unique position, able to leverage its deep-rooted local knowledge, its international network and expertise for the benefit of Botswana corporates, individual depositors and multi-nationals.

Standard Chartered Bank has been a key contributing partner to the economic growth and financial development of Botswana for over 120 years. The Bank is highly respected in Botswana for its adherence to corporate governance, enthusiasm for great service and dedication to talent development, as well as for diversity and inclusion. We have a highly active and far reaching corporate social responsibility programme anchored by our Employee Volunteering initiatives. Our purpose is to drive commerce and prosperity through our unique diversity all in line with our brand promise of being Here for Good.

About this report

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

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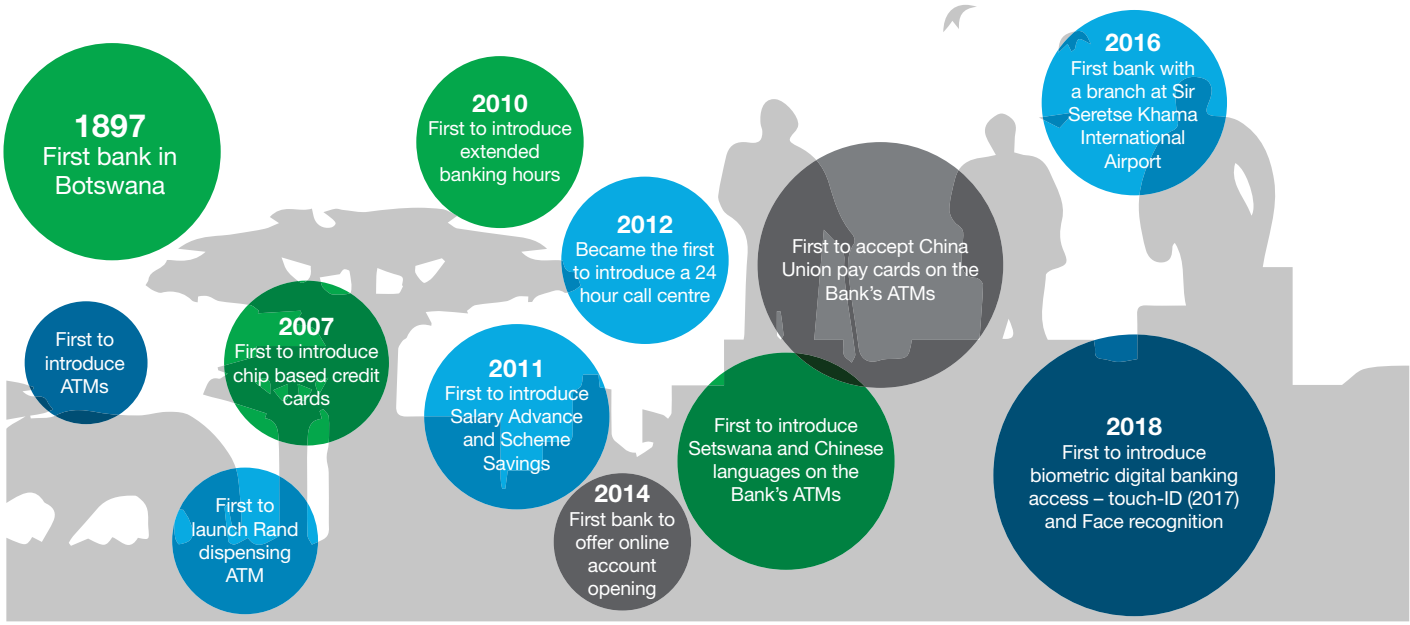


OUR PURPOSE AND PROGRESS

"Our purpose is to drive commerce and prosperity through our unique diversity."

In this report we describe our progress in realising this goal and the strategies we are pursuing to strengthen our business, get closer to our clients and fulfil our potential. We gauge our progress against a set of key performance indicators summarised below, as well as Client segment KPIs shown on pages 12 to 14.

FINANCIAL KPIs

Total balance sheet growth
10%

Expenses down by
11%

Capital Adequacy
22%

Impairment down by
100%

NON FINANCIAL KPIs

Employee volunteering (EV) annual target exceeded by
201%

A network of
19
Branches

OTHER FINANCIAL MEASURES

Total income
P724m

Profit after tax
P24m

Earnings per share
7.99 thebe

Contents

What we do

Serving client segments with differentiated expertise

Corporate & Institutional Banking

Serving large corporations, government, banks and investors.

Commercial Banking

Supporting local corporations and medium sized enterprises.

Retail Banking

Serving individuals and small businesses.

Support functions

Our client segments are supported by seven functions, which work together to ensure our day-to-day operations run smoothly and are compliant with banking regulations.

Human Resources
Recruits and builds talent while providing learning and development opportunities to motivate colleagues.

Legal
Enables sustainable business and protects the Bank from legal-related risk.

IT & Operations
Responsible for the Bank's operations, systems development and technology infrastructure.

Risk & Compliance
Responsible for the sustainability of our business through good management of risk across the Bank and ensuring that business is conducted in line with regulatory expectations.

Operations
Provides control and governance to operating platforms and processes, ensuring operating efficiency.

Finance
Comprises three support functions: Finance, Supply chain and Property. The leaders of these functions report directly to the Chief Financial Officer.

Corporate Affairs and Brand & Marketing
Manages the Bank's communications and engagement with stakeholders in order to protect and promote the bank's reputation brand and services.

Chairman's statement

A more innovative and resilient bank capable of stronger growth

It is my pleasure to present, on behalf of the Board, the Standard Chartered Bank Botswana Annual Report for the financial year ended 31st December 2018. We continued to face significant headwinds, but returned the Bank's operations to profitability and declared a dividend to our shareholders in May 2019 subsequent to the finalisation of the Audited Financial Statements.

A lot was achieved during the year in refining the business fundamentals for a more sustainable growth trend, which I am convinced will be getting stronger. We maintained our market position in many fronts, enhanced our client propositions and improved customer experience.

Our brand promise - "Here for Good" remained a central campus for all our actions during the year; we have maintained our support to key sectors of the economy, partnered with communities to solve real life problems and remained committed to our people- the human capital.

Professor Bojosi Otlhogile
Chairman

A review of the economic environment

The Botswana economic performance portrays some positivity, with the annual Gross Domestic Product growth rate reaching a 4-year high of 4.5% in 2018. The growth was influenced by recovery in mining output and continued improvement in non-mining sectors. Mining output expanded by 13.9% in the year to December 2018, buoyed by recovery in commodity prices. Without mining, the significant influences on domestic economic performance include conducive financing conditions as indicated by accommodative monetary policy and sound financial environment that facilitates policy transmission, intermediation and risk mitigation.

Headline inflation was 3.5 % in December 2018 and remains in the lower end of the target range, reflecting, in part, subdued domestic demand due to slower growth in household incomes. The Bank of Botswana maintained the bank rate at 5% throughout 2018 and the prevailing accommodative monetary policy stance is still consistent with maintaining inflation within the objective range of 3-6% in the medium term.

Official Government forecast peg the economic growth rate at 3.8% and 4.2% for 2019 and 2020 respectively, the macro-economic fundamentals are expected to remain stable, complimenting an accommodative monetary policy. The Bank, as a key player in the economy will benefit from the stability, and post a good performance run.

Business Review

We recorded a Profit After Tax of BWP 24 million for the 2018 financial year, a milestone given the significance of the loss recorded in 2017, but we can do more. We focused on rebalancing the portfolio (and de-risking from certain assets), restoring our capital adequacy as well as reprofiling the structural liquidity- all with an intention to support planned growth.

Owing to the above, business momentum was generally on a restraint and as such our Non Interest Income performance was not great, recording a 15% decline from prior year. Interest margins also took a knock as a market induced increase in cost of funds filtered through, notably in the last quarter of the year. We also shed off some interest earning assets during our portfolio re balancing exercise and top line performance was affected. Our Non Funded Income remained correlated, to a great degree with movement in interest earning assets and as such, experienced a similar year on year decline.

Although operating at marginal capital positions at some point during the year, specifically during third quarter, the Bank complied with all regulatory capital thresholds throughout the period. Capital positions were restored to confidence levels in October 2018 with a parental capital injection of P400 million in form of Additional Tier 1, the Capital

Chairman's statement

Instruments. The Bank complied with all primary reserve ratios throughout 2018.

I and my colleagues on the Board remained resolute in maintaining our fiduciary duties to the shareholders. The Board was further strengthened during the year as we welcomed to the team two additional Non-Executive Directors, Mr. Kweku Bedu-Addo and Ms. Doreen Khama, who are both seasoned professionals.

We hosted Mr. Andy Halford, the Standard Chartered Group Chief Financial Officer. During his visit, Andy spent time with some of our clients and paid a courtesy visit to the Central Bank Governor, among other key stakeholders. His visit highlights the significance of Botswana as a key member of the Standard Chartere Bank Group.

Although I admit the level of profitability, a key determinant of dividend pay-out is not yet restored to levels our shareholders are accustomed to, we are upbeat about milestones achieved in 2018 and I am confident on our future path as we usher in a new year.

We are the sum of our parts, without employees and clients the Bank does not exist, I therefore would like to thank the Bank employees and clients for their ongoing support and commitment to delivering on our purpose.

Thank you to my fellow Board members for your support, and a special word of appreciation to Mr Ish Kumar Handa and Mr Nathan Kgabi who stepped down from our Board.

Professor Bojosi Otlhogile
Chairman

Driving Commerce & Prosperity through our unique Diversity

Creating added value through partnerships

As a Bank, we continue to seek opportunities for partnership with market leaders to provide our customers with added convenience, innovation and above all value to their banking requirements.

In 2018, we did exactly that, partnering with Mobile Network Operators (MNOs) to offer our Bank2Wallet service, and with the market leaders in the insurance sector to roll out enhanced general insurance and investment-linked products.

Chief Executive's review

Delivering sustainable, high-quality growth

During 2018, a great deal of energy went into building a solid foundation that will support our planned growth into the next year and far beyond, and we achieved a lot. We embarked on an extensive portfolio re-balancing exercise and it yielded results, our balance sheet is more resilient and our liquidity profiles are quite supportive of what we want to do next.

The Bank returned to profitability during the year, posting a Profit After Tax of P24million, up from the P189million loss incurred in 2017. However, top line performance was subdued, mainly as a result of contained growth during the first half of the year and a market led increased cost of liquidity. On the expenditure side, definitive cost management measures and efficiency improvements across the business delivered an 11% year on year cost reduction.

The portfolio rebalancing initiative undertaken during the year mainly targeted the Corporate segments and early results have been reflected by an overall decrease on the Non Performing Loan (NPL) ratio which climbed down from 7.1% to 3.3%.

The balance sheet grew by 10%, although both client assets and liabilities remained relatively flat from 2017. The growth in non-client assets was in part led by decisions around strengthening the Bank's liquidity profile. Overall liquidity remained sound, and the Asset Deposit Ratio (ADR) closed the year at 61% demonstrating capacity to accelerate growth in top line performance in the context of risk adjusted returns.

We closed the year with a growth supportive Capital Adequacy Ratio (CAR) of 22%.

The Bank adopted IFRS 9 effective 1st January 2018. The standard requires the recognition of expected credit losses (ECL) rather than incurred losses as was the case with IAS 39. The initial adoption of the ECL approach impacted retained earnings, with a Day 1 impact of P64 million charge. No significant losses were recorded for the period ended 31st December 2018.

To realise long term value, the Bank remains focused on improving customer experience through investing in technology and offering attractive value propositions to our clients. We continued to re-configure our distribution networks leveraging on the strength of our digital platforms and staff capabilities. Two paperless branches and a fully digital branch were launched successfully, alongside an enhanced online banking platform.

The Bank launched its 360⁰ loyalty rewards program, a first of its kind in the market. The program comes as part of Standard Chartered Bank's card offering and rewards customers in a variety of ways that include prestigious shopping, flights to global destinations and access to hotels across the world depending on the amount of accumulated points, all at no cost.

Still in 2018, the Bank launched its prestigious Visa Infinite Cards for the Priority segment. The cards come with a range of added life style benefits that include the accumulation of 360⁰ loyalty points, decent discounts at selected shopping centres and free access to over 150 premium airport lounges across the world, among others.

General Insurance products were launched in a bid to enhance customer convenience and in this regard the Bank has entered into strategic alliances with Insurance Industry leaders to ensure optimal delivery channels.

The Bank remains committed to invest in human capital, driving the right client centric culture, while attracting, harnessing and retaining talent.

Mpho Masupe
Chief Executive Officer

Impairment down by

100%

Assets to deposits ratio

61%

CET1

8.7%

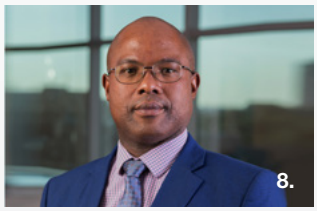
Outlook

The economic outlook is positive and the Bank is geared for growth leveraging on balance sheet strength and a strong capital position. Exciting digital propositions will be launched in the year ahead and will be central in re-defining customer experience, while at the same time diversifying our income streams. We are upbeat about the future as we continue to pursue our purpose; " To drive commerce and prosperity through our unique diversity".

Thank you for your continued support.

Mpho Masupe
Managing Director

Management Team



1. **Mpho Masupe**
   Chief Executive Officer

2. **Mbako Mbo**
   Chief Financial Officer

3. **Pedzani Tafa**
   Head, Retail Banking

4. **Asuquo Nkoposong**
   Head, Commercial Banking
   Head, Global Banking

5. **Saone Balopi**
   Head, Corporate Affairs and Brand & Marketing

6. **Tuduetso Ntwaetsile**
   Head, Internal Audit

7. **Richard Ochieng**
   Country Chief Risk Officer

8. **Jabulani Mangole**
   Chief Information Officer (Acting)

9. **Esther Mokgatlhe**
   Head, Compliance

10. **Marang Morakaladi**
    Head, Human Resources

11. **Chazha Kgalemang**
    Head, Legal and Company Secretary

12. **Sinqobile Magenga**
    Head, Financial Markets (Acting)

13. **Mukwereza Humphrey**
    Chief Operating Officer

Business model

A business model
built on long-term relationships

We have a sustainable approach to business and strive to achieve the highest standards of conduct. Our business model and strategy are built on capturing the opportunities inherent in the market by developing deep relationships with clients.

Developing these relationships means using both our tangible and intangible resources in a sustainable and responsible manner, deploying them to maximum impact on our profitability and returns.

OUR RESOURCES

We aim to utilise resources in a sustainable way, to achieve our long term strategic objectives.

Human capital

Our team's diverse experiences and backgrounds are our greatest asset. We are part of the local fabric which means we understand our clients' needs and aspirations, and how these can be achieved

753 Employees

63% Female

Strong brand

We are a leading international bank with over 120 years of history in Botswana and over 150 years globally.

International network

We have an unparalleled international network, connecting companies, institutions and individuals to, and in some of the world's fastest-growing and most dynamic regions

Local expertise

We have grown alongside Botswana's economy even before gaining independence. This has given us a deep knowledge and a privileged understanding of the drivers of the economy, offering us insights that can help our clients achieve their ambitions

WHAT MAKES US DIFFERENT

Our purpose is what sets us apart: we drive commerce and prosperity through our unique diversity. Our strategy helps us achieve our purpose

We drive commerce and prosperity through our unique diversity

Client focus

Our clients are our business. We build long-term relationships with them

Robust risk management

We are here for the long term. Effective risk management allows us to grow a sustainable business

Distinct proposition

Our unique understanding of our markets and our extensive international network allow us to offer a truly tailored proposition to our clients, combining global expertise grounded in local knowledge

Sustainable approach to business

We promote social and economic development by contributing to sustainable economic growth through our core business of banking, by being a responsible company and by investing in our communities

WHAT WE DELIVER

We deliver a differentiated set of solutions, products and services, adapted to the needs of our clients

Global

Clients in our global businesses are supported by relationship managers with global oversight.

Corporate & Institutional Banking

Regional

Relationship managers support clients in our regional businesses. To ensure efficiency and consistency, and to enable greater investment, we have a global oversight of our systems and products.

Retail Banking

Commercial Banking

Products and services

Retail Products
- Deposits
- Savings
- Mortgages
- Credit cards
- Personal loans
- Other retail banking products

Wealth Management
- Investments
- Portfolio management
- Insurance and advice
- Planning services

Transaction Banking
- Cash management
- Payments and transactions
- Securities holdings
- Trade finance products

Corporate Finance
- Financing
- Strategic advice
- Mergers and acquisitions
- Equity

Financial Markets
- Investment
- Risk management
- Debt capital markets

Financial performance

Income
- Net interest income
- Fee income
- Trading income

Profits
Income gained from providing our products and services minus expenses, impairment and taxes.

Return on equity
Profit generated relative to equity invested

THE VALUE WE CREATE

Clients

We enable individuals to grow and protect their wealth. We help businesses to trade, transact, invest and expand.

We also help a variety of financial institutions – including banks, public sector clients and development organisations - with their banking needs

Regulators and governments

We engage with relevant authorities to play our part in supporting the effective functioning of the financial system and the broader economy

Investors

We aim to deliver robust returns and long-term sustainable value for our investors

Colleagues

We offer colleagues opportunities to learn and progress. We encourage them to improve, innovate, take ownership of their careers and succeed together

Society

We strive to operate as a responsible and sustainable company, driving prosperity through our core business, and collaborating with local partners to promote social and economic development

Our strategic priorities

Purpose and People

Understand our responsibilities
We will increasingly collaborate with clients and suppliers to improve social and environmental standards. We continue to partner with regulators and other stakeholders to fight financial crime, and aim to make our risk and control approach a competitive advantage for us.

Lead sustainable financing across emerging markets
We are maintaining our focus on supporting sustainable economic growth, expanding renewables financing and investing in sustainable infrastructure where it matters most. We will continue to facilitate the movement of capital to drive positive social and economic impact in our markets.

Support the communities where we live and work
We promote economic inclusion in our markets through community programmes aimed at tackling inequality. We provide disadvantaged young people with opportunities to learn new skills, get job-ready and start their own business. We will continue to support the visually impaired through our community programmes.

Maximise return from investment in our people
We want to deliver a client-centric environment with an inclusive culture that capitalises on the experience and unique diversity of our people. We are building a future-ready workforce, embedding digital, agile and people leadership skills. We aim to amplify the impact of our people by deploying them in markets that fit their capabilities and career aspirations.

Deliver our network

Leverage our unique footprint
Our unique network is a long-term source of growth and sustainably higher returns. We will continue to deepen relationships with our clients to fully realise the revenue potential of our network.

We are sharpening our client focus to drive growth momentum and improve returns. We will place a particular focus on multinational corporates operating extensively in Asia, Africa and the Middle East. We will also increase our focus on investors and financial institutions that are seeking emerging market solutions.

Build on our strength in China
We will continue connecting our clients both within and beyond China, with the aim of doubling our China-related income contribution as we benefit from China's opening. We will increasingly capture growth opportunities arising from capital market opening, RMB internationalisation, Belt & Road corporate clients, offshore Mainland Chinese wealth and the Greater Bay Area.

Grow with Africa
We will continue to grow with our clients in Africa, focusing on capturing inbound flows of financial institutions, multinational corporations and Belt & Road clients. In a number of our markets, we will look to combine the coverage of Corporate & Institutional Banking and Commercial Banking. By rolling out our cost-efficient digital bank, developed in Côte d'Ivoire, we aim to double our Retail Banking clients in Africa in the medium term.

Grow our affluent business

Meet the wealth needs of the affluent and emerging affluent
By continuously enhancing our offering for affluent and emerging affluent clients in markets where we have a Retail Banking presence, we aspire to be increasingly relevant for our clients and drive growth in these segments. To that end, we are investing in digitally-delivered wealth propositions that excite our clients.

Enhance client experience with data and technology
We will increase our investment in data and analytics capabilities to generate a unique understanding of our clients and their needs, and in turn improve our offerings, deliver a personalised experience and increase client engagement.

Scale the non-affluent segment in a targeted manner
The rise of the middle class is an important growth opportunity for our Retail Banking business across our footprint. To profitably capture this opportunity, we will implement new business models, harness technology and work with non-bank partners to acquire and serve non-affluent clients with our target profile in a cost-efficient manner.

Optimise low-returning markets

Refine our market participation
To accelerate improvements in our financial returns, we will refine the size and focus of our business in each market based on our local position and network advantages.

Improve returns in markets where we are an international bank with trusted local capabilities
In markets where we can utilise our local and international capabilities, we will aim to improve returns through our sharpened participation in Corporate & Institutional Banking and selectively in Commercial Banking and/or Retail Banking.

In particular, we will focus on optimising the performance of four high potential markets, namely India, Indonesia, Korea and the UAE, with targeted action plans and strong execution discipline.

Accelerate growth in our largest and most profitable markets
In markets where we are a top local universal bank and have attractive returns, we will participate in all of our business segments and invest to grow our market share.

Focus on Corporate & Institutional Banking in other markets
In markets where our capabilities are geared towards international business, we will reinforce our primary focus on originating and facilitating cross-border business. In line with this approach, our Corporate & Institutional Banking presence will continue to be expanded with a focus on serving multinational clients.

Improve productivity

Continue investing in productivity
Our investment in digitisation will continue to support productivity improvements and enhance client experience, building on the progress we have made in 2018. For example, we refreshed our client digital platform with unified trade and foreign exchange capabilities in Corporate & Institutional Banking. In Retail Banking we launched real-time client onboarding on digital channels and refreshed wealth and foreign exchange platforms with full mobile access.

Organise around customer journeys
We are shaping our organisation around the journeys of our clients, to better align our processes and way of working with the needs of our clients and partners. This will enable us to drive operational improvements to scale revenue growth through improved client acquisition, conversion and retention while also delivering enhanced efficiency. This will be guided by our principles of positioning ourselves as a digital solutions partner, focusing on end-to-end digital client experience, transparent and real time service delivery, and effective and efficient decision making.

Unlock capital and liquidity efficiency
Subject to relevant regulatory approvals, we are establishing a Hong Kong hub entity structure to further enhance capital and liquidity utilisation across the Group.

Transform and disrupt with digital

Transform our Retail Banking business with digital
We have made significant progress in digitising our Retail Banking business. For example, we have rolled out a full-service, cost-efficient digital bank in Côte d'Ivoire, and we have applied for a virtual bank licence in Hong Kong. Going forward, we aim to adapt and replicate these capabilities as appropriate across our footprint to enhance client experience, improve efficiency, gain market share, disrupt and build a future-proof retail bank.

Consolidate strong position with corporate clients
We have been leading disruptive innovations in corporate banking. In 2018 we launched cross-border remittance services with Ant Financial, and started the first blockchain-based smart guarantees service in the trade finance industry.

We will continue to invest in cutting edge digital tools and new corporate banking models, with a particular focus on blockchain and distributed ledger technology, platforms and ecosystems, as well as artificial intelligence and machine learning.

Retail Banking

Strategy overview

Segment revenue

P503m

Clients deposits

P3,077m

Strategy

The Retail Bank segment's clientele falls under three sub-segments; Personal, Priority and Business Banking, and 2018 was an exciting year across all the three. Through our enhanced digital offering, client experience was re-defined for both the Personal and Priority sub-segments. We rolled out innovations on our mobile and online banking platforms, highlighted by the launching of a mobile money payment service in partnership with Orange money. Through this service, clients are able to send and receive money to mobile wallets as well as send money from the wallet to their bank accounts.

Beyond digital, the bank launched the "Easy Banking Account", a transactional based current account designed with client needs in mind. With this account, our clients are able to manage their banking fees much better.

The quest to be the leading one-stop shop for client's financial services needs continued and new short-term insurance covers for home and auto were introduced, these are offered in partnership with Botswana Insurance Company. Yet another new insurance product, the " Isago Plan", an investment linked cover was introduced in partnership with Botswana Life Insurance.

As part of our network optimisation agenda, we expanded our touch points, opening the Mowana Park branch while at the same time re-configuring and merging the Orapa and Letlhakane Branches with a view to serve our clients better.

During the year under review, the 360⁰ loyalty rewards program, a first of its kind in the market was launched. The program comes as part of Standard Chartered Bank's card offering and rewards customers in a variety of ways that include prestigious shopping, flights to global destinations and hotels across the world depending on the amount of accumulated points, all at no cost. Additionally, the prestigious Visa Infinite Cards for the priority segment were introduced. The cards come with a range of added life style benefits that include the accumulation of 360⁰ loyalty points, decent discount at selected shopping centres and free access to over 1,000 premium airport lounges across the world, among others.

In 2018 we refined our approach to SME coverage with a view to deepen our relationship with clients, a strategy which saw the Business Banking asset book growing by 27% year on year, with a 10% growth on the client liability side – this is an attestation to our commitment to the SME sector, as we recognise its role in the national economy.

In terms of financial performance, the segment posted a Profit Before Tax of P66 million for the year, with an overall impairment release (under the Expected Credit Loss model) of P10 million against a charge of P24 million in 2017.

Awards

The Business was recognised for its efforts in driving the digital agenda and received the most prestigious "Best Consumer Digital Bank in Botswana" and "Best Bank for Loyalty Programme Botswana" at the 2018 Global Banking & Finance Awards®. In addition, the business was recognised with the "Visa Premium Award" for having top end Visa products in the Botswana.

Corporate & Institutional Banking

Segment revenue

P182m

Clients deposits

P8,103m

Corporate & Institutional Banking supports transaction banking, corporate finance, financial markets and borrowing needs of the Bank's large Corporate and Institutional Clients.

From Turnaround to take off

The segment has made significant progress in the last 12 months returning to profitability and stabilizing the balance sheet. A Profit Before Tax of P10 million (up from a loss of P351 million in 2017) was recorded. Underlying this positive performance was a clear set of strategies to focus on our unique product differentiation, deepened relationships with our existing clients and enhanced controls. These have been well natured and executed and we believe this turnaround allows us to shift our focus from "turnaround " to transformation.

The transformation strategy focusses on:

- ***'diversifying our client base"*** for sustainable growth, this would strengthen our top line growth by rebalancing the portfolio into a more diverse group of clients and reduce income and risk concentrations;
- ***'delivering better product solutions'*** focussing on product offerings that form part of our clients' operations and supply chains which we will deliver by growing our focus on Banking the Ecosystem, flow FX/ rates, Securities Services and Debt Capabilities Management;
- ***'improving the client experience'*** by accelerating our digitization agenda, especially across Financial Markets, Transaction Banking and streamlining key processes;
- ***'improving our funding base and asset distribution'*** by building high quality deposits to reduce funding costs, profitability and improve stability;
- ***'strengthening our risk and controls'*** which remains key to containing loan impairments; and
- ***'continuous investment in our people'*** focussing on improving our diversity mix and internal talent development.

Commercial Banking

Segment review

Segment revenue

P40m

Clients deposits

P1,160m

The Commercial Banking segment has continued its transformation journey to becoming a key focus segment and trusted partner in transforming smaller local businesses into bigger, and ultimately international businesses. In its journey to achieve this, the segment continued to invest in technologies aimed at building client analytics, while at the same time redefining and rescoping the target client base.

The strategic focus for the segment is defined by:

- Client level re-assessment of strategic fit for sustainable performance.
- Introduction of Jarvis, a unique technology platform that equips our sales force with real time client and market analytics.
- Mid-market focus to identify growth client at the early stage and provide financial advisory and banking solutions aimed at building a sustainable business.
- Banking the Ecosystem of our larger corporates and multinational companies.

Going forward, our Corporate and Institutional Banking and Commercial Banking business have been merged into a single segment, the "Corporate, Commercial and Institutional Banking" segment. This is with a view to support the Ecosystem strategy and leveraging the capabilities within both business to deliver superior banking solutions to our clients.

Driving Commerce & Prosperity through our unique Diversity

Our renewed partnership with Liverpool FC.

Standard Chartered Bank and Liverpool FC have a proud partnership that goes back to 2010 when we became the club's main sponsor.

In 2018, we announced a renewed partnership which will extend to the end of the 2022-23 season, making it the second-longest sponsorship deal in Reds' history. But it's more than just a sponsorship; it's a shared connection based on values and heritage. This enables us to work together with the Liverpool FC to create unique, money-can't-buy experiences for our clients, our communities and supporters around the world.

In 2018, we hosted client match-viewing events and our showpiece SC Cup - the 5-a-side football tournament. As in previous years, the winning client team was treated to first-class hospitality courtesy of Liverpool FC and Standard Chartered Bank at the home of the Reds', Anfield.

People

Delivering sustainable, high-quality growth

Female representation All employees

FEMALE 2018

63%

(2017: 65%)

Women in Country Management team

FEMALE 2018

47%

(2017: 57%)

Employee volunteering (EV) annual target exceeded by

201%

New valued behaviours

1. Do the right thing
2. Never settle
3. Better together

At Standard Chartered Bank Botswana, we consider and treat people as part of our most valued resources who form an integral part of our business. Without our people, we would not be the great Bank that we have been for so many years and continue to be. Diversity and Inclusion (D&I) is one of our core people strategies and so the composition of our workforce must reflect and promote the multiple cultures, ethnic groups, gender diversity as well as the inclusion of People with Disabilities. Thus, we should be reflective of the market in which we operate, while at the same time allowing employees from other parts of the SCB Group to come and experience Botswana as we also send our talent to learn from other markets.

In our effort to maintain a happy and engaged workforce, we continually work on measures to retain our best talent. To this end, we offer robust talent management initiatives, competitive remuneration & benefits, exposure to our international network, engagement and a work culture that is sensitive to work-life balance.

Our employees also have an opportunity to participate and give back to the communities through our Employee Volunteering (EV) scheme, which is premised on the following pillars: Seeing is Believing & and Financial Education.

Key Achievements for 2018

Remuneration & Benefits

The Bank has continued with its strategy to review its pay and benefits. In 2018 enhancements were made on;

- pay & variable compensation,
- parental leave,
- flexible working, death related benefits, medical subsidies, pension and scholarships.

Conduct and Culture

Following feedback from employees through the employee survey, the bank refreshed its Values and introduced new valued behaviors meant to influence positively the bank's culture. The new valued behaviors are **#Better together, #Do the right thing and #Never settle.** These now form part of every aspect of the Bank including but not limited to service, performance, brand promise, employee engagement, etc.

Leveraging the network

Through Long term and short-term assignments (LTAs and STAs) the bank continued to leverage the Group network to further develop its skills set. Additionally, the bank also has non- locals sourced from across the SCB to impart knowledge and skills on the locals to supplement its robust localisation plan.

Priorities for the year ahead

Employee engagement

- Continue our efforts to promote a highly engaged workforce.

Diversity and Inclusion

- Development of inclusive initiatives across the various spectra; millennials, women, women in leadership, baby boomers and the differently abled to create a workforce that reflects and embraces the unique diversity of our market.
- Inclusive leadership initiatives to remove the biases that may arise as a result of the different orientations and beliefs.

Recruitment, Retention and Reward

- Continue to grow our talent through internal promotions, develop robust retention strategies and competitively reward.

Here for good

Good enough will not change the world

2018 was earmarked as a year of engagement; we wanted to ensure that the Bank, our brand, and our people were driving more impactful interactions with our community and our clients. We were spurred on by the desire to ensure that we do not take for granted what we stand for through our brand promise of being Here for good.

Here for good has been with us since 2010, the Bank felt that it was time to not simply recommit to the promise but reignite the challenge and responsibility that it possess to all who are part of the Bank. Against this background, the Bank refreshed the promise with the tag line of "Good enough will never change the world". We sought to answer a single question; how can banks help tackle some of the problems that stand in the way of global prosperity and commerce? Our engagement will help us to answer this question.

Community engagement continues to be a source of pride for the Bank. Our employee volunteering programme exceeded our annual targets in 2018 yielding a return of 201% of the annual target. 2018 initiatives ranged from partnering with the community to clean up identified areas in Francistown to empowering young girls facing the challenges of adolescence in impoverished communities and also to supporting the needs of stray animal.

The Bank's renewed partnership with Liverpool FC through to 2023 continues to engage both existing and potential Bank clients. Through the #StandRed campaign, the Bank seeks to engage fans and non-fans alike to understand the shared values that make our partnership with Liverpool FC so impactful. The Bank once again hosted the SC Cup, which rewarded one 5-a-side team with one client team flying to Liverpool as guests of Liverpool FC.

The next phase for our Corporate Social Responsibility

Between 2003 and 2018, our community programmes were primarily focused on health and education. Chief amongst these programmes was our flagship community programme, Seeing is Believing (SiB), our global initiative to tackle avoidable blindness and visual impairment. Seeing is Believing reached more than 176 million people across the globe, including through two projects in Botswana in partnership with the Ministry of Health and Peek respectively.

SiB has shown us what we can achieve when we rally behind a single cause, and with our target for SiB now met, we have an opportunity to build on these remarkable achievements by promoting economic inclusion in our markets. Standard Chartered Bank has therefore launched our community programme focus for 2019 – 2023 titled Futuremakers.

Futuremakers aims to tackle the issue of inequality and seeks to promote greater economic inclusion for young people in our communities. We will do this by supporting disadvantaged young people from low-income households, particularly girls and people with visual impairments, to take part in programmes focused on education, employability and entrepreneurship. The global ambition of Futuremakers is to raise USD50 million (through fundraising and Bank-matching) between 2019 and 2023 to empower the next generation to learn, earn and grow.

Country Chief Risk Officer's review

Embracing innovation across the risk landscape

Risk management is essential to assure consistent and sustainable performance for all our Stakeholders and is therefore a central part of the financial and operational management of the Group. The Group adds value to clients and therefore the communities in which they operate and generates returns for shareholders by taking and managing risk.

Enterprise Risk Management Framework

The Enterprise Risk Management Framework (ERMF), approved by the Board in August 2018, enables the Group to manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our Risk Appetite. The ERMF has been designed with the explicit goal of improving the Group's risk management. Over the year, awareness of the ERMF has increased significantly and we have made good progress in delivering the key initiatives started in 2018 to embed the framework across the organisation.

Risk culture

The Group's risk culture provides guiding principles for the behaviours expected from our people when managing risk. The Board has approved a risk culture statement that encourages the following behaviours and outcomes: An enterprise-level ability to identify and assess current and future risks, openly discussing these and taking prompt actions, thus, the highest level of integrity by being transparent and proactive in disclosing and managing all types of risks. A constructive and collaborative approach in providing oversight and challenge, and taking decisions in a timely manner. Everyone to be accountable for their decisions and feel safe in using their judgement to make these considered decisions. We acknowledge that banking inherently involves risk-taking and undesired outcomes will occur from time to time; however, we take the opportunity to learn from our experience and formalise what we can do to improve. We expect managers to demonstrate a high awareness of risk and control by self-identifying issues and managing them in a manner that will deliver lasting change.

Strategic risk management

The Group approaches strategic risk management by:

- Including in the strategy review process, an impact analysis on the risk profile from growth plans, strategic initiatives and business model vulnerabilities with the aim of proactively identifying and managing new risks or existing risks that need to be reprioritised.
- Including in the strategy review process a confirmation that growth plans and strategic initiatives can be delivered within the approved Risk Appetite and/or proposing additional Risk Appetite for Board consideration.
- Validating the Corporate Plan against the approved or proposed Risk Appetite Statement to the Board. The Board approves the strategy review and the five-year Corporate Plan with a confirmation from the Group Chief Risk Officer that it is aligned to the ERMF and the Group Risk Appetite Statement where projections allow

Roles and responsibilities

Three lines of defence model Roles and responsibilities for risk management are defined under a three lines of defence model. Each line of defence has a specific set of responsibilities for risk management and control as shown in the table below;

Line of Defence	Definition	Responsibilities
1st	The businesses and functions engaged in or supporting revenue-generating activities that own and manage risks.	- Propose the risks required to undertake revenue-generating activities. - Identify, monitor and escalate risks and issues to the second line and senior management1 and promote a healthy risk culture and good conduct. - Manage risks within Risk Appetite, set and execute remediation plans and ensure laws and regulations are being complied with. - Ensure systems meet risk data aggregation.
2nd	The control functions independent of the first line that provide oversight and challenge of risk management to provide confidence to the Chief Risk Officer, the Management team and the Board.	- Identify, monitor and escalate risks and issues to the Chief Risk Officer, senior management1 and the Board and promote a healthy risk culture and good conduct. - Oversee and challenge first line risk-taking activities and review first line risk proposals. - Propose Risk Appetite to the Board, monitor and report adherence to Risk Appetite and intervene to curtail business if it is not in line with existing or adjusted Risk Appetite . - Set risk data aggregation, risk reporting and data quality requirements.
3rd	The independent assurance provided by the Group Internal Audit function on the effectiveness of controls that support the first line's risk management of business activities, and the processes maintained by the second line. Its role is defined and overseen by the Audit Committee of the Board.	- Independently assess whether management has identified the key risks in the business and whether these are reported and governed in line with the established risk management processes. - Independently assess the adequacy of the design of controls and their operating effectiveness.

Senior Managers Regime

Roles and responsibilities under the ERMF are aligned to the objectives of the Senior Managers Regime. The Chief Risk Officer is responsible for the overall development and maintenance of the Group's ERMF and for identifying material risk types to which the Group may be potentially exposed. The Group Chief Risk Officer delegates effective implementation of the Risk Type Frameworks to Risk Framework Owners who provide second line of defence oversight for the Principal Risk Types.

The Risk function

The Risk function is responsible for the sustainability of our business through good management of risk across the Group, and ensuring that business is conducted in line with regulatory expectations. The Chief Risk Officer directly manages the Risk function that is separate and independent from the origination, trading and sales functions of the businesses.

The Risk function is responsible for:

- Maintaining the ERMF, ensuring it remains relevant and appropriate to the Group's business activities, is effectively communicated and implemented across the Group and administering related governance and reporting processes.
- Upholding the overall integrity of the Group's risk and return decisions to ensure that risks are properly assessed, that these decisions are made transparently on the basis of this proper assessment and that risks are controlled in accordance with the Group's standards and Risk Appetite, and
- Overseeing and challenging the management of Principal Risk Types under the ERMF.

Country Chief Risk Officer's review *(continued)*

The independence of the Risk function ensures that the necessary balance in making risk and return decisions is not compromised by short-term pressures to generate revenues. In addition, the Risk function is a centre of excellence that provides specialist capabilities of relevance to risk management processes in the broader organisation. The Risk function supports the Group's commitment to our "Here for good" brand promise by building a sustainable framework that places regulatory and compliance standards, and a culture of appropriate conduct at the forefront of the Group's agenda in a manner proportionate to the nature, scale and complexity of the Group's business.

Risk Appetite and profile

We recognise the following constraints which determine the risks that we are willing to take in pursuit of our strategy and the development of a sustainable business:

- Risk capacity is the maximum level of risk that the Group can assume, given its current capabilities and resources, before breaching constraints determined by capital and liquidity requirements and internal operational capability (including but not limited to technical infrastructure, risk management capabilities, expertise), or otherwise failing to meet the expectations of regulators and law enforcement agencies.
- Risk Appetite is defined by the Group and approved by the Board. It is the maximum amount and type of risk the Group is willing to assume in pursuit of its strategy. Risk Appetite cannot exceed risk capacity.

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

Risk Appetite Principles

The Group Risk Appetite is defined in accordance with risk management principles that inform our overall approach to risk management and our risk culture. We follow the highest ethical standards required by our stakeholders and ensure a fair outcome for our clients, as well as facilitating the effective operation of financial markets, while at the same time meeting expectations of regulators and law enforcement agencies. We set our Risk Appetite to enable us to grow sustainably and to avoid shocks to earnings or our general financial health, as well as manage our Reputational Risk in a way that does not materially undermine the confidence of our investors and all internal and external stakeholders.

Risk Appetite Statement

The Group will not compromise adherence to its Risk Appetite to pursue revenue growth or higher returns. To keep the Group's Risk profile within Risk Appetite (and therefore also risk capacity), we have cascaded critical Group Risk Appetite metrics across our Principal Risk Types to countries with significant business operations. These are supplemented by risk control tools such as granular level limits, policies, standards and other operational control parameters that are used to keep the Group's risk profile within Risk Appetite.

The Group's risk profile is its overall exposure to risk at a given point in time, covering all applicable risk types. Status against Risk Appetite is reported to the Board Risk Committee and the Board, including the status of breaches and remediation plans where applicable.

The Executive Risk Committee, the Financial Crime Risk Committee, the Non-Financial Risk Committee and the Asset and Liability Committee are responsible for ensuring that our risk profile is managed in compliance with the Risk Appetite set by the Board. The Board Risk Committee) advise the Board on the Risk Appetite Statement and monitor the Group's compliance with it.

Risk identification and assessment

Identification and assessment of potentially adverse risk events is an essential first step in managing the risks of any business or activity. To ensure consistency in communication we use Principal Risk Types to classify our risk exposures. Nevertheless, we also recognise the need to maintain an overall perspective since a single transaction or activity may give rise to multiple types of risk exposure, risk concentrations may arise from multiple exposures that are closely correlated, and a given risk exposure may change its form from one risk type to another.

To facilitate the above, the Group maintains a dynamic risk scanning process with inputs on the internal and external risk environment, as well as considering potential threats and opportunities from the business and client perspectives. The Group maintains an inventory of the Principal Risk Types and sub-types that are inherent to the strategy and business model, near-term emerging risks that can be measured and mitigated to some extent, and uncertainties that are longer-term matters that should be on the radar but are not yet fully measurable

Stress testing

The objective of stress testing is to support the Group in assessing that it:

- Does not have a portfolio with excessive concentrations of risk that could produce unacceptably high losses under severe but plausible scenarios
- Has sufficient financial resources to withstand severe but plausible scenarios
- Has the financial flexibility to respond to extreme but plausible scenarios
- Understands the key business model risks, considers what kind of event might crystallise those risks – even if extreme with a low likelihood of occurring – and identifies, as required, actions to mitigate the likelihood or the impact.

Country Chief Risk Officer's review *(continued)*

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

Principal Risk Types

Principal Risk Types are risks that are inherent in our strategy and our business model and have been formally defined in the Group's ERMF. These risks are managed through distinct Risk Type Frameworks (RTF) which are approved by the Group Chief Risk Officer. The Principal Risk Types and associated Risk Appetite Statements are approved by the Board.

In 2018, through the development of the RTFs, we have revised the definition of certain Principal Risk Types to describe the risks or failures more explicitly. In addition, Market Risk has been renamed to Traded Risk to encompass all sensitivities to traded price risk. Traded risk now includes Market Risk, Counterparty Credit Risk, Issuer Risk, Valuation Adjustments, Pension Risk and Algorithmic Trading as risk sub-types.

The table below shows the Group's current Principal Risk Types

Principal Risk Types Definition

Credit risk	Potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Group
Country risk	Potential for default or losses due to political or economic events in a country
Traded risk	Potential for loss resulting from activities undertaken by the Group in financial markets
Capital & liquidity risk	Capital: potential for insufficient level, composition or distribution of capital to support our normal activities. Liquidity: potential for loss where we may not have sufficient stable or diverse sources of funding or financial resources to meet our obligations as they fall due.
Operational risk	Potential for loss resulting from inadequate or failed internal processes and systems, human error, or from the impact of external events (including legal risks)
Reputational risk	Potential for damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation because of stakeholders taking a negative view of the organisation, its actions or inactions – leading stakeholders to change their behaviour
Compliance	Potential for penalties or loss to the Group or for an adverse impact to our clients, stakeholders or to the integrity of the markets we operate in through a failure on our part to comply with laws or regulations.
Conduct	Risk of detriment to the Group's customers and clients, investors, shareholders, market integrity, competition and counterparties or from the inappropriate supply of financial services, including instances of wilful or negligent misconduct
Information and cyber security	Potential for loss from a breach of confidentiality, integrity and availability of the Group's information systems and assets through cyber-attack, insider activity, error or control failure
Financial crime	Potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to international sanctions, anti-money laundering and anti-bribery and corruption
Strategic	A possible source of loss (or lost opportunity) that might arise from the pursuit of an unsuccessful business plan

Country Chief Risk Officer's review *(continued)*

ERMF Effectiveness Reviews

The Chief Risk Officer is responsible for annually affirming the effectiveness of the ERMF to the Board Risk Committee.

To facilitate this, an effectiveness review was carried out which follows the principle of evidence-based self-assessments, for all the Risk Type Frameworks and relevant policies.

The ERMF Effectiveness Review will be conducted in the coming year and will provide an objective baseline against which progress can be measured over the coming years.

Executive and Board risk oversight

Overview

The Board has ultimate responsibility for risk management and is supported by the six Board-level committees. The Board approves the ERMF based on the recommendation from the Board Risk Committee, which also recommends the Group Risk Appetite Statement.

The Executive Risk Committee, through its authority received from the Executive Committee, oversees effective implementation of the ERMF. The Chief Risk Officer, as Chair of the Executive Risk Committee, approves the use of sub-committees to support the Executive Risk Committee to ensure effective risk management across the Group.

The Board Risk Committee receives regular reports on risk management, including the Group's portfolio trends, policies and standards, stress testing, and liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference. The Board Risk Committee also conducts deep-dive reviews on a rolling basis of different sections of the consolidated risk information report that is provided at each scheduled committee meeting

Executive Risk Committee

The Executive Risk Committee is responsible for ensuring the effective management of risk throughout the Group in support of the Group's strategy. The Chief Risk Officer chairs the Executive Risk Committee, whose members are drawn from the Group's Management Team. The Committee determines the ERMF for the Group, including the delegation of any part of its authorities to appropriate individuals or properly constituted sub-committees.

The Committee requests and receives relevant information to fulfil its governance mandates relating to the risks to which the Group is exposed. As with the Board Risk Committee, the Executive Risk Committee and Group Asset and Liability Committee receive reports that include information on risk measures, Risk Appetite metrics and thresholds, risk concentrations, forward looking assessments, updates on specific risk situations and actions agreed by these committees to reduce or manage risk.

Executive Risk Committee sub-committees

The Group Non-Financial Risk Committee, chaired by the Chief Executive Officer, was established in 2018 to replace the Group Operational Risk Committee and ensures effective management of inherent nonfinancial principal risks throughout the Group. The non-financial Principal Risk Types in scope governed under the Group Non- Financial Risk Committee are Operational Risk, Compliance Risk, Conduct Risk, Information and Cyber Security Risk and Reputational Risk that is consequential in nature arising from the failure of all other principal risks (secondary Reputational Risk).

The Committee also reviews and challenges the adequacy of the internal control systems across all Principal Risk Types. The Group Financial Crime Risk Committee CFCC), chaired by the Chief Executive Officer, provides oversight of the effectiveness of the Group's policies, procedures, systems, controls and assurance arrangements designed to identify, assess, manage, monitor, prevent and/or detect money laundering, non-compliance with sanctions, bribery, corruption and tax crime by third parties.

Our Risk Profile in 2018

Through our well-established risk governance structure and risk management framework, we closely manage our risks with the objective of maximising risk-adjusted returns while remaining in compliance with the Risk Appetite Statement. We manage uncertainties through a framework that provides a forward-looking 12 to 18-month view of the economic, business and credit conditions, enabling us to proactively manage our portfolio.

We made significant progress to reposition the Group's corporate portfolio, exiting weaker credit or lower-returning clients and adding new clients selectively. The Group's portfolio remains well diversified across dimensions such as industries, geographies and products. We have reviewed our credit risk Appetite to align to our forward-looking view of the shape of the portfolio.

We continue to enhance our stress-testing capability and build our enterprise wide risk management function so that we can better manage the risk boundaries within which the Group operates.

Board of Directors

Professor Bojosi Otlhogile
Chairman

Bojosi Otlhogile was appointed to the board of Standard Chartered Bank Botswana in September 2008. Otlhogile holds a law degree (LLB) from University of Botswana and an LLM and PhD in Law from the University of Cambridge. He has held various positions including Head of the Law Department (1993-1999), Dean of the Faculty of Social Sciences (1999-2003) and Vice Chancellor (2003-2011).

He was a member of the University of Botswana Council and Senate and Council member of the Universities of Zambia and.

He is a former Chairman of the boards of Southern Africa Media Development Fund (SAMDEF) (1997-2008) and Botswana Housing Corporation (BHC), currently a Director of Pearson Botswana, Chairman of The Botswana Society, and trustee of the Media in Education Trust Africa.

Kweku Bedu-Addo
Non-Executive Director

Kweku Bedu-Addo was appointed as the CEO of Standard Chartered Bank for South Africa & Southern Africa in August 2017.

He joined SCB Ghana in 2000 and became the first Ghanaian Chief Executive by 2010. He has held several senior Wholesale Bank roles in Africa as well as Singapore.

Prior to joining SCB, Kweku worked in the Ministry of Finance in Ghana during the implementation of Ghana's Structural Adjustment Program.

Kweku also served as the past Chairman of the Ghana Stock Exchange and past Vice Chairman of the Ghana Fixed Income Market Council. He was on the Global Investment Committee, Acumen Fund, New York from 2012 to 2016.

Kweku holds a Bachelor of Science degree in Agricultural Economics from the University of Ghana and a Masters degree in Economic Policy Management from Columbia.

Mpho Masupe
Chief Executive Officer

Member: Risk committee

Mpho Masupe joined Standard Chartered Bank Botswana Limited in March 2013 as Chief Financial Officer and was appointed as Chief Executive Officer on 1st October 2017. Prior to joining the Bank, he spent ten years at Debswana Diamond Company in the Accounting and Shared Services Divisions. Mpho has a strong financial background acquired over 24 years leading finance and administration departments.

Mpho holds a Bachelor of Commerce Degree from the University of Botswana and a Masters in Strategic Management from the University of Derby.

Mpho also sits on the Board of Standard Chartered Insurance Agency (Pty) Ltd, Standard Chartered Investment Services (Pty) Ltd and Standard Chartered Botswana Nominees (Pty) Ltd.

Board of Directors *(continued)*

Nathan Kgabi
Independent Non-Executive Director

Member: Audit committee

Nathan Kgabi was appointed to the board as an Independent Non-Executive Director in January 2016.

He is currently the Managing Director of Thito Holdings (Pty) Ltd, an Employee Benefits company. He served as Managing Director of numerous Institutions such as, Metropolitan Life of Botswana Ltd; CBET (Pty) Ltd; publishers of Botswana Guardian and Midweek Sun Newspapers including Botswana Institute of Accountants (now BICA).

He has served in Senior Management positions for Standard Chartered Bank as Company Secretary and Public Relations Manager; Botswana National Productivity Centre as Corporate Services Manager and later as non Executive Director. He cut his career at BOCCIM (Business Botswana) where he set up and served as Industrial Relations Manager.

He has served as Deputy Chairman at Botswana Savings Bank, Sun International (Avani) as non Executive Director and Botswana Post, as well as other private company Boards. He served in the Board of Red Cross; Cheshire Foundation and Masiela Trust Fund.

He currently serves on the boards of ProComm Technologies (Pty) Ltd as Chairman, Directors Institute of Botswana, Thito Holdings (Pty) Ltd. amongst others.

Mr. Kgabi holds a Bachelors degree in Economics from the University of Botswana and has partially completed associate Diploma from the Botswana Institute of Bankers.

Doreen Cilla Khama
Independent Non- Executive director

Doreen Khama was appointed to the board as an Independent Non-Executive Director in September 2018.

She is the founder and senior partner of Doreen Khama Attorneys, a private law firm established in 1982 which provides legal advice to corporate and individual clients on commercial matters and general litigation. She is also the honorary of Austria to Botswana.

She has sat on the boards of Botswana Savings Bank, ABC Holdings and Banc ABC Botswana where she served as a Non Executive Director and a Chairperson.

Chazha Kgalemang
Company Secretary

Chazha was admitted as an Attorney of the High Court of Botswana in 2006. She has gained extensive experience on corporate, commercial, banking and finance law through working as a practising attorney and as in-house counsel for the past 7 years.

Chazha holds a Masters of Laws, majoring in Corporate and Commercial Law (University of Melbourne) and a Bachelor of Laws (Rhodes University).

Board of Directors *(continued)*

John Stevens
Independent Non-Executive Director

Chairman: Audit Committee

John Stevens was appointed to the board as a Non-Executive Director in August 2013. He served Deloitte & Touche in South Africa and Botswana for over 33 years, 8 of those years as partner in charge of Delotte & Touche Botswana. John retired from Deloitte & Touche in 2007 and took up the challenge of private consultancy. He holds a B.Comm Degree from Rhodes University and is a fellow member of the Botswana Institute of Chartered Accountants, a member of the South African Institute of Chartered Accountants and a member of the Institute of Chartered Accountants of England and Wales. John is also a member of the Board for Cresta Marakanelo Limited.

Richard Etemesi
Non-Executive Director

Richard Etemesi was appointed to the board as a Non-Executive Director in June 2014. He holds a Masters of Science Degree in Corporate Finance from Strathclyde Business School, University of Strathclyde in UK and a Bachelor of Commerce Degree in Accounting from University of Nairobi. Prior to joining Standard Chartered Bank, Richard worked as a Financial Management Consultant with Coopers & Lybrand Associates based in Kenya where he was involved in consultancy assignments. Richard joined the Bank where he worked in various roles across the Group including CEO for Standard Chartered Bank Uganda and Kenya respectively. Richard is currently Vice Chairman for Africa, Standard Chartered Bank.

Rish Kumar Handa
Independent Non-Executive Director

Chairman: Risk Committee

Ish Kumar Handa was appointed to the board as a Non-Executive Director in November 2011. He holds a Bachelor of Arts Degree from Punjab University, India. He holds a Diploma in Textile Technology from Punjab Institution of Textile Technology and a Diploma in Business Management from International Correspondence School. He has textile training acquired in German. He is the Managing Director of the Handa Group of Companies.

Corporate Governance

For the year ended at 31 December 2018

The Board

The Board is responsible for providing leadership and oversight by setting the strategic direction of the Company and monitoring the management for effectiveness. It is the primary decision-making body for all matters considered as material to the Company.

The non-executive directors have access to information and management staff at all levels. They are fully supported by the Company Secretary who provides legal advice and guidance to the Board. Further, the Board is entitled to seek independent professional advice on Bank matters at its expense.

The Board continues to review the matters reserved for the Board, key among them being the review and tracking of the Bank's strategy, financial performance, approving any changes to capital, ensuring there is a sound system of internal controls and risk management, delegation and monitoring of authorities for expenditure, lending, people management and compensation, material outsourcing and any other significant commitments.

Board skills and experience

The Board is composed of a total of 7 Directors who are individuals of high calibre and credibility with the necessary skills and experience. The Standard Chartered Group board is diverse in demographics, skills and experience and 61% of the directors are independent nonexecutive directors. The background and qualifications of the Directors are disclosed under the Board of Directors section.

Independence

The majority of Standard Chartered Bank's board members are independent directors, which is in compliance with King IV Code requirements and ensures that the interests of the minority shareholders are protected. We strengthened board independence from 59% independent directors in 2017 to 61% in 2018.

Conflict of interest

A director or prescribed officer is prohibited from using his or her position, or confidential and price-sensitive information, to benefit himself or herself or any related third-party, whether financially or otherwise. Directors and officers are also required to inform the board timeously of conflicts, or potential conflicts, of interests that they may have in relation to particular items of business or other directorships. Comprehensive registers of individual directors' interests in and outside the company are maintained and updated and signed by the directors, with details noted by the board at each board meeting.

Induction and ongoing development

The Company has a very comprehensive and tailored induction process for new directors covering its business operations and in particular the risk and compliance functions, as well as the legal, regulatory and other personal obligations of a director of a listed company.

Following from the annual evaluation exercise, the directors identify areas that require further consideration by the Board and these are addressed through training and board presentations. The Board Committees also receive specialist presentations on key issues where required.

Board changes during the financial period

During the period under review the following changes occurred to the Board:

1. Mr. Kweku Bedu-Addo was appointed as a Non - Executive Director on the 9th January 2018.
2. Ms. Doreen Khama was appointed as an Independent Non-Executive Director in September 2018;

Rotation and re-election of Directors in terms of the Company Constitution

All Non-Executive Directors are subject to retirement by rotation and re-election by Shareholders on an annual basis. The Constitution provides for a third of the Directors to retire, and if eligible, offer themselves for re-election at every Annual General Meeting. This re-election is not automatic. It is subject to set performance and eligibility criteria. The Constitution ensures a staggered rotation of Non-Executive Directors with a view to retaining valuable skills and maintaining continuity of knowledge and experience in the Board.

At the June 2019 Annual General Meeting, the following Director shall retire by rotation;

Mr. Nathan Kgabi
Mr. Ish Handa

Board effectiveness evaluation

The annual Board evaluation was conducted in March 2019 in a process led by the Board Chair and supported by the Company Secretary. The evaluation entailed a self-evaluation for each director, and of the overall Board interactions, conduct of business meetings and scope of control exercised by the directors as well as evaluation of the functioning of the Board Committees. Following the evaluation exercise, areas were identified that required further consideration by the Board and these issues have been actioned. Some have been incorporated in the rolling agenda while others have been addressed through training and board presentations.

Board meetings and attendance

The full Board meets regularly, with at least four formal meetings a year and a strategy session. A formal schedule of matters reserved for discussion is maintained. The directors receive appropriate and timely reports to enable them to exercise full and effective control over strategic, financial, operational, risk, compliance and governance issues.

A careful balance of formal and informal meetings throughout the year exists and there is an atmosphere of cordial relations.

This creates an environment that encourages challenge, consultation, information sharing, innovative thinking and openness in communication. The following table shows the number of Board meetings held during the year and the attendance by the directors:

Director	Main Board	Board Audit Committee	Board Risk Committee
Bojosi Otlhogile	4/4	n/a	n/a
Ish Handa	4/4	n/a	4/4
John Stevens	4/4	4/4	n/a
Nathan Kgabi	3/4	3/4	n/a
Richard Etemesi	3/4	3/4	n/a
Kweku Bedu-Addo	2/4	n/a	3/4
Mpho Masupe	4/4	n/a	4/4

Board Committees

The Board delegates certain functions to well - structured committees but without relinquishing its own responsibilities. The committees constitute an integral part of the governance process and are established with clearly defined formal terms of reference. In order to keep up to date with any recent changes in the law and governance principles, the terms of reference are reviewed and approved annually.

The respective Chairpersons present their reports to the Board at each scheduled meeting. The Board has further delegated authority for credit approvals to the Credit Approvals committee. The board delegates responsibility and authority for credit risk management to this committee but not accountability, as it remains ultimately accountable for credit risk. In addition, there are two management committees that support the Board's decision making structures, increase efficiency and allow detailed deliberations in the specific areas. These management committees are the Asset and Liability Committee (ALCO), and the Executive Committee (EXCO).

Audit Committee

The Board appoints a minimum of three (3). In line with corporate governance best practice, it is chaired by an independent non executive director.

The Audit Committee has written terms of reference that have been approved by the Board, and are in compliance with the Banking Act, Cap 46:04. The external and internal auditors have free access to the Chairman of the Committee. Meetings are held at least four times a year.

The function of the Committee is to assist the Board in discharging its duties under the Companies Act, Banking Act and common law. In particular, it monitors financial controls, accounting systems and shareholder reporting. It also reviews the management of financial risks.

Risk Committee

The Risk Committee is chaired by an Independent Non Executive Director
The Risk Committee advises the Board on risk appetite and tolerance in setting the future strategy, taking into account the Board's overall degree of risk aversion, the current financial situation of the Company, the Company's capacity to manage and control risks within the agreed strategy.

Details of the Enterprise Risk Management Framework, for which the Risk Committee has oversight, are provided in the Risk Management section.

Board Appointments

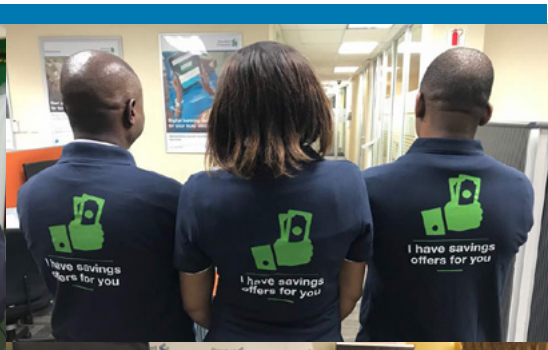
The Bank has a formal and transparent process for appointment of Directors, the process is a matter for the Board of Directors as a whole. In executing its role, the Board takes into account a number of factors including but not limited to qualifications, professional skills, relevant industry knowledge, training and gender diversity at Board Level.

Company Secretary

The Board confirms that the Company Secretary Ms Chazha Kgalemang is adequately skilled, qualified and empowered to fulfil the role. She provides legal and corporate governance advice and guidance to the Board. Ms Kgalemang is responsible for ensuring adherence by the Board to sound corporate governance and ethical principles. She has carried out her duties independently without interference or influence from the Board

Chief Financial Officer (Report by the Audit Committee)

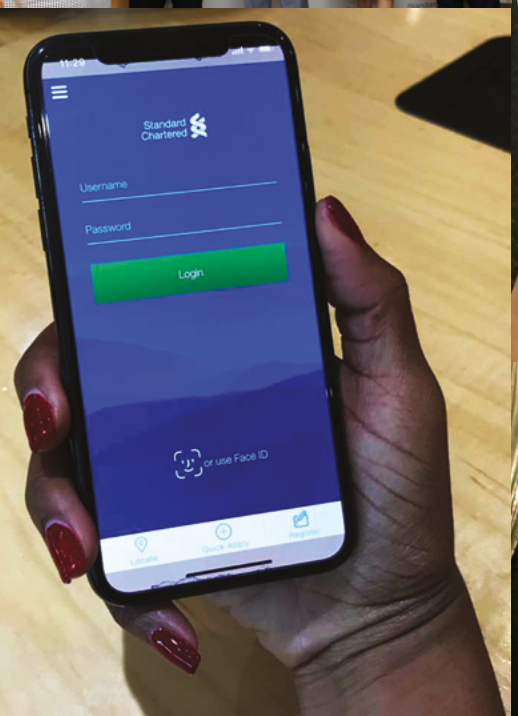
The Audit Committee confirms that the Chief Financial Officer of the Bank, Dr Mbako Mbo holds a Bachelor's degree in Accountancy from the University of Botswana, Bsc Honours from Oxford Brooks University and a Master's in Business Administration from the University of Derby. He further has a PHD specialising in Business Management and Administration from Stellenbosch University. He has the requisite expertise and experience for the role.


I have savings offers for you


Orange Money
Cash in
Cash out


GRATITUDE
CHANGES
EVERYTHING


K7NG
Kenny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Driving commerce and prosperity through our unique diversity

Consolidated and Separate Annual Financial statements

Directors' Report

For the year ended 31 December 2018

The directors have pleasure in submitting to the members their report and the financial statements of the Group and Company for the year ended 31 December 2018.

Activities

The Group continues to be engaged in the business of commercial banking and provides a wide range of financial services. The Group has four subsidiaries, namely an Insurance Agency Company, an Investment Services Company, Botswana Educational Trust and a Custodial Services company. For the purposes of presenting consolidated financial statements, only the results of the Insurance Agency subsidiary and Botswana Education Trust have been consolidated in the Group results, as the other two subsidiaries are dormant or immaterial subsidiaries for consolidation purposes.

Results

The Group results are disclosed in the statements of profit and loss and other comprehensive income on page 10 and reflect the following:

- Profit before taxation P20 million (2017 Restated: P232 million loss)
- Profit for the year 24 million (2017 Restated: P189 million loss)

Dividends

During the year, no dividends were declared and paid (2017: P49.7 million).

Stated capital

There has been no change to the Bank's stated capital during the year (2017: nil).

Additional Tier 1 Capital

The Group acquired Additional Tier 1 capital of BWP 400 million during the year (2017:nil).

Events after reporting date

The directors are not aware of any matters or circumstances arising since the end of the financial year, not dealt with in this report or these financial statements, that would significantly affect the operations of the Group or the results of its operations.

Holding company

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

Directors

The following were directors of the Bank during the year up to the date of approval of the financial statements:

Executive Director:

M Masupe

Non executive Directors:

B Otlhogile (Chairman)
I Handa
N Kgabi
J Stevens
R Etemesi
Jerry Kweku Boi Bedu -Addo (appointed 9th January 2018)
Ms. Doreen Khama (appointed September 2018)

Company Secretary:

C Kgalemang

Auditors

A resolution on the appointment of auditors will be proposed to the members at the Annual General Meeting.

By order of the Board

Chazha Kgalemang
Secretary

Directors' Responsibility Statement

For the year ended 31 December 2018

The directors are responsible for the preparation of the consolidated and separate annual financial statements of Standard Chartered Bank Botswana Limited that give a true and fair view, which comprise the statements of financial position at 31 December 2018, the statements of profit or loss and other comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies, in accordance with International Financial Reporting Standards. In addition, the directors are responsible for preparing the directors' report.

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

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

The directors have made an assessment of the ability of the Company and its subsidiaries to continue as going concerns and have no reason to believe that the businesses will not be a going concern in the year ahead.

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

Approval of the consolidated and separate annual financial statements:

The consolidated and separate annual financial statements of Standard Chartered Bank Botswana Limited, were approved by the board of directors on 28 February 2019 and are signed by:

Professor Bojosi Otlhogile
Chairman

Mpho Masupe
Managing Director

Independent Auditor's Report

For the year ended 31 December 2018

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

Independent Auditor's Report

To the members of Standard Chartered Bank Botswana Limited

Opinion

We have audited the consolidated and separate financial statements of Standard Chartered Bank Botswana Limited (the group and company), which comprise the statements of financial position at 31 December 2018, and the statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended and the notes to the financial statements, including a summary of significant accounting policies and other explanatory notes, as set out on pages 36 to 117.

In our opinion, the consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of Standard Chartered Bank Botswana Limited at 31 December 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04) of Botswana.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the group and company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of loans and advances to customers

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

Refer to notes 3(h) and 3(i) on related accounting policies, note 2(e) relating to the application of judgments and estimates in the determination of impairment allowances, note 4.2 on credit risk management, note 9 relating to net impairment loss on loans and advances and note 18 on loans and advances to customers.

Key audit matter	How the matter was addressed
Loans and advances to customers included in the statement of financial position, represent 45% of total assets, and the associated impairment allowances, are significant in the context of the consolidated and separate financial statements. On 1 January 2018, the group adopted IFRS 9: Financial Instruments ("IFRS 9") which measures impairment using an expected credit loss ("ECL") model. The application of the new standard requires management to exercise significant judgements in the determination of expected credit losses, including those relating to loans and advances to customers. Management applies significant judgement in the determination of estimated future cash flows, probabilities of default and forward looking economic expectations. The impairment provision is considered separately on an individual (specific) and unidentified (collective) impairment basis. **Retail banking (RB) portfolio (collective impairment basis)** A significant portion of the retail impairment is calculated on a collective basis. In calculating the impairment provision on a collective basis, statistical models are used. The following inputs to these models require significant management judgement: - the probability of default (PD); - the exposure at default (EAD); - the loss given default (LGD); and - the effective interest rates. **Corporate Banking (CB) and Corporate and Institutional banking (CIB) portfolio (collective and specific impairment basis)** A significant proportion of Wholesale and Corporate loans are assessed for recoverability on an individual basis. Significant judgements, estimates and assumptions have been made by management to: - Determine if the loan or advance is credit impaired; - Evaluate the adequacy and recoverability of collateral; - Determine the expected cash flows to be collected. Due to the significance of loans and advances and the significant estimates and judgment involved, the impairment of these loans and advances was considered to be a key audit matter.	Our audit work included the following procedures: - We assessed the appropriateness of the accounting policies and loan impairment methodologies applied by comparing these to the requirements of IFRS 9: Financial Instruments. - We evaluated the adequacy of the financial statement disclosures, including disclosures of: - key assumptions, judgments and sensitivities; - the classification of loans and advances to customers on the date of initial application of IFRS 9; and - We evaluated the impact of the transition to IFRS 9 on the opening balances relating to loans and advances to customers and retained earnings. We identified and evaluated the design and implementation, and where appropriate the operating effectiveness, of key controls over the loan impairment process, focusing on the identification of impairment losses, the governance processes in place in respect of the credit models used and the relevant inputs into these models, and how Directors ensured they have appropriate oversight of loan impairment allowances. For the RB segment, where credit losses were calculated on a modelled basis we performed the following audit procedures: - We reviewed the Standard Chartered Bank Group Audit Team's assessment of the impairment models for all products for the appropriateness of assessment of key judgements and assumptions applied in the calculation of individual and portfolio provisions. - We performed a detailed review of the local management's macro-economic data input into the Group ECL models and assessed the information used for relevance and accuracy. - Challenged the parameters and significant assumptions applied in the calculation models and reviewed the staging methodology. - Assessed the appropriateness of management's additional adjustments in light of recent economic events and circumstances and other factors that might not yet be fully reflected in the modelled results by independently assessing the reasonability of the assumptions and judgements made by management. - An overall review of the ECL at year-end was also performed, which included the benchmarking of the expected credit losses against market indicators.

Independent Auditor's Report *(continued)*

For the year ended 31 December 2018

For the CIB and CB segments:

- We selected a sample of performing loans and advances and critically assessed the appropriateness of credit ratings as well as the appropriateness of management processes for identifying changes in credit risk.
- For a sample of loans and advances to customers that had been individually assessed and impaired (stage 2 and stage 3), we independently challenged the expected impairment losses, including developing our own expectation of the impairment loss based on information available from third parties and market trends.
- We performed detailed credit assessments of loans and advances with higher risk credit grades. We also performed testing of loans in higher risk and economically exposed sectors as communicated by group.
- For collateral held, we inspected legal agreements and supporting documentation to assess the existence and valuation of the collateral as well as the legal right to the collateral. Where specialists engaged by management had provided valuations, we assessed their competence and the timeliness of when the valuations had been performed. In addition, we evaluated management's controls in respect of the appointment of the specialists, including assessment of their professional qualifications, experience and independence.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report and the directors' responsibility statement 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. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation of the consolidated and separate financial statements which give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04) of Botswana, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and 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 directors either intend to liquidate the group and/or the company or to cease operations, or have no realistic alternative but to do so.

Independent Auditor's Report *(continued)*

For the year ended 31 December 2018

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

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

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

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

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

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

.....

KPMG

Certified Auditors
Practicing member: Francois Roos (20010078.45)

26 April 2019

Gaborone

Statements of profit or loss and other comprehensive income

For the year ended 31 December 2018

	Note	Group		Company	
		2018	2017 Restated**	2018	2017 Restated**
		P'000	P'000	P'000	P'000
Interest income	5	783 862	811 017	783 862	811 017
Interest expense	6	(343 718)	(292 244)	(340 425)	(289 500)
Net interest income		**440 144**	**518 773**	**443 437**	**521 517**
Fee and commission income	7	247 376	296 229	221 084	244 732
Fee and commission expense		(49 635)	(51 046)	(49 635)	(51 046)
Net fee and commission income		**197 741**	**245 183**	**171 449**	**193 686**
Net trading income	8	86 263	89 968	86 263	89 582
Dividend income		-	-	31 158	31 612
Net other income		**86 263**	**89 968**	**117 421**	**121 194**
Revenue		**724 148**	**853 924**	**732 307**	**836 397**
Operating expenses					
Net impairment loss on financial assets	9	(35)	(295 435)	(35)	(295 435)
Employee benefits	10	(237 882)	(261 401)	(237 882)	(261 401)
Operating lease expenses		(22 346)	(23 763)	(22 346)	(23 763)
Depreciation and amortisation		(20 776)	(23 195)	(20 776)	(23 195)
Administration expenses	11	(422 635)	(482 241)	(410 736)	(470 864)
Total expenses		**(703 674)**	**(1 086 035)**	**(691 775)**	**(1 074 658)**
Profit / (loss) before taxation		**20 474**	**(232 111)**	**40 532**	**(238 261)**
Income taxation	12	3 370	43 462	7 302	54 182
Profit / (loss) for the year		**23 844**	**(188 649)**	**47 834**	**(184 079)**
Other comprehensive income					
Items that are or may be reclassified to profit or loss					
Change in fair value of financial assets at fair value through other comprehensive income, net of tax		(10 646)	(477)	(10 646)	(477)
Other comprehensive loss for the year		**(10 646)**	**(477)**	**(10 646)**	**(477)**
Total comprehensive income / (loss) for the year		**13 198**	**(189 126)**	**37 188**	**(184 556)**
Basic and diluted earnings per share (Thebe)	14	7.99	(63.23)		

*** Details related to the prior period error have been disclosed on note number 34*

The notes on pages 42 to 117 are an integral part of these financial statements

Statements of financial position

At the year ended 31 December 2018

	Note	Group 31 December 2018 P'000	Group 31 December 2017 Restated** P'000	Group 01 January 2017 Restated** P'000	Company 31 December 2018 P'000	Company 31 December 2017 Restated** P'000	Company 01 January 2017 Restated** P'000
Assets							
Cash and balances with central bank	15	1 162 191	969 846	1 066 099	1 159 621	967 275	1 063 914
Loans and advances to banks	16	3 488 495	2 577 528	2 092 855	3 500 093	2 626 767	2 058 304
Investment securities	17	4 049 463	3 364 689	2 783 872	4 049 463	3 364 689	2 783 872
Loans and advances to customers	18	7 485 235	7 589 863	7 659 996	7 485 235	7 589 863	7 659 996
Other assets	21	244 138	359 969	157 694	137 624	269 724	152 381
Taxation refundable	25	13 926	1 408	3 999	13 150	-	1 770
Property and equipment	19	58 531	64 430	56 213	58 531	64 430	56 213
Intangible assets and goodwill	20	29 366	34 253	42 895	29 366	34 253	42 895
Deferred taxation	26	72 428	71 476	-	72 428	71 476	-
Total assets		**16 603 773**	**15 033 462**	**13 863 623**	**16 505 511**	**14 988 477**	**13 819 345**
Liabilities							
Deposits from other banks	22	754 429	1 108 372	701 048	711 170	1 068 406	663 826
Deposits from customers	23	12 340 661	12 238 929	11 268 725	12 340 661	12 238 92 9	11 268 725
Unsettled Treasury bills	27.1	1 348 939	-	-	1 348 939	-	-
Other liabilities	27.2	322 884	203 823	184 699	237 011	191 924	175 333
Restructuring provision	27.3	30 674	7 370	2 743	30 674	7 370	2 743
Income tax liabilities	25	-	17 504	10 115	-	17 504	10 115
Senior and subordinated debt	24	686 260	686 260	686 260	686 260	686 260	686 260
Total liabilities		**15 483 847**	**14 262 258**	**12 853 590**	**15 354 715**	**14 210 393**	**12 807 002**
Equity							
Stated capital		179 273	179 273	179 273	179 273	179 273	179 273
Capital Contribution		428 213	28 213	28 213	428 213	28 213	28 213
Reserves		512 440	563 718	802 547	543 310	570 598	804 857
Total equity		**1 119 926**	**771 204**	**1 010 033**	**1 150 796**	**778 084**	**1 012 343**
Total liabilities and equity		**16 603 773**	**15 033 462**	**13 863 623**	**16 505 511**	**14 998 477**	**13 819 345**

*** Details related to the prior period error have been disclosed on note number 34*

The notes on pages 42 to 117 are an integral part of these financial statements

Statements of changes in equity

For the year ended 31 December 2018

Group	Stated capital P'000	Revaluation reserve P'000	Statutory credit risk reserve P'000	Retained earnings P'000	Capital contribution P'000	Treasury share reserve P'000	Available for sale reserve P'000	Fair value reserve P'000	Total P'000
Balance at 01 January 2017 as previously reported	179 273	23 691	19 152	781 814	28 213	(31 566)	17 405	-	1 017 982
Impact of correction of errors	-	-	-	(7 949)	-	-	-	-	(7 949)
Restated balance at 1 January 2017**	179 273	23 691	19 152	773 865	28 213	(31 566)	17 405	-	1 010 033
Total comprehensive income									
Loss for the year (restated**)				(188 649)					(188 649)
Loss for the year (as previously stated)	-	-	-	(189 322)	-	-	-	-	(189 322)
Impart of correction of errors	-	-	-	673	-	-	-	-	673
Other comprehensive income									
Fair value adjustment: Available for sale securities	-	-	-	-	-	-	(477)	-	(477)
Transactions with owners of the bank									
Dividends to equity holders – paid	-	-	-	(49 703)	-	-	-	-	(49 703)
Restated balance at 31 December 2017**	179 273	23 691	19 152	535 513	28 213	(31 566)	16 928	-	771 204
IFRS 9 transition adjustment	-	-	-	(64 476)	-	-	(16 928)	16 928	(64 476)
Adjusted balance at 1 January 2018	179 273	23 691	19 152	471 037	28 213	(31 566)	-	16 928	706 728
Total comprehensive income									
Profit for the year	-	-	-	23 844	-	-	-	-	23 844
Other comprehensive income									
Fair value adjustment: items measured at fair value through other comprehensive income	-	-	-	-	-	-	-	(10 646)	(10 646)
Transactions with owners of the bank									
Issue of subordinated capital securities	-	-	-	-	400 000	-	-	-	400 000
Balance at 31 December 2018	179 273	23 691	19 152	494 881	428 213	(31 566)	-	6 282	1 119 926

**IFRS 9 transition adjustment disclosed in note 4.2*

*** Details related to the prior period error have been disclosed in note 34*

The notes on pages 42 to 117 are an integral part of these financial statements

Statements of changes in equity *(continued)*

For the year ended 31 December 2018

Company	Stated capital P'000	Revaluation reserve P'000	Statutory credit risk reserve P'000	Retained earnings P'000	Capital contribution P'000	Available for sale reserve P'000	Fair value reserve P'000	Total P'000
Balance 01 January 2017								
as previously reported	**179 273**	**23 691**	**19 152**	**752 558**	**28 213**	**17 405**	**-**	**1 020 292**
Impact of correction of errors	-	-	-	(7 949)	-	-	-	**(7 949)**
Restated balance at 1 January 2017**	179 273	23 691	19 152	744 609	28 213	17 405	-	**1 012 343**
Total comprehensive income								
Loss for the year (restated)**	-	-	-	(184 079)	-	-	-	**(184 079)**
Loss for the year (as previously stated)	-	-	-	(184 752)	-	-	-	**(184 752)**
Impact of correction of errors	-	-	-	673	-	-	-	**673**
Other comprehensive income								
Fair value adjustment: Available for sale securities	-	-	-	-	-	(477)	-	**(477)**
Transactions with owners of the bank								
Dividends to equity holders – paid	-	-	-	(49 703)	-	-	-	**(49 703)**
Restated balance at 31 December 2017**	**179 273**	**23 691**	**19 152**	**510 827**	**28 213**	**16 928**	**-**	**778 084**
*IFRS 9 transition adjustment	-	-	-	(64 476)	-	(16 928)	16 928	**(64 476)**
Adjusted at 1 January 2018	**179 273**	**23 691**	**19 152**	**446 351**	**28 213**	**-**	**16 928**	**713 608**
Total comprehensive income								
Profit for the year	-	-	-	47 834	-	-	-	**47 834**
Other comprehensive income								
Fair value adjustment: items measured at fair value through other comprehensive income	-	-	-	-	-	-	(10 646)	**(10 646)**
Transactions with owners of the bank								
Issue of subordinated capital securities	-	-	-	-	400 000	-	-	**400 000**
Balance at 31 December 2018	**179 273**	**23 691**	**19 152**	**494 185**	**428 213**	**-**	**6 282**	**1 150 796**

**IFRS 9 transition adjustment disclosed on note 4.2*

*** Details related to the prior period error have been disclosed on note number 34*

The notes on pages 42 to 117 are an integral part of these financial statements

Statements of changes in equity *(continued)*

For the year ended 31 December 2018

Stated capital

Authorised ordinary shares

The Company's stated capital consists of 400 000 000 ordinary shares of no par value (2017: 400 000 000).

Issued ordinary shares

298 350 611 ordinary shares of no par value (2017: 298 350 611). All issued shares are fully paid.

Unissued ordinary shares

As at 31 December 2018, unissued shares totalled 101 649 389 (2017: 101 649 389).

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

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

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

Revaluation reserve

The revaluation reserve comprises the net cumulative increase in the fair value of property.

Statutory credit risk reserve

This reserve represents a statutory reserve required under the Banking Act, 1995.

Capital contribution

This reserve consists of part of the consideration for the acquisition of the custody business and the Capital Securities issued.

The Capital Securities are non-cumulative, subordinated and unsecured instruments issued to Standard Chartered PLC on the 10th October 2018 which amounted to P400 000 000, with a denomination of P100 000 each. The Capital Securities are perpetual and have no fixed maturity date, with a distribution rate of the prevailing five year Government of Botswana bond yield plus the spread (3.75%). The securities form part of non-distributable capital with no diluting effect on ordinary shareholders. The issuer has the option to redeem all (but not some) of the Capital Securities subject to a 15 day notice period and regulatory approval. These securities rank equally without any preference among themselves and ranking junior to all existing and future unsecured and unsubordinated obligations of the Company.

The remaining balance relates to part of the consideration for the acquisition of the custody business paid by Standard Chartered PLC, the ultimate parent company of Standard Chartered Bank Botswana Limited. The contribution forms part of non – distributable capital with no diluting effect on ordinary shareholders.

Available-for-sale reserve/Fair value reserve

This represents the cumulative movement on financial assets measured at fair value through other comprehensive income until the instrument is derecognised or impaired, in which case the cumulative amount recognised in other comprehensive income is released to profit or loss. In 2017 this reserve was denoted Available-for-sale reserve. This reserve was changed after the implementation of IFRS 9 from Available-for-sale reserve to fair value reserve.

Retained earnings

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

Treasury share reserve

The reserve for the company's treasury shares comprises the cost of the Company's shares held by the Group. As at the reporting date, the Group held 0.84% of the Company's shares (2017: 0.84%) as treasury shares.

Statements of cash flows

For the year ended 31 December 2018

	Note	Group 2018 P'000	Group 2017 Restated** P'000	Company 2018 P'000	Company 2017 Restated** P'000
Cash flows from operating activities					
Profit / (loss) for the year		23 844	(188 649)	47 834	(184 079)
Adjustments for:					
- Interest income		(783 862)	(811 017)	(783 862)	(811 017)
- Interest expense		343 718	292 244	340 425	289 500
- Taxation		(3 370)	(43 462)	(7 302)	(54 182)
- Depreciation	19	7 363	4 764	7 363	4 764
- Amortisation	20	13 413	18 431	13 413	18 431
- Impairment charge on loans and advances	9	203 556	179 490	203 556	179 490
- Movement in operating lease accrual	31	1 497	4 411	1 497	4 411
- IFRS 9 equity adjustment		(82 844)	-	(82 844)	-
- Movement in restructuring provision		23 304	4 627	23 304	4 627
- Dividend income		-	-	(31 158)	(31 612)
Cashflow before changes in working capital		**(253 381)**	**(539 161)**	**(267 774)**	**(579 667)**
Change in investment securities		650 516	(581 429)	650 516	(581 429)
Change in loans and advances to customers		(98 928)	(109 357)	(98 928)	(109 357)
Change in other assets		236 872	(62 961)	253 141	21 971
Change in deposits from other banks		(354 455)	408 551	(357 748)	405 807
Change in deposits from customers		101 732	970 203	101 732	970 203
Change in other liabilities		87 474	(17 604)	13 500	(20 139)
Cash generated by operations		**369 830**	**68 242**	**294 439**	**107 389**
Taxation refunded	25	10 217	-	10 217	-
Taxation paid	25	(16 450)	(17 900)	(13 150)	(8 000)
Interest received		662 821	671 703	662 821	671 703
Interest paid		(277 017)	(225 487)	(273 724)	(222 743)
Net cash generated from operating activities		**749 401**	**496 558**	**680 603**	**548 349**
Cash flows from financing activities					
Acquisition of property and equipment	19	(1 464)	(12 981)	(1 464)	(12 981)
Acquisition of intangibles	20	(8 526)	(9 789)	(8 526)	(9 789)
Dividends received		-	-	31 158	31 612
Net cash (used in) / generated from investing activities		**(9 990)**	**(22 770)**	**21 168**	**8 842**
Cash flows from financing activities					
Issue of subordinated capital security		400 000	-	400 000	-
Interest paid on subordinated debt	6	(36 099)	(35 665)	(36 099)	(35 665)
Dividends paid		-	(49 703)	-	(49 703)
Net cash generated from / (used in) financing activities		**363 901**	**(85 368)**	**363 901**	**(85 368)**
Increase in cash and cash equivalents		1 103 312	388 420	1 065 672	471 824
Cash and cash equivalents at beginning of year		3 547 374	3 158 954	3 594 042	3 122 218
Cash and cash equivalents at end of year	**28**	**4 650 686**	**3 547 374**	**4 659 714**	**3 594 042**

*** Details related to the prior period error have been disclosed on note number 34*

The notes on pages 42 to 117 are an integral part of these consolidated financial statements

Notes to the financial statements

For the year ended 31 December 2018

1. Reporting entity

Standard Chartered Bank Botswana Limited ("Bank") was incorporated in Botswana as a Bank with limited liability under the Botswana Companies Act and is licensed to operate as a commercial bank under Section 6 of the Banking Act, 1995 (Chapter 46:04). The Company's registered address is Standard Chartered Bank Botswana Limited, P.O Box 496 Gaborone, Plot 1124-30 Queens Road, Main Mall, Gaborone, Botswana. The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group"). The Company has four subsidiaries, namely an Standard Chartered Bank Insurance Agency (Proprietary) Limited, Standard Chartered Investment Services (Proprietary) Limited, Standard Chartered Botswana Nominees (Proprietary) Limited and the Standard Chartered Botswana Educational Trust. For purposes of presenting consolidated financial statement, only the results of the Insurance Agency subsidiary and Education Trust have been incorporated in the Group results, as the other two entities are dormant or immaterial subsidiaries. The Group is a subsidiary of Standard Chartered Bank PLC, incorporated in United Kingdom. These financial statements represent the Group's and Bank's statutory financial statements.

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards and in the manner required by the Banking Act (Cap 46:04).

These financial statements were approved by the board of directors on 28 Febuary 2019.

(b) Functional and presentation currency

These financial statements are presented in Botswana Pula (P). The functional currency of the Company is the Botswana Pula. Except where indicated, the financial information presented in Botswana Pula has been rounded to the nearest thousand.

(c) Basis of consolidation

Subsidiaries are investees controlled by the Group. The Group controls an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that are presently exercisable are taken into account. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases.

Business combinations are accounted for using the acquisition method under IFRS 3, i.e. the date of acquisition is the date on which control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The excess of consideration transferred over net fair value of identifiable assets acquired is recorded as goodwill (refer note 3(l)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if they are related to the issue of debt or equity securities. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transactions eliminated on consolidation

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

Change in the group's interest in a subsidiary

Change in the Group's interest in a subsidiary that does not result in a loss of control is accounted for as equity transactions.

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary and the related non-controlling interest and other components of equity. Any resulting gain/loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

2. Basis of preparation *(continued)*

(d) Segmental reporting

A segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. Segment results include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office assets and expenses, and taxation.

(e) Use of judgement and of estimation uncertainty

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies of the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revision of estimates are recognised prospectively.

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

- Credit impairment (note 4)
- Valuation of financial instruments (note 4)

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by Group entities (unless otherwise specified in the note below on changes in accounting policies). The accounting policies disclosed for the consolidated financial statements apply equally to the Company's separate financial statements unless otherwise specified.

(a) Changes in accounting policies

The Group has adopted the following relevant new standards, including any consequential amendments to other standards, which were effective for the financial year beginning on 1 January 2018:

- Amendments to IFRS 2: Clarifying share-based payment accounting
- IFRS 9: Financial Instruments
- Amendments to IFRIC 22: Foreign Currency Transactions and Advance Considerations
- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- Amendments to IFRS 15: Revenue from contracts with customers

IFRS 15 is effective from 1 January 2018 and replaces IAS 18 Revenue. IFRS 15 is conceptually similar to IAS 18, but includes more granular guidance on how to recognise and measure revenue, and also introduces additional disclosure requirements. The Group performed an assessment of the new standard and concluded that the current treatment of revenue from contracts with customers is consistent with the new principles and there is no transitional impact to retained earnings. The accounting policy note for revenue was updated in accordance with IFRS 15.

The adoption of these standards had no significant effect on the Group or Company financial statements except for IFRS 9 adoption which had a significant impact on the Group and Company financial statements. Refer to note 4.2. Comparative periods on the adoption of IFRS 9 have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The Group used the exemption not to restate comparative periods but considering that the classification of the investment securities changed from "Available-for-sale" to "Fair value through other comprehensive income" (FVOCI), the Group has reclassified the available-for sale reserve to a fair value reserve on adoption of IFRS 9.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies *(continued)*

(b) Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognised in profit or loss.

(c) Interest

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

Interest income and expense presented in profit or loss include:

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

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

(d) Fees and commission

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fees and commission income, including account servicing fees, sales commission, commission on insurance brokerage activities, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognised on a straight-line basis over the commitment period. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are rendered.

(e) Net trading income

Net trading income comprises gains and losses arising from changes in the fair value of financial instruments measured at fair value through profit and loss and are included in the profit or loss in the period they arise.

(f) Dividend income

Dividend income is recognised when the right to receive dividend income is established. Usually this is the ex-dividend date for quoted equity securities. The dividend income forms part of revenue.

3. Significant accounting policies *(continued)*

(g) Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(h) Loans and advances

Policy applicable before 1 January 2018

Loans and advances were non-derivative financial assets with fixed and determinable payments that were not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration. Included in loans and advances were loans and advances to other banks, advances to customers and cash and balances with the central bank and other assets. When the Group purchased a financial asset and simultaneously entered into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo" or "stock borrowing"), the arrangement was accounted for as a loan or advance, and the underlying asset was recognised in the Group's financial statements.

Policy applicable from 1 January 2018

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

(i) Financial instruments (policy applicable from 1 January 2018)

The Group classifies its financial assets into the following measurement categories: a) amortised cost b) fair value through other comprehensive income and c) fair value through profit or loss. Financial liabilities are classified at amortised cost or held at fair value through profit or loss. Management determines the classification of its financial assets and liabilities at initial recognition or, where appropriate, at the time of reclassification.

*(a) Fin*ancial assets held at amortised cost and fair value through other comprehensive income (FVOCI)

Debt instruments held at amortised cost or held at fair value through other comprehensive income (FVOCI) have contractual terms that give rise to cash flows that are solely payments of principal and interest (SPPI characteristics). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows have SPPI characteristics, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- Features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Whether financial assets are held at amortised cost or at FVOCI depend on the objectives of the business models under which the assets are held. A business model refers to how the Group manages financial assets to generate cash flows.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable from 1 January 2018) *(continued)*

(a) Financial assets held at amortised cost and fair value through other comprehensive income (FVOCI) *(continued)*

The Group makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management. Factors considered include:

- How the performance of the product business line is evaluated and reported to the Group's management;
- How managers of the business model are compensated, including whether management is compensated based on the fair value of assets or the contractual cash flows collected;
- The risks that affect the performance of the business model and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ("hold to collect") are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold to collect and sell") are classified as held at FVOCI.

Both hold to collect business model and a hold to collect and sell business model involve holding assets to collect the contractual cash flows. However, the business models are distinct by reference to the frequency and significance that asset sales play in meeting the objective under which a particular group of financial assets is managed. Hold to collect business models are characterised by asset sales that are incidental to meeting the objectives under which a group of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in credit risk of financial assets but sales for other reasons should be infrequent or insignificant.

Cash flows from the sale of financial assets under a hold to collect and sell business model by contrast are integral to achieving the objectives under which a particular group of financial assets are managed. This may be the case where frequent sales of financial assets are required to manage the Group's daily liquidity requirements or to meet regulatory requirements to demonstrate liquidity of financial instruments. Sales of assets under hold to collect and sell business models are therefore both more frequent and more significant in value than those under the hold to collect model.

Equity instruments designated as held at FVOCI

Non-trading equity instruments acquired for strategic purposes rather than capital gain may be irrevocably designated at initial recognition as held at FVOCI on an instrument by instrument basis. Dividends received are recognised in profit or loss. Gains and losses arising from changes in the fair value of these instruments, including foreign exchange gains and losses, are recognised directly in equity and are never reclassified to profit or loss even on derecognition.

(b) Financial assets and liabilities held at fair value through profit or loss

Financial assets which are not held at amortised cost or that are not held at fair value through other comprehensive income are held at fair value through profit or loss. Financial assets and liabilities held at fair value through profit or loss are either mandatorily classified fair value through profit or loss or irrevocably designated at fair value through profit or loss at initial recognition.

Financial assets and liabilities which are mandatorily held at fair value through profit or loss are split between two subcategories as follows:

- Financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short term; and
- Non-trading mandatorily at fair value through profit or loss, including:
  - Instruments in a business which has a fair value business model which are not trading or derivatives;

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable from 1 January 2018) *(continued)*

(b) Financial assets and liabilities held at fair value through profit or loss (continued)

- Hybrid financial assets that contain one or more embedded derivatives;
- Financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics;
- Equity instruments that have not been designated as held at FVOCI; and
- Financial liabilities that constitute contingent consideration in a business combination.

Designated at fair value through profit or loss

Financial assets and liabilities may be designated at fair value through profit or loss when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis (accounting mismatch).

Financial liabilities may also be designated at fair value through profit or loss where they are managed on a fair value basis or have an bifurcately embedded derivative where the Group is not able to separately value the embedded derivative component.

Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

Financial guarantee contracts and loan commitments

The Group issues financial guarantee contracts and loan commitments in return for fees. Under a financial guarantee contract, the Group undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantee contracts and loan commitments issued at below market interest rates are initially recognised as liabilities at fair value, while financial guarantees and loan commitments issued at market rates are recorded off balance sheet. Subsequently, these instruments are measured at the higher of the expected credit loss provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 *Revenue from Contracts with Customers.*

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Group has access at the date. The fair value of a liability includes the risk that the Bank will not be able to honour its obligations.

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

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable from 1 January 2018) *(continued)*

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognised on the trade date (the date on which the Group commits to purchase or sell the asset). Financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at fair value through profit or loss.

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in profit or loss but is amortised or released to the profit or loss as the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

Financial assets and financial liabilities held at amortised cost are subsequently measured at amortised cost using the effective interest method. Foreign exchange gains and losses are recognised in profit or loss.

Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently measured at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Changes in expected credit losses are recognised in the profit or loss and are accumulated in an allowance account against the respective financial assets. On derecognition, the cumulative fair value gains or losses, net of the cumulative expected credit loss reserve, are transferred to profit or loss.

Equity investments designated at FVOCI are subsequently measured at fair value with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. On derecognition, the cumulative reserve is transferred to retained earnings and is not recycled to profit or loss.

Financial liabilities designated at fair value through profit or loss

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

Modified financial instruments

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

Where derecognition of financial assets is appropriate, the newly recognised residual loans are assessed to determine whether the assets should be classified as purchased or originated credit impaired assets (POCI).

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable from 1 January 2018) *(continued)*

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

Gains and losses arising from modifications for credit reasons are recorded as part of credit impairment. Modification gains and losses arising for non-credit reasons are recognised either as part of credit impairment or within income depending on whether there has been a change in the credit risk on the financial asset subsequent to the modification. Modification gains and losses arising on financial liabilities are recognised within income.

Derecognition of financial instruments

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

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

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

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

Reclassifications

Financial liabilities are not reclassified subsequent to initial recognition. Reclassifications of financial assets are made when, and only when, the business model for those assets changed. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

Financial assets are reclassified at their fair value on the date of reclassification and previously recognised gains and losses are not restated. Moreover, reclassifications of financial assets between financial assets held at amortised cost and financial assets held at fair value through other comprehensive income do not affect effective interest rate or expected credit loss computations.

Reclassified from amortised cost

Where financial assets held at amortised cost are reclassified to financial assets held at fair value through profit or loss, the difference between the fair value of the assets at the date of reclassification and the previously recognised amortised cost is recognised in profit or loss.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable from 1 January 2018) *(continued)*

For financial assets held at amortised cost that are reclassified to fair value through other comprehensive income, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. Additionally, the related cumulative expected credit loss amounts relating to the reclassified financial assets are reclassified from loan loss provisions to a separate reserve in other comprehensive income at the date of reclassification.

Reclassified from fair value through other comprehensive income

Where financial assets held at fair value through other comprehensive income are reclassified to financial assets held at fair value through profit or loss, the cumulative gain or loss previously recognised in other comprehensive income is transferred to profit or loss.

For financial assets held at fair value through other comprehensive income that are reclassified to financial assets held at amortised cost, the cumulative gain or loss previously recognised in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always been held at amortised cost. In addition, the related cumulative expected credit losses held within other comprehensive income are reversed against the gross carrying value of the reclassified assets at the date of reclassification.

Reclassified from fair value through profit or loss

Where financial assets held at fair value through profit or loss are reclassified to financial assets held at fair value through other comprehensive income or financial assets held at amortised cost, the fair value at the date of reclassification is used to determine the effective interest rate on the financial asset going forward. In addition, the date of reclassification is used as the date of initial recognition for the calculation of expected credit losses. Where financial assets held at fair value through profit or loss are reclassified to financial assets held at amortised cost, the fair value at the date of reclassification becomes the gross carrying value of the financial asset.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Credit impairment

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

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

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

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable from 1 January 2018) *(continued)*

Expected credit losses

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

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

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

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

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

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is a greater risk of downside credit losses than upside gains, multiple forward-looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall expected credit loss amounts. These scenarios are determined using a Monte Carlo approach centred around the Group's most likely forecast of macroeconomic assumptions.

The below table shows the forward looking assumptions incorporated in the ECL calculation:

	2018	2019	2020
	Base forecast	Base forecast	Base forecast
GDP growth (real % Year on Year)	4.4	3.8	4.2
CPI (% annual average)	3.3	3.4	3.3
Policy rate (%)	5.00	5.00	5.00
USD –BWP	10.56	10.26	9.77
Current account balance (% GDP)	10.5	9.6	9.1
Fiscal balance (% GDP)	0.1	-2.4	-2.2

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable from 1 January 2018) *(continued)*

Expected credit losses *(continued)*

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Group is exposed to credit risk. However, for certain revolving credit facilities, which include credit cards or overdrafts, the Group's exposure to credit risk is not limited to the contractual period. For these instruments, the Group estimates an appropriate life based on the period that the Group is exposed to credit risk, which includes the effect of credit risk management actions such as the withdrawal of undrawn facilities.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgment. As a practical expedient, the Group may also measure credit impairment on the basis of an instrument's fair value using an observable market price.

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Cash flows from unfunded credit enhancements held are included within the measurement of expected credit losses if they are part of, or integral to, the contractual terms of the instrument (this includes financial guarantees, unfunded risk participations and other non-derivative credit insurance). Although non-integral credit enhancements do not impact the measurement of expected credit losses, a reimbursement asset is recognised to the extent of the expected credit losses recorded.

Cash shortfalls are discounted using the effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit impaired (POCI) instruments) on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

Instrument	Location of expected credit loss
Financial assets held at amortised cost	Loss provisions: netted against gross carrying value[1]
Financial assets held at FVOCI-Debt instruments	Other comprehensive income (FVOCI expected credit loss Reserve)[2]
Loan commitments	Provisions for liabilities and charges[3]
Financial guarantees	Provisions for liabilities and charges[3]

1 Purchased or originated credit impaired assets do not attract an expected credit loss provision on initial recognition. An expected credit loss provision will be recognised only if there is an increase in expected credit losses from that considered at initial recognition.

2. Debt and treasury securities classified as FVOCI are held at fair value in the statement of financial position. The expected credit loss attributed to these instruments is held as a separate reserve within OCI and is recycled to profit and loss along with any fair value measurement gains or losses held within FVOCI when the applicable instruments are derecognised.

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

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable from 1 January 2018) *(continued)*

Recognition

12 months expected credit losses (Stage 1)

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

Significant increase in credit risk (Stage 2)

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an expected credit loss provision is recognised for default events that may occur over the lifetime of the asset.

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in expected credit loss. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or roll rate approach is applied to compute expected credit loss, significant increase in credit risk is primarily based on 30 days past due.

Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default (PD) since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent these are correlated to changes in credit risk. The residual lifetime PD at the reporting date is compared to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk.

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

Credit impaired (or defaulted) exposures (Stage 3)

Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable from 1 January 2018) *(continued)*

Recognition (continued)

Evidence that a financial asset is credit impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or borrower;
- Breach of contract such as default or a past due event;
- For economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions
- Pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligation/s;
- The disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower; and
- Purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

Irrevocable lending commitments to a credit impaired obligor that have not yet been drawn down are also included within the stage 3 credit impairment provision to the extent that the commitment cannot be withdrawn.

Loss provisions against credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate, and the gross carrying value of the instrument prior to any credit impairment.

Expert credit judgment

For Corporate, Institutional & Commercial Banking, borrowers are graded by credit risk management on a credit grading (CG) scale from CG1 to CG14. Once a borrower starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and when it is classified as CG12 the credit assessment and oversight of the loan will normally be performed by Group Special Assets Management (GSAM).

Borrowers graded CG12 exhibit well-defined weaknesses in areas such as management and/or performance but there is no current expectation of a loss of principal or interest. Where the impairment assessment indicates that there will be a loss of principal on a loan, the borrower is graded a CG14 while borrowers of other credit impaired loans are graded CG13. Instruments graded CG13 or CG14 are regarded as non-performing loans, i.e. Stage 3 or credit impaired exposures.

The Group uses the following internal risk mapping to determine the credit quality for loans:

	Corporate, Institutional and Commercial Banking			Retail Banking
Credit quality description	Default grade mapping	S&P external ratings equivalent	PD range (%)	Number of days past due
Strong	Grades 1 - 5	AAA/AA+ to BB+/ BBB-	0.000 – 0.425	Current loans (no past dues nor impaired)
Satisfactory	Grades 6 – 8 Grades 9 -11	BB+ to BB-/B+ B+/B to B-/CCC	0.426 – 2.350 2.351 – 15.570	Loans past due till 29 days
Higher risk	Grade 12	B-/CCC	15.571 – 50.00	Past due loans 30 days and over till 90 days

For individually significant financial assets within Stage 3, GSAM will consider all judgments that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geo-political climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/ forbearance/ modification options.

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable from 1 January 2018) *(continued)*

Expert credit judgment (continued)

The difference between the loan carrying amount and the discounted expected future cash flows will result in the stage 3 credit impairment amount. The future cash flow calculation involves significant judgments and estimates. As new information becomes available and further negotiations/forbearance measures are taken the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis.

For financial assets which are not individually significant, such as the Retail Banking portfolio or small business loans, which comprise a large number of homogenous loans that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis.

Retail Banking clients are considered credit impaired where they are more 90 days past due. Retail Banking products are also considered credit impaired if the borrower files for bankruptcy or other forbearance programme, the borrower is deceased or the business is closed in the case of a small business, or if the borrower surrenders the collateral, or there is an identified fraud on the account. Additionally, if the account is unsecured and the borrower has other credit accounts with the Group that are considered credit impaired, the account may be also be credit impaired.

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgment is required to analyse the available information provided and select the appropriate model or combination of models to use.

Expert credit judgment is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models.

Modified financial instruments

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within credit impairment in profit or loss with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Group would not otherwise consider, the instrument is considered to be credit impaired and is considered forborne.

Expected credit loss for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a significant increase in credit risk. These assets are assessed to determine whether there has been a significant increase in credit risk subsequent to the modification. Although loans may be modified for non-credit reasons, a significant increase in credit risk may occur.

In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of expected credit losses, with any increase or decrease in expected credit loss recognised within impairment.

Forborne loans

Forborne loans are those loans that have been modified in response to a customer's financial difficulties. Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Group or a third party including government sponsored programmes or a conglomerate of credit institutions.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable from 1 January 2018) *(continued)*

Modified financial instruments *(continued)*

Forborne loans (continued)

Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants.

Forborne loans that have been modified (and not derecognised) on terms that are not consistent with those readily available in the market and/or where the Group has granted a concession compared to the original terms of the loans are considered credit impaired if there is a detrimental impact on cash flows. The modification loss is recognised in profit or loss within credit impairment and the gross carrying value of the loan reduced by the same amount.

Loans that have been subject to a forbearance modification, but which are not considered credit impaired (not classified as CG13 or CG14), are disclosed as 'Forborne – not credit impaired'. This may include amendments to covenants within the contractual terms.

Write-offs of credit impaired instruments and reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan provision. Such loans are written off after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the profit or loss.

Loss provisions on purchased or originated credit impaired instruments (POCI)

The Group measures expected credit loss on a lifetime basis for POCI instruments throughout the life of the instrument. However, expected credit loss is not recognised in a separate loss provision on initial recognition for POCI instruments as the lifetime expected credit loss is inherent within the gross carrying amount of the instruments. The Group recognises the change in lifetime expected credit losses arising subsequent to initial recognition in profit or loss and the cumulative change as a loss provision. Where lifetime expected credit losses on POCI instruments are less than those at initial recognition, then the favourable differences are recognised as impairment gains in profit or loss (and as impairment loss where the expected credit losses are greater).

Improvement in credit risk/curing

A period may elapse from the point at which instruments enter lifetime expected credit losses (stage 2 or stage 3) and are reclassified back to 12 month expected credit losses (stage 1). For financial assets that are credit-impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms.

For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a significant increase in credit risk. Where significant increase in credit risk was determined using quantitative measures, the instruments will automatically transfer back to stage 1 when the original PD based transfer criteria are no longer met.

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable before 1 January 2018) *(continued)*

Modified financial instruments *(continued)*

Where instruments were transferred to stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to stage 1. This includes instances where management actions led to instruments being classified as stage 2, requiring that action to be resolved before loans are reclassified to stage 1. A forborne loan can only be removed from the disclosure (cured) if the loan is performing (stage 1 or 2) and a further two year probation period is met.

In order for a forborne loan to become performing, the following criteria have to be satisfied:

- At least a year has passed with no default based upon the forborne contract terms
- The customer is likely to repay its obligations in full without realising security
- The customer has no accumulated impairment against amount outstanding.

Subsequent to the criteria above, a further two year probation period has to be fulfilled, whereby regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the financial instruments are carried at fair value, with changes in fair value either reported within the income statement or within other comprehensive income until the instrument is sold or becomes impaired.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active, including for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data. The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters.

Equity investments that do not have observable market prices are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable before 1 January 2018) *(continued)*

Classification and measurement

The Group classifies its financial assets into the following measurement categories:

- financial assets held at fair value through profit or loss;
- loans and receivables;
- held-to-maturity; or
- available-for-sale.

Financial liabilities are classified as either held at:

- fair value through profit or loss; or
- amortised cost.

Management determines the classification of its financial assets and liabilities at initial recognition or, where applicable, at the time of reclassification.

In these financial statements, investment securities, trading assets and liabilities and loans and receivables are classified as detailed below:

Financial assets and liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis;
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis; and
- the assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

Available-for-sale

Available-for-sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates, commodity prices or equity prices.

Financial liabilities held at amortised cost

Financial liabilities, which include borrowings, not classified as held at fair value through profit or loss are classified as amortised cost instruments.

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable before 1 January 2018) *(continued)*

Initial recognition of financial instruments

The Group initially recognises cash, amounts due from/due to Group companies, loans and advances, deposits, debt securities and subordinated liabilities on the date they are originated. All other financial assets and financial liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement

Financial assets and liabilities held at fair value through profit or loss are subsequently measured at fair value, with gains and losses arising from changes in fair value allocated to the net trading income line in profit or loss.

Available-for-sale financial assets are subsequently measured at fair value, with gains and losses arising from changes in fair value allocated to the available-for-sale reserve within equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to profit or loss.

Loans and receivables and held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest method.

Amortised cost measurement

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Identification and measurement of impairment of financial assets

At each reporting date, the Group assesses whether there is objective evidence that a financial asset not measured at fair value through profit or loss is impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the assets that can be estimated reliably.

The Group considers the following factors in assessing objective evidence of impairment:

- whether the counterparty is in default of principal or interest payments;
- when a counterparty files for bankruptcy protection (or the local equivalent) and this would avoid or delay discharge of its obligation;
- where the Group files to have the counterparty declared bankrupt or files a similar order in respect of a credit obligation;
- where the Group consents to a restructuring of the obligation, resulting in a diminished financial obligation, demonstrated by a material forgiveness of debt or postponement of scheduled payments;
- where the Group sells a credit obligation at a material credit related economic loss; or
- where there are observable data indicating that there is a measurable decrease in the estimated future cash flows of a group of financial assets, although the decrease cannot yet be identified with specific individual financial assets.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies (continued)

(i) Financial instruments (policy applicable before 1 January 2018) *(continued)*

Financial assets measured at amortised cost

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (measured at amortised cost) with similar risk characteristics. Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security which is classified as an available-for-sale financial asset, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

In assessing collective impairment, the Group uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Available-for-sale assets

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of other comprehensive income to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

Reclassifications of financial assets and financial liabilities

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurement categories are not permitted following initial recognition.

Held for trading non-derivative financial assets can only be transferred out of the held at fair value through profit or loss category in the following circumstances:

- to the available-for-sale category, where, in rare circumstances, they are no longer held for the purpose of selling or repurchasing in the near term; or
- to the loan and receivables category, where they are no longer held for the purpose of selling or repurchasing in the near term and they would have met the definition of a loan and receivable at the date of reclassification and the Group has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets must be reclassified to the available-for sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of held-to-maturity assets prior to their maturity.

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable before 1 January 2018) *(continued)*

Reclassifications of financial assets and financial liabilities (continued)

Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the available-for-sale category into loans and receivables, any gain or loss on those assets recognised in other comprehensive income prior to the date of reclassification is amortised to the profit or loss over the remaining life of the financial asset, using the effective interest method.

Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the Group obtaining a new financial asset or assuming a new financial liability, the Group recognises the new financial asset or financial liability at fair value.

Where a financial asset is derecognised in its entirety, the difference between the carrying amount and the sum of the consideration received together with any gain or loss previously recognised in other comprehensive income is recognised in profit or loss. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Significant accounting estimates and judgments

Loan loss provisioning

(i) Retail Banking segment

An account is considered to be in default when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. These accounts are closely monitored and subject to a collection process.

The process used for recognising impairment provisions is dependent on the product. For mortgages, Individual Impairment Provisions ("IIP") are generally raised at 150 days past due based on the difference between the outstanding amount on the loan and the present value of the estimated future cash flows. Loan impairment for other secured loans utilises the forced sale value of the collateral without discounting. For unsecured products, individual impairment provisions are recognised for the entire outstanding amount at 150 days past due. For all products there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable before 1 January 2018) *(continued)*

Significant accounting estimates and judgments (continued)

A Portfolio Impairment Provision ("PIP") is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in the loan portfolio. PIP covers both performing loans and loans overdue for less than 150 days. The impairment provision is computed using proxy data from Internal Ratings Based ('IRB') portfolios. This proxy is based on the Expected Loss ("EL") of a product after applying judgmental overlays based on regulatory environment and business cycle adjustments based on macro-environment, portfolio loss severity, collections and recovery performance trends.

(ii) Corporate & Institutional Banking and Commercial Banking segments

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the financial instruments are measured at fair value, with changes in fair value either reported within the profit or loss or within other comprehensive income until the instrument is sold or becomes impaired.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active, including for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data. The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters.

3. Significant accounting policies *(continued)*

(i) Financial instruments (policy applicable before 1 January 2018) *(continued)*

Significant accounting estimates and judgments (continued)

Equity investments that do not have observable market prices are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

(j) Investment securities

Investment securities are initially recognised and subsequently measured at fair value through other comprehensive income. The Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

(k) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Land and buildings are measured at valuation less related accumulated depreciation and impairment losses. Revaluations are carried out periodically by the directors using independent valuers on the open market basis. The directors consider the fair value of land and buildings every three years. Surpluses and deficits arising on the revaluation of land and buildings are transferred to or from the revaluation reserve through other comprehensive income and accumulated in equity. The reserve is utilised on the sale of the asset.

When significant parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of property and equipment, and are recognised net within other income in profit or loss.

Subsequent cost

The cost of replacing a part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful lives for the current and comparative periods are as follows:

Land (owned)	Land is not depreciated
Leasehold properties	Shorter of useful life / period of lease
Buildings	50 years
Equipment	3 - 5 years
Motor vehicles	3 years
Furniture, fixtures and fittings	7 – 10 years

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies *(continued)*

(k) Property and equipment *(continued)*

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

Repairs and maintenance

Repairs and maintenance costs are recognised in profit or loss during the financial period in which these costs are incurred. The cost of a major renovation is included in the carrying amount of the related asset when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing asset will flow to the company and the renovation replaces an identifiable part of the asset. Major renovations are depreciated over the remaining useful life of the related asset or until the next major renovations, whichever period is shorter.

Depreciation methods, useful lives and residual values are reassessed at each financial year-end and adjusted if appropriate.

(l) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of identifiable net assets of the acquired subsidiary at the date of acquisition. Goodwill included in the intangible assets is assessed at each reporting date for impairment and measured at cost less any accumulated impairment losses. Gains and losses at disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Cash generating units represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. These are smaller than the Group's reportable segments.

Acquired intangibles

At the date of acquisition of a subsidiary, intangible assets that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired. These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity and are amortised on the basis of their expected useful lives. At each reporting date these assets are assessed for indicators of impairment. In the event that the asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Amortisation

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Amortisation is based on the cost of an asset less its residual value. Amortisation is recognised in profit or loss over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful life of the Group's intangible assets is 8 years.

(m) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash generating units. Goodwill arising from business combination is allocated to cash generating units or groups of cash generating units that are expected to benefit from synergies of the combination.

3. Significant accounting policies *(continued)*

(m) Impairment of non-financial assets *(continued)*

The 'recoverable amount' of an asset or cash generating unit is assessed as the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

An impairment loss is recognised if the carrying amount of an asset or cash generating unit exceeds its recoverable amount.

The Group's corporate assets do not generate separate cash inflows and are used by more than one cash generating unit. Corporate assets are allocated to cash generating units on a reasonable and consistent basis and tested for impairment as part of the testing of the cash generating unit to the corporate assets are allocated.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating units, and then to reduce the carrying amounts of the other assets in the cash generating units on a pro rata basis. An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Stated capital

Ordinary shares are classified as equity. Stated capital is recognised at the fair value of the consideration received. Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from the initial measurement of the equity instrument.

(o) Capital contribution

The capital contribution is part of the Group's sources of funding. The Group classifies capital contributions as equity or financial liabilities, in accordance with the substance of the contractual terms of the instruments. The Group's capital securities are redeemable at the option of the issuer, and are therefore classified as equity.

(p) Taxation

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or refundable on the taxable income or loss for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax is measured using tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax. Deferred tax is not recognised for the following temporary differences: those arising on the initial consideration of goodwill; differences arising on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits or losses; and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current taxation liabilities against current tax assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies *(continued)*

(p) Taxation *(continued)*

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends by the Bank are recognised at the same time as the liability to pay the related dividend is recognised.

Withholding tax of 5% and 7.5% is payable on the gross value of the dividends paid.

(q) Employee benefits

Retirement benefits

The Group operates a defined contribution pension plan. Contributions by the Group to the plan are recognised in profit or loss. The plan is externally administered, therefore there is no liability to the Group apart from the monthly contributions. There are no post-retirement medical funding obligations.

Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short term cash bonus or profit sharing class if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Accruals relating to short term employee benefits are included in other non-financial liabilities.

(r) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit attributable to the ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. There were no dilutive potential shares which would result in Diluted EPS being different to EPS.

(s) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations that are not yet effective for the year ended 31 December 2018 have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early. These will be adopted in the period that they become mandatory.

IFRS *16 Leases*

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The standard may result in current operating leases disclosed in the statement of financial position with associated depreciation and amortisation charges recognised in profit or loss.

3. Significant accounting policies (continued)

(s) New standards and interpretations not yet effective *(continued)*

IFRS *16 Leases (continued)*

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and early adoption is permitted.

Impact

The impact of IFRS 16 on the Group is primarily where the Group is a lessee in property lease contracts. The Group has elected the simplified approach of transition and will not restate comparative information. On 1 January 2019 the Group will recognise a lease liability, being the remaining lease payments including extensions options where renewal is reasonably certain, discounted using the Group's incremental borrowing rate at the date of initial application in the economic environment of the lease. The corresponding right-of-use asset recognised will be the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. Any difference will be recognised in retained earnings at the date of initial application.

There are significant judgements involved in assessing the impact of the adoption of IFRS 16 with respect to determining whether the Group is reasonably certain that it will exercise extension options present in lease contracts as well as the calculation of the estimated incremental borrowing rates.

The increase on the statement of financial position as a result of recognition of the lease liability and right-of-use asset as of 1 January 2019 is estimated at P61 million. However, the actual impact may change as judgements and estimates are refined.

IFRIC 23 Uncertainty over Income Tax Treatments

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities. Specifically, IFRIC 23 provides clarity on how to incorporate this uncertainty into the measurement of tax as reported in the financial statements.

IFRIC 23 does not introduce any new disclosures but reinforces the need to comply with existing disclosure requirements about:

- judgments made;
- assumptions and other estimates used; and
- the potential impact of uncertainties that are not reflected.

IFRIC 23 applies for annual periods beginning on or after 1 January 2019. Earlier adoption is permitted.

The Group is in the process of assessing the impact of this amendment.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

3. Significant accounting policies *(continued)*

(s) New standards and interpretations not yet effective *(continued)*

IFRS 17 Insurance Contracts

IFRS 17 supersedes IFRS 4 *Insurance Contracts* and aims to increase comparability and transparency about profitability. The new standard introduces a new comprehensive model ("general model") for the recognition and measurement of liabilities arising from insurance contracts. In addition, it includes a simplified approach and modifications to the general measurement model that can be applied in certain circumstances and to specific contracts, such as:

- Reinsurance contracts held;
- Direct participating contracts; and
- Investment contracts with discretionary participation features.

Under the new standard, investment components are excluded from insurance revenue and service expenses. Entities can also choose to present the effect of changes in discount rates and other financial risks in profit or loss or OCI.

The new standard includes various new disclosures and requires additional granularity in disclosures to assist users to assess the effects of insurance contracts on an entity's financial statements.

The Group is in the process of determining the impact of IFRS 17 and will provide more detailed disclosures on the impact in future financial statements. The standard is effective for annual periods beginning on or after 1 January 2021. Early adoption is permitted.

The following accounting standards not yet effective and are not expected to have a significant impact on the financials statements of the Group:

Standard/Interpretation	Effective date
Plan amendment/curtailment or settlements (Amendment to IAS 19)	1 January 2019
Prepayment features with Negative Compensation (Amendments to IFRS 9)	1 January 2019
IAS 28 amendment - Long-term Interests in Associates and Joint Ventures	1 January 2019
Annual Improvements to IFRS Standards 2015/2017 Cycle various standards	1 January 2019
Conceptual Framework amendments - Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
IFRS 3 amendment - Definition of a Business	1 January 2020
Amendments to IAS 1and IAS 8 - Definition of Material	1 January 2020
IFRS 10 and IAS 28 amendment - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Deferred indefinitely

(t) Other payables

Other payables comprises mostly VAT acccruals and payroll accruals. The accounging policy for payroll related accruasl is set out in (q) Employee benefits.

4. Financial risk management

4.1 Introduction and overview

The Group has exposure to the following risks from financial instruments:
- capital risk
- credit risk
- liquidity risk
- market risk
- operational risk

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adhere to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit and Risk Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit and Risk Committee is assisted in these functions by management as well as the Compliance and Internal Audit department. They undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit and Risk Committee.

The Group implemented an enterprise management framework. The Enterprise Risk Management Framework ("ERMF") sets out the Bank's approach to risk management and the control framework within which risks are managed with the objective of maximising risk-adjusted returns while remaining within the Group's risk appetite.

During the year, the Group implemented the new enterprise management framework. The Enterprise Risk Management Framework ("ERMF") sets out the Bank's approach to risk management and the control framework within which risks are managed with the objective of maximising risk-adjusted returns while remaining within our risk appetite.
The ERMF:
- establishes common principles and standards for the management and control of all risks, and to inform behaviour across the organisation;
- provides a shared framework and language to improve awareness of risk management processes and provides clear accountability and responsibility for risk management.

There were no changes from the prior year in how the applicable risks are managed.

4.2 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. It arises principally from the Group's loans and advances to customers and other banks and its investment in securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

For risk management purposes, credit risk arising on trading assets is managed independently; and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk. Further details are provided in note 4.6.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

(a) Management of credit risk

The Board of Directors have overall responsibility for managing credit risk. A separate Group Credit department, reporting to the Board, is responsible for management of the Group's credit risk, including:

- *Formulating credit* policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Larger facilities require approval by the Head of Credit, with expert input from Group Credit department and the Board of Directors as appropriate.
- *Reviewing and assessing credit risk.* The Group Credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Group's risk gradings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management of the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of fourteen grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Group Credit department. Risk grades are subject to regular reviews by Group Credit department.
- *Reviewing compliance* of business units with agreed exposure limits, including those of selected industries, country risk and product types. Regular reports on the credit quality of local portfolios are provided to the Group Credit department who may require appropriate corrective action to be taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the Group in the management of credit risk.

Each business unit is required to implement credit policies and procedures, according to credit approval authorities delegated. Each business unit has a Head of Credit Risk who reports on all credit related matters to management and the Group Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Business units and credit functions carry out regular assurance checks and control self-testing with independent oversight from Country Operational Risk unit. Group Internal Audit does carry out periodic independent audits of the business units and credit processes.

4.2 Credit risk *(continued)*

Exposure to credit risk – Group and Company

	Loans and advances to customers					Loans and advances to banks				Investment securities			
	2018				2017	2017			2017	2018			2017
	Stage 1	Stage 2	Stage 3	Total		Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Assets at amortised cost													
Individually impaired:													
Assets at amortised cost													
Individually impaired:													
Grade 12 and 13:													
Substandard	-	59 811	108 685	168 496	257 108	-	-	-	-	-	-	-	-
Grade 14: Loss	-	-	82 121	82 121	308 639	-	-	-	-	-	-	-	-
Gross carrying amount	**-**	**59 811**	**190 806**	**250 617**	**565 747**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Specific impairment	-	-	(120 520)	(120 520)	(366 295)	-	-	-	-	-	-	-	-
ECL impairment provision	-	(8 705)	(11 170)	(19 875)	-	-	-	-	-	-	-	-	-
	-	**51 106**	**59 116**	**110 222**	**199 452**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Past due but not impaired comprises													
01 – 30 days	-	112 789	-	112 789	284 732	-	-	-	-	-	-	-	-
31 – 60 days	-	24 169	-	24 169	61 478	-	-	-	-	-	-	-	-
61 – 90 days	-	10 774	-	10 774	43 887	-	-	-	-	-	-	-	-
Gross carrying amount	**-**	**147 732**	**-**	**147 732**	**390 097**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Neither past due nor impaired:													
Grade 1-11: Low - fair risk	6 865 791	437 692	-	7303 483	7 000 314	3 488 495	-	-	2 577 528	-	-	-	-
Gross carrying amount	**6 865 791**	**437 692**	**-**	**7303 483**	**7 000 314**	**3 488 495**	**-**	**-**	**2 577 528**	**-**	**-**	**-**	**-**
ECL impairment provision	(63 108)	(13 094)	-	(76 202)	-	-	-	-	-	-	-	-	-
Net Loans and advances	**6 802 683**	**424 598**	**-**	**7 227 281**	**7 000 314**	**3 488 495**	**-**	**-**	**2 577 528**	**-**	**-**	**-**	**-**

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4.2 Credit risk *(continued)*

Exposure to credit risk – Group and Company

	Loans and advances to customers					Loans and advances to banks				Investment securities			
	2018				2017	2017			2017	2018			2017
	Stage 1	Stage 2	Stage 3	Total		Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Financial assets at fair value through other comprehensive income													
Low to fair risk	-	-	-	-	-	-	-	-	-	4 049 463	-	-	3 364 689
Total carrying amount	6 802 683	615 949	59 116	7 485 235	7 589 863	3 488 495	-	-	2 577 528	4 049 463	-	-	3 364 689

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

Exposure to credit risk *(continued)*

The movement in the allowance for impairment of financial assets was as follows. Comparative figures for 2017 represent the allowance account for impairment under IAS 39.

	Specific provisions 2018	Specific provisions 2017	Non-specific impairement 2017
Balance at 1 January under IAS 39	**412 458**	**159 245**	**73 724**
Adjustment on initial application of IFRS 9	82 662	-	-
Balance at 1 January under IFRS 9	**495 120**	**159 245**	**73 724**
Amounts written off	(298 199)	(143 398)	-
Net –remeasurement of loss allowance	56 865	358 667	-
Release for the year	(37 190)	(8 220)	(27 560)
Balance as 31 December	**216 596**	**366 294**	**46 164**

* The initial application of IFRS 9 resulted in an after tax impact of P64 476 that was recognised directly to retained earnings.

In addition to the above, the Group had entered into lending commitments of P877 488 thousand (2017: P916 846 thousand) with counterparties graded 1 to 9. Refer to note 32 for financial guarantee contracts in respect of debtors graded 1 to 9.

Impaired loans

Individually impaired loans are loans and advances for which the Group determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan. These loans are graded CG13 and CG14 in the Group's internal credit risk grading system.

Past due but not impaired loans

Past due but not impaired loans, are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Write off policy

The Group writes off a loan or an investment debt security balance, and any related allowances for impairment losses, when the Group Credit department determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's / issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, write-off decisions generally are based on a product-specific past due status.

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated annually for commercial properties and every three years for residential properties during the life of the loan until the loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowed activity. Collateral usually is not held against investment securities, and no such collateral was held at the current or previous reporting date.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers and banks is shown below:

	Group		Company	
	2018 P'000	2017 P'000	2018 P'000	2017 P'000
Collateral at fair value				
Against individually impaired:				
Property	537 168	53 745	537 168	53 745
Cash	962	26 404	962	26 404
Others	101 570	55 189	101 570	55 189
Total	**639 700**	**135 338**	**639 700**	**135 338**
Against past due but not impaired:				
Property	227 721	182 967	227 721	182 967
Cash	32 289	26 404	32 289	26 404
Other	38	1 381	38	1 381
Total	**260 048**	**210 752**	**260 048**	**210 752**
Against neither past due nor impaired:				
Property	937 986	1 274 626	937 986	1 274 626
Cash	25 572	27 975	25 572	27 975
Others	119 974	136 567	119 974	136 567
Total	**1 083 532**	**1 439 168**	**1 083 532**	**1 439 168**
Collateral not at fair value				
Breakdown of guarantees				
Government guarantees	408 099	407 426	408 099	407 426
Non - Government guarantees	1 567 581	1 461 104	1 567 581	1 461 104
Total	**1 975 680**	**1 868 530**	**1 975 680**	**1 868 530**
Total collateral held	**3 951 489**	**3 653 788**	**3 951 489**	**3 653 788**

The bank obtained court judgement to foreclose property held as security worth P52 833 237 (2017: P23 744 501).

4. Financial risk management *(continued)*

4.2 Credit risk *(continued)*

The bank monitors concentration of credit risk by sector. Gross loans and advances at the reporting date is disclosed below:

	Group		Company	
	2018 P'000	2017 P'000	2018 P'000	2017 P'000
Segmental analysis by industry				
Finance and insurance	658 933	532 123	658 933	532 123
Construction	72 543	65 250	72 543	65 250
Manufacturing	258 485	514 681	258 485	514 681
Trade, restaurant and bars	203 450	247 739	203 450	247 739
Community, social and personal services	456 321	156 222	456 321	156 222
Transport	20 462	22 043	20 462	22 043
Households	6 031 637	6 464 263	6 031 637	6 464 263
Total	**7 701 831**	**8 002 321**	**7 701 831**	**8 002 321**

Credit concentration risk in Corporate & Institutional Banking segment and Commercial Banking segment is managed through the use of various concentration dimensions that include industry sector, geographic spread, credit rating, customer segment and exposure to single counterparties or groups of related counterparties.

Credit concentration risk in Retail Banking segment is managed within exposure limits set for each product segment. These limits are reviewed at least annually and are approved by the responsible business and risk officers in accordance with their delegated authority level.

4.3 Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure as far as possible that it will always have sufficient liquidity to meet its liabilities when due, both under stressed and normal conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Assets and Liabilities Committee (ALCO), which has been mandated by the Board of Directors. Daily reports cover the liquidity position of both the Group and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The Group relies on deposits from customers and banks, and issued debt securities and subordinated liabilities as its primary sources of funding. While the Group's debt securities and subordinated liabilities have maturities of over one year, deposits from customers and banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Group's liquidity risk and the Group actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4. Financial risk management *(continued)*

4.3 Liquidity risk *(continued)*

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose 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. This limit requires that total liquid assets divided by total deposits must be at least 10%.

Liquidity ratio has been assessed as noted below:

	Group		Company	
	2018 P'000	2017 P'000 Restated**	2018 P'000	2017 P'000 Restated**
Total liquid assets	3 640 797	3 109 771	3 640 797	3 109 771
Total customer deposits	12 340 661	12 238 929**	12 340 661	12 238 929
Ratio	**29.5%**	**25.4%**	**29.5%**	**25.4%**

** *Details related to the prior period error have been disclosed on note number 34*

Maturity analysis

Group - 31 December 2018

	Carrying amount P'000	Gross nominal inflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
ASSETS							
Financial assets by type							
Non-derivative assets							
Cash and balances with the Central Bank	1 162 191	1 162 191	1 162 191	-	-	-	-
Loans and advances to banks	3 488 495	3 488 495	3 488 495	-	-	-	-
Investment securities	4 049 463	4 049 463	3 548 588	-	-	500 875	-
Loans and advances to customers	7 485 235	7 485 235	293 159	768 198	282 757	3 017 975	3 123 146
Total financial assets due from customers and banks	**16 185 384**	**16 185 384**	**8 492 433**	**768 198**	**282 757**	**3 518 850**	**3 123 146**
Other financial assets	239 793	239 793	239 793	-	-	-	-
Total financial assets	**16 425 177**	**16 425 177**	**8 732 226**	**768 198**	**282 757**	**3 518 850**	**3 123 146**

4. Financial risk management *(continued)*

4.3 Liquidity risk *(continued)*

Maturity analysis *(continued)*

Group - 31 December 2018

	Carrying amount P'000	Gross nominal (outflow) P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
LIABILITIES							
Demand deposits	7 323 189	(7 323 189)	(7 323 189)	-	-	-	-
Term deposits	5 017 472	(5 017 472)	(1 299 660)	(1 577 983)	(1 900 299)	(192 530)	(50 000)
Deposits to banks	754 429	(754 429)	(754 429)	-	-	-	-
Total financial liabilities due to customers and banks	**13 095 090**	**(13 095 090)**	**(9 374 278)**	**(1 577 983)**	**(1 900 299)**	**(192 530)**	**(50 000)**
financial liabilities	1 647 377	(1 647 377)	(1 647 377)	-	-	-	-
Senior and subordinated debt	686 260	(686 260)	-	-	-	(297 260)	(389 000)
Total financial liabilities	**15 428 727**	**(15 428 727)**	**(11 021 655)**	**(1 577 983)**	**(1 900 299)**	**(489 790)**	**(439 000)**

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4. Financial risk management *(continued)*

4.3 Liquidity risk *(continued)*

Maturity analysis *(continued)*

Company - 31 December 2018

	Carrying amount P'000	Gross nominal (outflow) P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
LIABILITIES							
Demand deposits	7 323 189	(7 323 189)	(7 323 189)	-	-	-	-
Term deposits	5 017 472	(5 017 472)	(1 299 660)	(1 577 983)	(1 900 299)	(192 530)	(50 000)
Deposits from banks	711 170	(711 170)	(711 170)	-	-	-	-
Total financial liabilities due to customers and banks	**13 051 831**	**(13 051 831)**	**(9 331 019)**	**(1 577 983)**	**(1 900 299)**	**(192 530)**	**(50 000)**
Other financial liabilities	1 561 504	(1 561 504)	(1 561 504)	-	-	-	-
Senior and subordinated debt	686 260	(686 260)	-	-	-	(297 260)	(389 000)
Total financial liabilities	**15 299 595**	**(15 299 595)**	**(10 892 523)**	**(1 577 983)**	**(1 900 299)**	**(489 790)**	**(389 000)**

4. Financial risk management *(continued)*

4.3 Liquidity risk *(continued)*

Maturity analysis *(continued)*

Company - 31 December 2018

	Carrying amount P'000	Gross nominal inflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
ASSETS							
Financial assets by type							
Non-derivative assets							
Cash and balances with the Central Bank	1 159 621	1 159 621	1 159 621	-	-	-	-
Loans and advances to banks	3 500 093	3 500 093	3 500 093	-	-	-	-
Investment securities	4 049 463	4 049 463	3 548 588	-	-	500 875	-
Loans and advances to customers	7 485 235	7 485 235	293 159	768 198	282 757	3 017 975	3 123 146
Total financial assets due from customers and banks	**16 194 412**	**16 194 412**	**8 501 461**	**768 198**	**282 757**	**3 518 850**	**3 123 146**
Other financial assets	133 279	133 279	133 279	-	-	-	-
Total financial assets	**16 327 691**	**16 327 691**	**8 634 740**	**768 198**	**282 757**	**3 518 850**	**3 123 146**

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4. Financial risk management *(continued)*

4.3 Liquidity risk *(continued)*

Maturity analysis *(continued)*

Group - 31 December 2017 Restated

	Carrying amount P'000	Gross nominal outflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
ASSETS							
Financial assets by type							
Non-derivative assets							
Cash and balances with the Central Bank	969 846	969 846	969 846	-	-	-	-
Loans and advances to banks	2 577 528	2 577 528	2 577 528	-	-	-	-
Investment securities	3 364 689	3 364 689	2 424 270	-	-	940 419	-
Loans and advances to customers	7 589 863	7 589 863	882 083	176 008	81 040	3 030 238	3 420 494
Total assets due from customers and banks	**14 501 926**	**14 501 926**	**6 853 727**	**176 008**	**81 040**	**3 970 657**	**3 420 494**
Other financial assets **	355 483	355 483	355 483	-	-	-	-
Total financial assets	**14 857 409**	**14 857 409**	**7 209 210**	**176 008**	**81 040**	**3 970 657**	**3 420 494**

** *Details related to the prior period error have been disclosed on note number 34*

4. Financial risk management (continued)

4.3 Liquidity risk *(continued)*

Maturity analysis *(continued)*

Company - 31 December 2017 Restated

	Carrying amount P'000	Gross nominal outflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
ASSETS							
Financial assets by type							
Non-derivative assets							
Cash and balances with the Central Bank	967 275	967 275	967 275	-	-	-	-
Loans and advances to banks	2 626 767	2 626 767	2 626 767	-	-	-	-
Investment securities	3 364 689	3 364 689	2 424 270	-	-	940 419	-
Loans and advances to customers	7 589 863	7 589 863	882 084	176 008	81 040	3 030 238	3 420 493
Total assets to customers and banks	**14 548 594**	**14 548 594**	**6 900 396**	**176 008**	**81 040**	**3 970 657**	**3 420 493**
Other assets **	265 238	265 238	265 238	-	-	-	-
Total assets	**14 813 832**	**14 813 832**	**7 165 634**	**176 008**	**81 040**	**3 970 657**	**3 420 493**

** *Details related to the prior period error have been disclosed on note number 34*

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4. Financial risk management *(continued)*

4.3 Liquidity risk *(continued)*

Maturity analysis *(continued)*

Group 31 December 2017 Restated

	Carrying amount P'000	Gross nominal outflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
LIABILITIES							
Demand deposits	6 525 851	(6 525 851)	(6 525 851)	-	-	-	-
Term deposits	5 713 078	(5 713 078)	(1 352 097)	(2 250 438)	(1 955 922)	(154 621)	-
Deposits to banks	1 108 372	(1 108 372)	(1 108 372)	-	-	-	-
Total financial liabilities due to customers and banks	**13 347 301**	**(13 347 301)**	**(8 986 320)**	**(2 250 438)**	**(1 955 922)**	**(154 621)**	**-**
financial liabilities	191 176	(191 176)	(191 176)	-	-	-	-
Senior and subordinated debt	686 260	(686 260)	-	-	-	(297 260)	(389 000)
Total financial liabilities	**14 224 737**	**(14 224 737)**	**(9 177 496)**	**(2 250 438)**	**(1 955 922)**	**(451 881)**	**(389 000)**

** *Details related to the prior period error have been disclosed on note number 34*

4. Financial risk management *(continued)*

4.3 Liquidity risk *(continued)*

Maturity analysis *(continued)*

Company 31 December 2017 Restated

	Carrying amount P'000	Gross nominal outflow P'000	Less than 1 month P'000	1-3 months P'000	3-12 months P'000	1-5 years P'000	More than 5 years P'000
LIABILITIES							
Demand deposit	6 525 851	(6 525 851)	(6 525 851)	-	-	-	-
Term deposits accounts	5 713 078	(5 713 078)	(1 352 097)	(2 250 438)	(1 955 922)	(154 621)	-
Deposits from banks	1 068 406	(1 068 406)	(1 068 406)	-	-	-	-
Total liabilities to customers and banks	**13 307 335**	**(13 307 335)**	**(8 946 354)**	**(2 250 438)**	**(1 955 922)**	**(154 621)**	**-**
Financial liabilities	179 277	(179 277)	(179 277)	-	-	-	-
Senior and subordinated debt	686 260	(686 260)	-	-	-	(297 260)	(389 000)
Total liabilities	**14 172 872**	**(14 172 872)**	**(9 125 631)**	**(2 250 438)**	**(1 955 922)**	**(451 881)**	**(389 000)**

** *Details related to the prior period error have been disclosed on note number 34*

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4. Financial risk management *(continued)*

4.4 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, liquidity, interest rate and market risks such as those arising from legal and regulatory requirements and the requirement to observe generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations.

The objective of the Group is to manage operational risks so as to balance the avoidance of financial losses and damages to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each department. The responsibility is supported by the development of overall standards in the Group for the management of operational risks in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective

Compliance with operational risk policies and procedures is the responsibility of all managers. Country Operational Risk Committee (CORC) has the governance responsibility for ensuring that an appropriate and robust risk management framework is in place to monitor and manage operational risk

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Group Internal Audit. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Group Audit and Risk Committee.

4. Financial risk management *(continued)*

4.5 Capital management

Bank of Botswana sets and monitors the capital requirements for the Bank and requires the Bank to maintain a minimum capital adequacy ratio of 15 percent of risk-weighted assets (RWA). The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence to sustain the future development of the business. There were no breaches to this requirement in the current or previous year. The Bank has developed Capital risk appetite which defines the capital tolerance levels both minimum (floor) and maximum (ceiling) which is monitored and tracked on a monthly basis through various governance forums. The Bank's regulatory capital is analysed in two parts:

- Tier I capital, which includes stated capital, additional Tier 1 capital (AT1), retained earnings, accumulated other comprehensive income and other disclosed reserves, common shares issued by consolidated subsidiaries of a bank and held by third parties, regulatory adjustments applied in the calculation of CET1 capital
- Tier II capital, which includes unpublished profits for the current year, subordinated debt and impairments.

Company	2018 Per Basel II P'000	2017 Restated** Per Basel II P'000
Capital adequacy		
Core capital		
Stated capital	179 273	179 273
Other revenue reserves	494 185	510 827
Capital contribution	28 213	28 213
Statutory credit risk reserve	19 152	19 152
Less regulatory adjustments	(49 412)	(105 729)
	671 411	**631 736**
Additional Tier 1 Capital (AT1)	400 000	-
Total Tier 1 Capital	**1 071 411**	**631 736**
Supplementary capital		
Non-specific impairment	82 988	34 563
Subordinated debt	509 356	572 808
	1 663 755	**1 239 107**
Risk weighted assets		
Credit	6 871 585	6 849 724
Market	46 201	89 233
Operational	825 808	867 542
	7 743 594	**7 806 499**
Capital adequacy ratio	**21.5%**	**15.9%**

During the year, no dividends were declared or paid (2017: P49.7 million gross dividends declared and paid)

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4. Financial risk management *(continued)*

4.6 Market risk

Market risk is the risk that changes in market prices, such as interest rates, foreign exchange rates, equity prices and credit spreads (not relating to changes in the obligor/issuer's credit standing) will affect the Group's income or the value of its holding of financial instruments. The objective of the Group's market risk management is to manage and control market risk exposures within acceptable parameters while optimising the return on risk.

Exposure to market risks

The principal tool used to measure and control market risk exposure within the Group's trading portfolios is Value at Risk (VaR). The VaR of trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Group is based upon a 99 percent confidence level and assumes an 8-day holding period.

The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements. Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- An 8-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

The VaR measure is dependent upon the Group's position and the volatility of market prices. The VaR of an unchanged position reduces if market price volatility declines and vice versa.

The Group uses VaR limits for total market risk and specific foreign exchange, interest rate, equity, credit spread and other price risks. The overall structure of VaR limits is subject to review and approval by ALCO. VaR limits are allocated to trading portfolios. VaR is measured at least daily and more regularly for more actively traded portfolios. Daily reports of utilisation of VaR limits are submitted to Market Risk department and regular summaries are submitted to ALCO.

4. Financial risk management *(continued)*

4.6 Market risk *(continued)*

A summary of the VaR position of the Group's trading portfolios at 31 December and during the period is as follows:

	At 31 December P'000	Average P'000	Maximum P'000	Minimum P'000
2018				
Foreign currency risk	5	24	84	7
Interest rate risk	226	471	1 160	154
Overall	**231**	**495**	**1 244**	**159**
2017				
Foreign currency risk	37	69	175	7
Interest rate risk	545	578	947	294
Overall	**582**	**647**	**1 122**	**301**

The limitations of the VaR methodology are recognised by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Group uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios, such as periods of prolonged market illiquidity on individual trading portfolios and the Group's overall position.

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by Treasury department in its day-to-day monitoring activities.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4. Financial risk management *(continued)*

4.6 Market risks *(continued)*

Exposure to interest rate risk

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are on a monthly basis include a 100 basis point parallel fall or rise in yield curves worldwide and a 50 basis points rise or fall in greater than 12-month portion of yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant financial position, is as follows:

Group - 31 December 2018

			Fixed rate instruments					
	Zero rate	Floating rate	*0 – 1* month	*1 – 3* months	*3 – 12* months	*1 to 5* years	*Over* 5 years	Total
Total financial assets	2 842 177	64 000	5 441 560	4 473 940	3 070 500	533 000	-	**16 425 177**
Total financial liabilities	(2 748 727)	(7 252 000)	(1 614 000)	(2 788 000)	(734 000)	(242 000)	(50 000)	**(15 428 727)**
Net mismatch	**(93 450)**	**(7 188 000)**	**3 827 560**	**1 685 940**	**2 336 500**	**291 000**	**(50 000)**	**996 450**

Interest sensitivity gap	
Impact of increase in interest rates:	
50 basis points	35 940
+1%	71 880

Group - 31 December 2017

			Fixed rate instruments					
	Zero rate	Floating rate	*0 – 1* month	*1 – 3* months	*3 – 12* months	*1 to 5* years	*Over* 5 years	Total
Total financial assets	1 739 009	94 000	8 141 000	3 545 400	503 000	835 000	-	**14 857 409**
Total financial liabilities	(788 737)	(193 000)	(5 550 061)	(6 300 527)	(1 111 412)	(281 000)	-	**(14 224 737)**
Net mismatch	**950 272**	**(99 000)**	**2 590 939**	**(2 755 127)**	**(608 412)**	**554 000**	**-**	**632 672**

Interest sensitivity gap	
Impact of increase in interest rates:	
50 basis points	495
+1	990

4. Financial risk management *(continued)*

4.6 Market risks *(continued)*

Exposure to interest rate risk (continued)

Company - 31 December 2018

			Fixed rate instruments					
	Zero rate	Floating rate	*0 – 1* month	*1 – 3* months	*3 – 12* months	*1 to 5* years	*Over* 5 years	Total
Total financial assets	2 732 691	76 000	5 441 560	4 473 940	3 070 500	533 000	-	**16 327 691**
Total financial liabilities	(2 662 595)	(7 252 000)	(1 614 000)	(2 788 000)	(734 000)	(199 00)	(50 000)	**(15 299 595)**
Net mismatch	**70 096**	**(7 176 000)**	**3 827 560**	**(1 685 940)**	**(2 336 500)**	**334 000**	**(50 000)**	**1 028 096**

Interest sensitivity gap

Impact of increase in interest rates:	
50 basis points	35 880
+1%	71 760

Company - 31 December 2017

			Fixed rate instruments					
	Zero rate	Floating rate	*0 – 1* month	*1 – 3* months	*3 – 12* months	*1 to 5* years	*Over* 5 years	Total
Total financial assets	1 646 432	143 000	8 141 000	3 545 400	503 000	835 000	-	**14 813 832**
Total financial liabilities	(775 872)	(193 000)	(5 550 061)	(6 300 527)	(1 111 412)	(242 000)	-	**(14 172 872)**
Net mismatch	**870 560**	**(50 000)**	**2 590 939**	**(2 755 127)**	**(608 412)**	**593 000**	**-**	**640 960**

Interest sensitivity gap

Impact of increase in interest rates:	
50 basis points	250
+1	500

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

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4. Financial risk management *(continued)*

4.6 Market risks *(continued)*

Effective interest rates of financial assets and liabilities

In the opinion of directors, the fair values of the Group's financial assets and liabilities approximate the respective carrying amounts. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Group at the reporting date.

4.7 Foreign exchange rate risk management

The responsibilities of Financial Markets department include monitoring of foreign exchange risk. Foreign exchange rate risk is the potential impact of adverse currency rates movements on earnings and economic value. This involves the risk of the Group incurring financial loss on settlement of foreign exchange positions taken in both the trading and banking books. The foreign exchange positions arise from the following activities:

- Trading in foreign currencies through spot, forward and option transactions as a market maker or position taker, including the de-hedged position arising from customer driven foreign exchange transactions.
- Holding foreign currency position in the Bank's books (e.g. in the form of loans, deposits and cross border investments).

The Group's Financial Markets division is responsible for:

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

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

The table below sets out principal structural foreign exchange exposures of the Group for only major currencies at 31 December 2018 and 2017.

Group and Company

	2018			2017		
	Assets / (liabilities)	Sensitivity*		Assets /(liabilities)	Sensitivity*	
	P'000	P'000		P'000	P'000	
		1%	5%		1%	5%
American Dollar	26	(0.26)	(1.32)	(668)	7	33
British Pound	1	(0.01)	(0.04)	228	(2)	(11)
Euro	1	(0.01)	(0.03)	75	(1)	(4)
South African Rand	13	(0.13)	(0.67)	(210)	2	10

* A 1% and 5% weakening of the Pula against the above currencies will decrease profit or loss by the amounts shown above. The analysis assumes that all other variables in particular interest rates, remain constant.

The strengthening of the Pula against the above currencies will have an opposite and equal effect on profit or loss and equity.

4. Financial risk management *(continued)*

4.8 Financial assets and liabilities

The table below sets out the classification of each class of financial assets and liabilities, and fair value (excluding accrued interest):

IFRS 9	Note	Trading P'000	Designated at fair value through profit or loss P'000	Fair value through other comprehensive income P'000	Amortised cost P'000	Total P'000
Group - 31 December 2018						
Assets						
Cash and balances with central bank	15	-	-	-	1 162 191	1 162 191
Loans and advances to other banks	16	-	-	-	3 488 495	3 488 495
Investment securities	17	-	-	4 049 463	-	4 049 463
Loans and advances to customers	18	-	-	-	7 485 235	7 4 85 235
Other financial assets	21	-	-	-	239 793	239 793
		-	**-**	**4 049 463**	**12 375 714**	**16 425 177**
Liabilities						
Deposits from other banks	22	-	-	-	754 429	754 429
Deposits from customers	23	-	-	-	12 340 661	12 340 661
Senior and subordinated debt	24	-	-	-	686 260	686 260
Other financial liabilities	27	-	-	-	1 647 377	1 647 377
		-	**-**	**-**	**15 428 727**	**15 428 727**
Company - 31 December 2018						
Assets						
Cash and balances with central bank	15	-	-	-	1 159 621	1 159 621
Loans and advances to other banks	16	-	-	-	3 500 093	3 500 093
Investment securities	17	-	-	4 049 463	-	4 049 463
Loans and advances to customers	18	-	-	-	7 485 235	7 485 235
Other financial assets	21	-	-	-	133 279	133 279
		-	**-**	**4 049 463**	**12 278 228**	**16 327 691**
Liabilities						
Deposits from other banks	22	-	-	-	711 170	711 170
Deposits from customers	23	-	-	-	12 340 661	12 340 661
Senior and subordinated liabilities	24	-	-	-	686 260	686 260
Other financial liabilities	27	-	-	-	1561 504	1561 504
		-	**-**	**-**	**15 299 595**	**15 299 595**

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4. Financial risk management *(continued)*

4.8 Financial assets and liabilities *(continued)*

The table below sets out the classification of each class of financial assets and liabilities, and fair value (excluding accrued interest):

IFRS 9	Note	Trading P'000	Designated at fair value through profit or loss P'000	Fair value through other comprehensive income P'000	Amortised cost P'000	Total P'000
Group - 01 January 2018						
Assets						
Cash and balances with central bank	15	-	-	-	969 846	969 846
Loans and advances to other banks	16	-	-	-	2 577 528	2 577 528
Investment securities	17	-	-	3 364 566	-	3 364 566
Loans and advances to customers	18	-	-	-	7 507 114	7 507 114
Other financial assets	21	-	-	-	355 483	355 483
		-	**-**	**3 364 566**	**11 409 971**	**14 774 537**
Liabilities						
Deposits from other banks	22	-	-	-	1 108 372	1 108 372
Deposits from customers	23	-	-	-	12 238 929	12 238 929
Senior and subordinated debt	24	-	-	-	686 260	686 260
Other financial liabilities	27	-	-	-	191 176	191 176
		-	**-**	**-**	**14 224 737**	**14 224 737**
Company – 31 January 2018						
Assets						
Cash and balances with central bank	15	-	-	-	967 275	967 275
Loans and advances to other banks	16	-	-	-	2 626 767	2 626 767
Investment securities	17	-	-	3 364 566	-	3 364 566
Loans and advances to customers	18	-	-	-	7 507 114	7 507 114
Other financial assets	21	-	-	-	265 238	265 238
		-	**-**	**3 364 566**	**11 366 394**	**14 730 960**
Liabilities						
Deposits from other banks	22	-	-	-	1 068 406	1 068 406
Deposits from customers	23	-	-	-	12 238 929	12 238 929
Senior and subordinated liabilities	24	-	-	-	686 260	686 260
Other financial liabilities	27	-	-	-	179 277	179 277
		-	**-**	**-**	**14 172 872**	**14 172 872**

4. Financial risk management *(continued)*

4.8 Financial assets and liabilities

The table below sets out the classification of each class of financial assets and liabilities, and fair value (excluding accrued interest):

	Note	Available for sale P'000	Loans and receivables P'000	Amortised cost P'000	Total carrying amount P'000	Fair value P'000
IAS 39						
Group - 31 December 2017 Restated						
Assets						
Cash and balances with central bank	15	-	969 846	-	969 846	969 846
Loans and advances to banks	16	-	2 577 528	-	2 577 528	2 577 528
Investment securities	17	3 364 689	-	-	3 364 689	3 364 689
Loans and advances to customers	18	-	7 589 863	-	7 589 863	7 589 863
Other financial assets	21	-	355 483	-	355 483	355 483
		3 364 689	**11 492 720**	**-**	**14 857 409**	**14 857 409**
Liabilities						
Deposits from banks	22	-	-	1 108 372	1 108 372	1 108 372
Deposits from customers	23	-	-	12 238 929	12 238 929	12 238 929
Senior and subordinated debt	24	-	-	686 260	686 260	686 260
Other financial liabilities	27	-	-	191 176	191 176	191 176
		-	**-**	**14 224 737**	**14 224 737**	**14 224 737**
Company – 31 December 2017 Restated						
Assets						
Cash and balances with central bank	15	-	967 275	-	967 275	967 275
Loans and advances to banks	16	-	2 626 767	-	2 626 767	2 626 767
Investment securities	17	3 364 689	-	-	3 364 689	3 364 689
Loans and advances to customers	18	-	7 589 863	-	7 589 863	7 589 863
Other financial assets	21	-	265 238	-	265 238	265 238
		3 364 689	**11 449 143**	**-**	**14 813 832**	**14 813 832**
Liabilities						
Deposits from banks	22	-	-	1 068 406	1 068 406	1 068 406
Deposits from customers	23	-	-	12 238 929	12 238 929	12 238 929
Senior and subordinated debt	24	-	-	686 260	686 260	686 260
Other financial liabilities	27	-	-	179 277	179 277	179 277
		-	**-**	**14 172 872**	**14 172 872**	**14 172 872**

The carrying amounts of financial assets and liabilities are representative of the Company's position at 31 December 2018 and are in the opinion of the directors not significantly different from their respective fair values due to generally short periods to maturity dates and market related interest rates. Fair values are generally determined using valuation techniques or, where available, published price quotations from an active market.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

4. Financial risk management *(continued)*

4.8 Financial assets and liabilities *(continued)*

Fair value measurement

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurement:

- Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models for investment securities classified as level 2 (see below table), including comparisons with similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management's judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Group has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to Global Markets Department, and which has overall responsibility for independently verifying the results of trading and investment operations and all significant fair value measurements. Specific controls include: verification of observable pricing inputs and re-performance of models involving both Product Control and Group Market Risk; calibration and back testing of models involving Group Market Risk personnel; and reporting of significant valuation issues to the Group Audit and Risk Committee.

4 Financial risk management *(continued)*

4.8 Financial assets and liabilities *(continued)*

Fair value measurement (continued)

The table below analyses financial and non-financial instruments measured at fair value at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Note	Level 1 P'000	Level 2 P'000	Level 3 P'000	Total P'000
31 December 2018					
Land and buildings (revaluation amount)		-	-	32 680	32 680
Investment securities	17	-	4 049 463	-	4 049 463
31 December 2017					
Land and buildings (revaluation amount)		-	-	32 680	32 680
Investment securities	17	-	3 364 689	-	3 364 689

*** The last revaluation was performed in 2016. The carrying amount of the respective assets was P30 954 as at 31 December 2018 (2017: P31 934).

	Group		Company	
	2018 P'000	2017 Restated** P'000	2018 P'000	2017 Restated** P'000
5. Interest income				
Amortised cost:				
Loans and advances to customers	660 875	675 453	660 875	675 453
Balances with banks	63 007	61 500	63 007	61 500
Financial assets through other comprehensive income:				
Investment securities	59 980	74 064	59 980	74 064
	783 862	**811 017****	**783 862**	**811 017**
6. Interest expense				
Amortised cost:				
Amounts due to banks	145 287	11 354	141 994	11 354
Senior and subordinated debt	40 615	39 980	40 615	39 980
Amounts due to customers	157 816	240 910	157 816	238 166
	343 718	**292 244**	**340 425**	**289 500**

*** Details related to the prior period error have been disclosed on note number 34*

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

	Group		Company	
	2018	2017 Restated**	2018	2017 Restated*
	P'000	P'000	P'000	P'000
7. Fee and commission income				
Fiduciary activities	10 718	17 100	10 718	17 100
Financial assets and liabilities at amortised cost	210 366	227 632	210 366	227 632
Insurance brokerage	26 292	51 497	-	-
	247 376	**296 229****	**221 084**	**244 732**
8. Net trading income				
Foreign currency trading income	86 263	90 004	86 263	89 618
Trading securities	-	(36)	-	(36)
	86 263	**89 968**	**86 263**	**89 582**
9. Net impairment loss on financial assets				
Specific impairment	60 042	358 667	60 042	358 667
Portfolio impairement	-	(27 560)	-	(27 560)
Expected credit losses	(29 572)	-	(29 572)	-
Recoveries	(30 435)	(35 672)	(30 435)	(35 672)
Charge per profit or loss	**35**	**295 435**	**35**	**295 435**
Movement in specific impairments				
Balance at beginning of the year	366 294	159 245	366 294	159 245
Charge for the year to profit or loss	60 042	358 667	60 042	358 667
	426 336	**517 912**	**426 336**	**517 912**
Write-offs during the year	(298 199)	(143 398)	(298 199)	(143 398)
Allowance no longer required	(7 618)	(8 220)	(7 618)	(8 220)
Balance at end of the year	**120 519**	**366 294**	**120 519**	**366 294**
Movement in non-specific impairments				
Balance at beginning of the year	46 164	73 724	46 164	73 724
Change in allowance for impairement	79 485	-	79 485	-
(Release) /charge for the year per profit or loss	(29 572)	(27 560)	(29 572)	(27 560)
Balance at end of the year	**96 077**	**46 164**	**96 077**	**46 164**
Total specific and non-specific impairment at end of year	**216 596**	**412 458**	**216 596**	**412 458**

The impairment loss relates to customer loans and advances. Impairment on loans and advances to banks (note 16), investments securities (note 17) and other financial assets (note 21) is considered immaterial.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

	Group		Company	
	2018	2017 Restated**	2018	2017 Restated**
	P'000	P'000	P'000	P'000
10. Employee benefits				
Salaries and wages	213 854	239 944	213 854	239 944
Pension fund costs	15 783	13 619	15 783	13 619
Other allowances	8 245	7 838	8 245	7 838
	237 882	**261 401**	**237 882**	**261 401**
11.Administration expenses				
Audit fees	1 812	1 550	1 812	1 550
Consultancy costs	5 662	7 015	5 662	7 015
Directors' fees	454	499	435	440
Repairs and maintenance	15 833	14 705	15 833	14 705
Communication costs	17 157	18 477	17 157	18 477
Group recharges	224 638	249 502	224 638	249 502
Advertising and sponsorship	5 416	2 166	5 416	2 166
Technical support	8 651	6 708	8 651	6 708
Printing and stationery	5 702	4 894	5 702	4 894
Security	21 078	19 201	21 078	19 201
VAT and withholding tax	61 766	64 732	61 766	64 732
Other expenses	54 466	92 792	42 586	81 474
	422 635	**482 241**	**410 736**	**470 864**
12. Income taxation				
Taxation charge for the year:				
Current taxation charge	3 171	36 656	-	27 869
Current taxation prior year (over) / under provision	(26 960)	1 338	(27 721)	(595)
Deferred tax charge / (release)	2 277	(81 495)	2 277	(81 495)
Deferred tax prior year over provision	18 142	39	18 142	39
	(3 370)	**(43 462)**	**(7 302)**	**(54 182)**

Amounts recognised in other comprehensive income

	Amounts Before tax	Tax (expenses)	Net of taxes
2018 Group and Company			
Movement in fair value through other comprehensive income investment	(13 649)	3 003	(10 646)
2017 Group and Company			
Movement in fair value through other comprehensive income investment	(612)	135	(477)
Total	**(612)**	**135**	**(477)**

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

	Group		Company	
	2018	2017 Restated**	2018	2017 Restated**
	P'000	P'000	P'000	P'000
12. Income taxation *(continued)*				
Profit / (loss) before tax	**20 474**	**(232 111)**	**40 532**	**(238 261)**
Taxation reconciliation:				
Taxation at statutory rate of 22%	4 504	(51 064)	8 917	(52 417)
Non-deductible operational losses	858	13 303	129	5 549
Exempt income- dividend income	-	(7 039)	(6 855)	(6 719)
Prior year current tax adjustment	(8 732)	1 338	(9 493)	(595)
Taxation per profit or loss	**(3 370)**	**(43 462)**	**(7 302)**	**(54 182)**
13. Dividends				
Dividend declared and paid	**-**	**49 703**	**-**	**49 703**
Calculated dividend per share (Thebe)	**-**	**16.66**	**-**	**16.66**

Dividends per share is based upon the dividends declared and paid in the year on the 298 350 611 issued ordinary shares.

14. Earnings per share

The calculation of basic earnings per share at the reporting date has been based on the profit attributable to ordinary shareholders and the weighted average number of ordinary shares issued. There are no dilutive potential ordinary shares held at the current or previous reporting dates.

	Group	
	2018	2017
	P'000	P'000
Profit / (loss) attributable to ordinary shareholders	23 844	(188 649)
Weighted average number of ordinary shares	298 350 611	298 350 611
Calculated earnings per share (Thebe)	7.99	(63.23)

	Group		Company	
	2018	2017 Restated**	2018	2017 Restated**
	P'000	P'000	P'000	P'000
15. Cash and balances with central bank				
	1 162 191	**969 846**	**1 159 621**	**967 275**

Included in the balances with the Central bank is amount of P461 801 000 (2017:P472 907 000) which is a restricted statutory reserve balance not available for the Group's daily operations.

	Group		Company	
	2018	2017 Restated**	2018	2017 Restated**
	P'000	P'000	P'000	P'000
16. Loans and advances to banks				
Bank balances	193 349	127 889	193 349	127 889
Placements and other investments	3 295 146	2 449 639	3 306 744	2 498 878
	3 488 495	**2 577 528**	**3 500 093**	**2 626 767**

Placements and other investments due from other banks are part of the Bank's money market activities and comprise short term lending to other banks.

	Group		Company	
	2018	2017 Restated**	2018	2017 Restated**
	P'000	P'000	P'000	P'000
17. Investment securities				
Bank of Botswana Certificates	3 548 588	2 424 270	3 548 588	2 424 270
Government bonds	500 875	940 419	500 875	940 419
	4 049 463	**3 364 689**	**4 049 463**	**3 364 689**

At the reporting date, government bonds amounting to P470 000 000 (2017: P805 000 000) were pledged as security to Bank of Botswana in respect of the Bank's Secured Lending Facility. Government bonds are quoted on the Botswana Stock Exchange.

	Group		Company	
	2018	2017 Restated**	2018	2017 Restated**
	P'000	P'000	P'000	P'000
18. Loans and advances to customers at amortised cost				
Loans and advances – originated	7 701 831	8 002 321	7 701 831	8 002 321
Less: allowance for impairment (note 9)	(216 596)	(412 458)	(216 596)	(412 458)
	7 485 235	**7 589 863**	**7 485 235**	**7 589 863**

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

19. Property and equipment - Group and Company

	Land and buildings P'000	Equipment P'000	Motor vehicles P'000	Furniture, fixtures and fittings P'000	Capital work in progress P'000	Total P'000
2018						
Cost or valuation						
At 01 January 2018	58 244	76 222	595	11 868	14 070	160 999
Additions	-	3 732	-	9 444	-	13 176
Transfers	-	-	-	-	(11 712)	(11 712)
At 31 December 2018	**58 244**	**79 954**	**595**	**21 312**	**2 358**	**162 463**
Accumulated depreciation						
At 1 January 2018	(13 893)	(71 617)	(595)	(10 464)	-	(96 569)
Charge for the year – profit or loss	(2 957)	(1 564)	-	(2 842)	-	(7 363)
At 31 December 2018	**(16 850)**	**(73 181)**	**(595)**	**(13 306)**	**-**	**(103 932)**
Closing net book value	**41 394**	**6 733**	**-**	**8 006**	**2 358**	**58 531**

	Land and buildings P'000	Equipment P'000	Motor vehicles P'000	Furniture, fixtures and fittings P'000	Capital work in progress P'000	Total P'000
2017						
Cost or valuation						
At 01 January 2017	58 244	72 413	595	10 818	5 949	148 019
Revaluation of property	-	-	-	-	-	-
Additions	-	3 809	-	1 050	8 635	13 494
Transfers	-	-	-	-	(514)	(514)
At 31 December 2017	**58 244**	**76 222**	**595**	**11 868**	**14 070**	**160 999**
Accumulated depreciation						
At 1 January 2017	(10 993)	(70 729)	(595)	(9 489)	-	(91 806)
Charge for the year – profit or loss	(2 900)	(888)	-	(975)	-	(4 763)
At 31 December 2017	**(13 893)**	**(71 617)**	**(595)**	**(10 464)**	**-**	**(96 569)**
Net book value	**44 351**	**4 605**	**-**	**1 404**	**14 070**	**64 430**

Land and buildings comprises of commercial and residential properties. Land and buildings is disclosed at valuation less accumulated depreciation and impairment. The transfer of capital work in progress has been included as part of additions. A register containing the details of each property is available for inspection at the registered office.

19. Property and equipment – Group and Company *(continued)*

Measurement of fair values

Fair value hierarchy

The fair value of the land and buildings was determined by an external independent valuer, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation was performed on 4 July 2016. The valuer provides the fair value of the Group's land and buildings at least every three years; however the directors consider the fair value of land and buildings at each reporting date.

The fair value measurement of land and buildings has been categorised as a Level 3 fair value based on the inputs to the valuation technique used.

The directors have assessed assumptions and estimates in the fair value calculation in determining the fair value of land and buildings. There were no material changes to the estimates. The carrying value approximates the fair value of land and buildings.

Valuation technique and significant unobservable inputs

The following table shows the valuation technique used in measuring the fair value of the land and buildings, as well as other unobservable inputs used:

Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
- Comparable Method and Investment Method - Comparable Method and Investment Method	- Market yield of between 10 - 13% - Prime rentals of office space between P75-150/sq.m	The estimated fair value would increase/(decrease) if: - Higher/lower market yields - Increase/decrease in rental per sq.m

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

20.Intangible assets and goodwill- Group and Company

	Customer relationships P'000	Capitalised software P'000	Goodwill P'000	Total P'000
2017				
Cost				
At beginning of year	94 684	46 764	29 880	171 328
Additions	-	8 526	-	8 526
At the end of the year	**94 684**	**55 290**	**29 880**	**179 854**
Amortisation and impairment losses				
At beginning of year	(88 892)	(29 562)	(18 621)	(137 075)
Amortisation for the year	(5 792)	(7 621)	-	(13 413)
At end of year	**(94 684)**	**(37 183)**	**(18 621)**	**(150 488)**
Carrying amount as at 31 December 2018	**-**	**18 107**	**11 259**	**29 366**

	Customer relationships P'000	Capitalised software P'000	Goodwill P'000	Total P'000
2017				
Cost				
At beginning of year	94 684	36 975	29 880	161 539
Additions	-	9 789	-	9 789
At the end of the year	**94 684**	**46 764**	**29 880**	**171 328**
Amortisation and impairment losses				
At beginning of year	(76 954)	(23 069)	(18 621)	(118 644)
Amortisation for the year	(11 938)	(6 493)	-	(18 431)
At end of year	**(88 892)**	**(29 562)**	**(18 621)**	**(137 075)**
Carrying amount as at 31 December 2017	**5 792**	**17 202**	**11 259**	**34 253**

20. Intangible assets and goodwill- Group and Company *(continued)*

No impairment loss on goodwill was recognised during 2018 (2017: Nil) because the recoverable amounts of the CGUs was determined to be higher than their carrying amount. The key assumptions used in calculation of value in use were as follows:

	2018	2017
Discount rate	8.0%	7.0%
Average growth rate in net cash flows	4%	4%
Inflation rate	3%	3%

The intangible assets relate to the assigned value of customer relationships acquired with the custodial and securities business, based on the estimated future streams of revenue derivable from these customers.

Goodwill arose on acquisition of the custody business in December 2010. The valuation of goodwill at year end was determined by comparing the carrying value of the assets concerned and their recoverable amount, which was calculated using the value in use basis. This is determined by discounting the future cash flows expected to be generated from the continuing use of the cash generating unit (CGU). Management forecasts projected revenue growth rates in line with past performance as adjusted to reflect the current economic climate.

Cash flow projections are extrapolated forward for periods of up to five years using steady long term forecast GDP growth rates and a terminal value determined based on long term earnings multiples. Cash flows are discounted using a pre-tax discount rate which reflects current market rates appropriate to the cash generating unit. Management believes that reasonable possible changes in any of the key assumptions on which the recoverable amount has been based would not cause the carrying amounts to exceed their recoverable amounts.

Assets under management are as follows:

	2018 P'000	2017 P'000
Custody Business (current net book value)	16 178 927	16 191 338

The Custody Business forms part of the Corporate and Institutional segment.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

	Group		Company	
	2018	2017 Restated**	2018	2017 Restated**
	P'000	P'000	P'000	P'000
21. Other assets				
Financial				
Prepayments	4 419	2 095	4 419	2 095
Accrued income	121 041	139 314	121 041	139 314
Other receivables	114 333	214 074	7 819	123 829
Non-financial				
Other receivables	4 345	4 486	4 345	4 486
	244 138	**359 969****	**137 624**	**269 724**

All other assets are receivable within 12 months from the reporting period.

22. Deposits from other banks				
Bank balances	749 878	1 077 847	706 619	1 037 881
Placements	4 551	30 525	4 551	30 525
	754 429	**1 108 372**	**711 170**	**1 068 406**
23. Deposits from customers				
Demand deposits	7 323 189	6 525 851	7 323 189	6 525 851
Term deposits	5 017 472	5 713 078	5 017 472	5 713 078
	12 340 661	**12 238 929****	**12 340 661**	**12 238 929**
24. Senior and subordinated debt				
Local note issue (SCBB 006)	70 000	70 000	70 000	70 000
Local note issue (SCBB 007 & 008)	177 260	177 260	177 260	177 260
Senior on secured debt (SCBB 003)	50 000	50 000	50 000	50 000
Subordinated debt (SCBB 001)	389 000	389 000	389 000	389 000
	686 260	**686 260**	**686 260**	**686 260**

** Details related to the prior period error have been disclosed on note number 34

24. Senior and subordinated debt *(continued)*

The terms and conditions of the subordinated notes and the Senior debt for both Group and Company are as follows:

Note information	Interest rate details	Year of maturity	2018	2017
Loan note issue (1)- This was raised through a new debt issued on 12 May 2011 as part of the P500 million Debt Issuance Programme and to be repaid no later than the tenth anniversary and no earlier than 5 years before that date.	Floating rate at the 91 day BOBC plus a margin of 180 basis points per annum thereafter.	12 May 2021	70 000	70 000
Loan note issue (2)- The notes were issued in two Tranches, Tranche (I) and Tranche (II) through a new debt issued on 27 June 2012 as part of the P500 million debt Issuance Programme.	Tranche (I) - Floating rate at the 91 day BOBC plus a margin of 150 basis points per annum.	27 June 2022	50 000	50 000
	Tranche (II) – Fixed interest rate of 8.20%	27 June 2022	127 260	127 260
Senior debt was issued on 20 December 2005. Interest is payable semi annually. Claims in respect of the loan capital and interest thereon are subordinate to the claims of other creditors and depositors.	Fixed interest rate of 10.50% per annum	20 Dec 2020	50 000	50 000
Subordinated debt issued for capital injection	4% above the 91 day BOBC rate	29 July 2025	389 000	389 000

The group has not had any default of principal or interest or breaches in respect to its senior subordinated liability during the current or previous reporting date. All the surbodinated debts are payable more than 12 months after the reporting period.

	Group		Company	
	2018	2017 Restated**	2018	2017 Restated**
	P'000	P'000	P'000	P'000
25. Current taxation payable / (refundable)				
Opening balance refundable	16 096	(3 999)	17 504	(1 770)
Charge for the year	3 171	36 656	-	27 869
Prior year under provision	(26 960)	1 338	(27 721)	(595)
Income tax refunded	10 217	-	10 217	-
Income tax paid	(16 450)	(17 900)	(13 150)	(8 000)
Closing balance payable /(refundable)	**(13 926)**	**16 096**	**(13 150)**	**17 504**

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

26. Deferred taxation

	Net balance as at 01 Jan 2018 P'000	Recognised in profit or loss P'000	Recognised in equity P'000	Closing balance as at 31 Dec 2018 P'000
Group and company- 31 December 2018				
Property and equipment	1 482	(613)	-	869
Available for sale securities	4 774	-	(3 193)	1 581
Revaluation of property, plant and equipment	4 898	(8)	-	4 890
Redundancy provision	(1 630)	(5 118)	-	(6 748)
Provision for share based payments	(24)	8	-	(16)
Bonus provision	(3 494)	(593)	-	(4 087)
Operational loss provision	(586)	540	-	(46)
Intangible assets	1 274	(1 274)	-	-
Impairment allowance	(77 798)	77 798	-	-
ECL provisions	-	(29 157)	(16 801)	(45 958)
ECL Other	-	685	(1 377)	(692)
Unrealised foreign exchange	(87)	87	-	-
Income received in advance	(644)	280	-	(364)
Prepayments	462	511	-	973
Leave payed accrual	-	(1 751)	-	(1 751)
Tax loss	-	(21 079)	-	(21 079)
Expected loss provision	(103)	103	-	-
	(71 476)	**20 419**	**(21 371)**	**(72 428)**

	Net balance as at 01 Jan 2017 P'000	Recognised in profit or loss P'000	Recognised in equity P'000	Closing balance as at 31 Dec 2017 P'000
Group and company- 31 December 2017				
Property and equipment	931	551	-	1 482
Available for sale securities	4 909	-	(135)	4 774
Revaluation of property, plant and equipment	4 898	-	-	4 898
Redundancy provision	(602)	(1 028)	-	(1 630)
Bonus provision	(4 194)	700	-	(3 494)
Other provisions	-	(713)	-	(713)
Intangible assets	4 173	(2 899)	-	1 274
Impairment allowance	-	(77 798)	-	(77 798)
Unrealised foreign exchange	-	(87)	-	(87)
Income received in advance	-	(644)	-	(644)
Prepayments	-	462	-	462
	10 115	**(81 456)**	**(135)**	**(71 476)**

There were no unrecognised deferred tax assets and liabilities as at the current or previous reporting date.

	Group		Company	
	2018 P'000	2017 P'000	2018 P'000	2017 P'000
27.1 Unsettled Treasury bills	1 348 939	-	1 348 939	-

These are treasury bills held with the central bank which were not settled at reporting date. The securities were settled after year end. For details relating to the Treasury bills held at reporting date refer to note 17.

	Group		Company	
	2018 P'000	2017 Restated** P'000	2018 P'000	2017 Restated** P'000
27.2 Other liabilities				
Financial				
Accruals	35 605	16 874	35 605	16 874
Account payables	262 833	174 302	176 960	162 403
Non-financial				
Other payables	24 446	12 647	24 446	12 647
	322 884	**203 823****	**237 011**	**191 924**

** *Details related to the prior period error have been disclosed on note number 34*

27.3 Restructuring provision

The provision was taken in line with Group transformation strategy announced in November 2018. The key focus was to improve business operations and efficiency through streamlining of services and reduction of operational costs in order to take advantage of opportunities for the sustenance of the business and eventual improvement of the welfare of the people. The provision for the previous year relates to the restructuring of the Personal Banking sector (announced in November 2014).

	Group		Company	
	2018 P'000	2017 P'000	2018 P'000	2017 P'000
Restructuring provision				
Balance at the beginning of year	7 370	2 743	7 370	2 743
Provision made during the year	31 587	21 788	31 587	21 788
Payments / reversals used during the year	(8 283)	(17 161)	(8 283)	(17 161)
	30 674	**7 370**	**30 674**	**7 370**

The Bank expects to pay the outstanding amount during the course of the next financial year.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

	Group		Company	
	2018 P'000	2017 P'000	2018 P'000	2017 P'000
28. Cash and cash equivalents				
Cash and bank balances with Central Bank (note 15)	1 162 191	969 846	1 159 621	967 275
Balances due from other banks (note 16)	3 488 495	2 577 528	3 500 093	2 626 767
	4 650 686	**3 547 374**	**4 659 714**	**3 594 042**

Cash and cash equivalents include cash on hand, balances with Central Bank and placements with other banks with a maturity of less than 3 months and readily convertible into cash at no charge.

The Group held cash and cash equivalents of P4 644 million at 31 December 2018 (2017: P3 547 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with the Central Bank and other financial institution counterparties.

29. Related parties

A number of banking transactions are entered into with related parties in the normal course of business. These transactions are carried out under mutually agreed terms and conditions at market rates. These include loans, deposits and foreign currency transactions with the group and purchase of software.

(a) Balances and transactions with directors and key management personnel

The aggregate value of transactions, compensation and outstanding balances related to key management personnel for both Group and Company were as follows:

(i) Directors and key personnel compensation:

	2018	2017
Directors' fees - short term employee benefits	454	499
Directors and key management personnel compensation - short term employee benefits	20 189	22 873
Directors and key management personnel compensation – long term employment benefits	1 409	1 214
Directors' holding in Company shares	823	606

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

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

	Assets		Liabilities	
	2018	2017	2018	2017
Loans				
Auto, mortgages and personal	8 521	7 482	-	-
Deposits	-	-	22 393	18 850
Guarantees and letters of credit	-	-	65	65

No impairment losses have been recorded against related party receivables.

The limit was utilised for issuance of payment gurantees on behalf of the client to various suppliers. The guarantee is fully secured against property .

29. Related parties *(continued)*

(b) Balances and transactions with the holding company and with entities within Standard Chartered Group

Nature of related-party relationships

Standard Chartered Bank PLC is the holding company and the other companies transacted with are fellow subsidiaries.

	Group		Company	
	2018	2017 Restated**	2018	2017 Restated**
	P'000	P'000	P'000	P'000
Details of related party at year end are as follows:				
Balances due from:				
Standard Chartered Bank PLC	1 341 619	2 042 737	1 341 619	2 042 737
Standard Chartered Bank New York	39 506	481 446	39 506	481 446
Standard Chartered Bank Johannesburg	198 697	103 606	198 679	103 606
Standard Chartered Bank Mauritius	964 533	-	964 533	-
Other group companies	89 127	-	89 867	777
Standard Chartered Insurance Agency	-	-	86 383	60 868
	2 632 724	**2 627 789**	**2 719 847**	**2 689 434**
Balances due to:				
Standard Chartered Bank PLC	401 257	158	401 257	158
Standard Chartered Bank New York	240	18 253	240	18 253
Standard Chartered Bank Johannesburg	154 043	178 057	154 043	178 057
Other group companies	274 038	280 004	274 038	280 004
Standard Chartered Insurance Agency	-	-	107 062	90 166
	829 578	**476 472**	**936 640**	**566 638**

Balances due to related companies are unsecured, carry variable interest rates, and are short term in nature.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

29. Related parties *(continued)*

Group and Company - 2018

Details of related party transactions during the year are as follows:

	Interest income	Interest expense	Group recharges	Group scheme expense
Company				
SCB UK Treasury	30 227	25 535	108 417	5
SCB Singapore DBU	-	8	36 994	-
SCB Srilanka	-	1	-	-
Scope Tokyo	-	2	-	-
SCB Kenya	-	6	53 695	-
SCB New York	1,221	-	-	-
SCB Johannesburg	14 683	960	-	-
SCB Mauritius	12 313	-	-	-
SCB HongKong	-	1	-	-
MESA Regional Office	-	-	9	-
SCB India	-	-	23 035	-
SCB Malaysia	-	-	1 600	-
SCB China	-	-	888	-
Total	**58 444**	**33 513**	**224 638**	**5**

	Interest income	Interest expense	Group recharges	Group scheme expense
Group and Company - 2017				
SCB Kenya	-	9	10 594	-
SCB Zambia	-	-	4	-
MESA Regional Office	-	-	46 646	-
SCB USA Branches	-	-	4	-
SCB UK Treasury	46 058	21 097	136 786	379
SCB Singapore ACU	-	-	4 580	-
SCB Singapore DBU	-	10	28 592	-
SCB Hongkong	-	-	37	-
Scope Malaysia	-	-	1 680	-
Scope China	-	-	821	-
Scope India	-	-	19 758	-
SCB Johannesburg	19 580	10 651	-	-
SCB Mauritius	426	-	-	-
SCB Japan	-	2	-	-
SCB Canada	-	20	-	-
SCB Germany	-	14	-	-
Total	**66 064**	**31 803**	**249 502**	**379**

Transaction with other entities in the Standard Chartered Group are in the ordinary course of business on mutually agreed terms and conditions.

30. Subsidiaries and other structured entities

The list below provides details of the subsidiaries of the Group:

	Stated capital	Ownership interest 2018 P'000	2017 P'000
Standard Chartered Bank Insurance Agency (Pty) Ltd	100	100%	100%
Standard Chartered Investment Services (Pty) Ltd	100	100%	100%
Standard Chartered Nominees (Pty) Ltd	100	100%	100%
Standard Chartered Botswana Education Trust	nil	84%	84%

The Group has not provided any financial support or issued guarantees in favour of the subsidiaries. Standard Chartered Investment Services (Proprietary) Ltd and Standard Chartered Nominees (Proprietary) Ltd are dormant companies. Standard Chartered Insurance Agency (Proprietary) Ltd operates as an insurance agency for the Group and is managed from the Group's head office.

Standard Chartered Botswana Education Trust is a structured entity that was set up to promote educational activities. The Group was directly involved in the design and establishment of the Trust and in determining the activities it undertakes. The Group also has a significant variable interest arising from the loan made via SCB UK, in that it is exposed to credit variability. The Group controls the income flow of the Trust, by virtue of its discretionary power to declare dividends.

The total carrying value of the investment in subsidiaries of the bank is P300.

31. Operating leases - Group and Company

	2018 P'000	2017 P'000
Long - term accrual	4 890	3 013
Short - term accrual	1 018	1 398
Total accrual	**5 908**	**4 411**
Minimum lease payments		
Cash flow within 1 year	14 914	14 872
Cash flow between 2 - 5 years	51 630	42 304
Cash flow more than 5 years	11 930	27 785
	78 474	**84 961**
Lease accrual	(5 908)	(4 411)
Future expenses	**72 566**	**80 550**
Operating lease expenses	**22 346**	**23 763**

Operating leases relate to various buildings and ATM sites which the Group leases over varying periods with fixed escalation rates at an average of 8.5% per annum.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

32. Contingent liabilities and commitments

	2018 P'000	2017 P'000	2018 P'000	2017 P'000
Un-drawn commitments	5 618 861	5 225 998	5 618 861	5 225 998
Acceptances and letters of credit	469	1 464	469	1 464
Guarantees and standby letters of credit	581 925	677 353	581 925	677 353
	6 201 255	**5 904 815**	**6 201 255**	**5 904 815**

In the normal course of business, the Group is a party to financial investments with off-balance sheet risk to meet the financing needs of customers. These instruments involve, to varying degrees, elements of credit risk which are not reflected in the statement of financial position. The Group's maximum exposure to credit loss under contingent liabilities and commitments to extend credit in the event of non-performance by the other party where all counterclaims, collateral or security prove valueless, is represented by the contractual amount of those instruments. A large majority of these expire without being drawn upon, and as a result the contracted nominal principle amounts are not representative of the actual future credit exposure or liquidity requirements of the Group. Expected credit loss for contingent liabilities and commitments of P3 145 575 was recognised under IFRS 9 at the current reporting date.

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

Litigations

Standard Chartered Bank Botswana Limited together with African Banking Corporation Botswana, African Banking Corporation Zambia and Standard Chartered Bank Johannesburg Branch are defendants to a dispute before the Gauteng High Court in a matter instituted by Mapula Solutions (Pty) Ltd "Mapula". Mapula is claiming damages, to the sum of ZAR163 million, for an alleged breach of contract in respect of a Debt Rescheduling Agreement "DRA".

Default judgement was initially granted in favour of Mapula for ZAR163 million and was subsequently overturned. The matter is now proceeding on the substantive issue of whether the lenders breached the terms of the DRA, and the hearing is set to continue in October 2019.

The Bank's legal counsel is of the view that the prospects of the claim succeeding are small, therefore no provision has been recognised. The legal counsel are also of the view that a more sensible exposure would be in the order of ZAR25 million as this would provide for a limited prospect of the claim succeeding and the costs which will be incurred in the defence of the claim.

33. Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

These instruments are held in trust on behalf of customers and are therefore not treated as assets of the Bank and accordingly have not been included in these financial statements.

33. Fiduciary activities *(continued)*

	Group		Company	
	2018	2017	2018	2017
	P'000	P'000	P'000	P'000
Assets held in custody	16 178 927	16 961 338	16 178 927	16 961 338

34. Correction of errors

During 2018, the Group identified errors in prior year financial statements relating to revenue recognition and recognition of a contingent asset:

- An account was identified where interest income on an overdraft facility was erroneously not charged since 2014, amounting to P6 155 255 as at 31 December 2016 and P1 297 956 as at 31 December 2017. Revenue was understated whilst deposits from customers were overstated as at 31 December 2016 and 31 December 2017 respectively.
- Fees and commission income in relation to arrangement and custody fees amounting to P6 442 943 were duplicated during the year ended 31 December 2016 and P625 000 during the year ended 31 December 2017. Other liabilities were understated whilst other assets were overstated as at 31 December 2016 and 31 December 2017 respectively.
- A receivable of P7 660 612 was recognised at 31 December 2016 relating to withholding tax (WHT) payments made to Botswana Unified Revenue Services (BURS) on VISA fees. There is an ongoing dispute between the banking industry and BURS as to whether VISA fees are subject to WHT under the act. The amount paid to BURS is considered a contingent asset and should not have been recognised at 31 December 2016.

The errors have been corrected by restating each of the affected financial line item for prior periods. The following table summarises the impact on the Group and Company's financial statements.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

34. Correction of errors *(continued)*

(i) Statement of financial position

	As previously reported			As restated	
	Group P'000	Company P'000	Adjustments P'000	Group P'000	Company P'000
at 01 January 2017					
Total assets	**13 875 204**	**13 830 926**	**(11 581)**	**13 863 623**	**13 819 345**
Other assets	169 275	163 962	(11 581)	157 694	152 381
Total liabilities	**12 857 222**	**12 810 634**	**(3 632)**	**12 853 590**	**12 807 002**
Deposits from customers	11 274 880	11 274 880	(6 155)	11 268 725	11 268 725
Other liabilities	184 919	175 553	2 523	187 442	178 076
Total equity	**1 017 982**	**1 020 292**	**(7 949)**	**1 010 033**	**1 012 343**
at 31 December 2017					
Total assets	**15 045 043**	**15 000 058**	**(11 581)**	**15 033 462**	**14 988 477**
Other assets	371 550	281 305	(11 581)	359 969	269 724
Total liabilities	**14 266 563**	**14 214 698**	**(4 305)**	**14 262 258**	**14 210 393**
Deposits from customers	12 245 757	12 245 757	(6 828)	12 238 929	12 238 929
Other liabilities	208 670	196 771	2 523	211 193	199 294
Total equity	**778 480**	**785 360**	**(7 276)**	**771 204**	**778 084**

(ii) Statement of profit or loss and other comprehensive income

	As previously reported			As restated	
	Group P'000	Company P'000	Adjustments P'000	Group P'000	Company P'000
For the year ended 31 December 2017					
Interest income	809 719	809 719	1 298	811 017	811 017
Fee and commission income	296 854	245 357	(625)	296 229	244 732
Loss before taxation	**(232 784)**	**(238 934)**	**673**	**(232 111)**	**(238 261)**

The errors did not have a significant impact on the cash flow statements for the years ended 31 December 2016 or 31 December 2017.

The restatement had no impact on the earnings per share for the year ended 31 December 2017.

35. Events after the reporting date

Subsequent to year end, Standard Chartered Bank Botswana Limited gave notice to exercise its option for the early redemption of SCBB 008 Subordinated Unsecured notes, having an aggregate nominal amount of P127 260 000, maturing on 27 June 2022. The early redemption will occur on 27 June 2019, as per the provisions contained in the Restated Programme Memorandum, 2012 issued in respect of the notes.

The directors are not aware of any other matters or circumstances arising since the end of the financial year, not dealt with in this report or these financial statements that would significantly affect the operations of the Group and Company or the results of its operations.

36. Segmental reporting

The Group has the following three strategic divisions, which are reportable segments. These divisions offer different products and services and are managed separately based on the Group's management and internal reporting structure.

- Corporate and Institutional Banking provides lending, trade finance, cash management, securities services, foreign exchange, risk management, capital raising, corporate finance solutions and advisory services to its customers. The segment focuses on deepening relationships with clients and providing them with solutions.

- Commercial Banking is a newly formed segment which the Bank intends on growing specifically in Middle Market clients and Medium Enterprises & High Value Small Business clients.

- Retail Banking provides a broad range of products and services to meet the borrowing, wealth management and transactions needs of individuals and small sized enterprises (SEs). While we maintain our strong hold on the Personal segment, more focus will be given to high net worth individuals and SEs paying particular attention to product innovation to attract and retain customers.

The Group's executive committee reviews the internal management reports at least monthly. Information related to each reportable segment is set out below. Segment profit before taxation as included in internal management reports reviewed by the Group's management committee is used to measure performance because management believes that this information is the most relevant in evaluating the results of the respective segments to other entities that operate within the same industries.

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

36. Segmental reporting *(continued)*

	Retail Banking P'000	Corporate and Institutional Banking P'000	Commercial Banking P'000	Total P'000
2018				
Profit or loss				
Net interest income	312 455	106 462	21 227	440 144
Non- interest income	190 166	75 125	18 713	284 004
Revenue – external sources	**502 621**	**181 587**	**39 940**	**724 148**
Impairment movement	10 330	5 742	(16 107)	(35)
Net income after impairment	**512 951**	**187 329**	**23 833**	**724 113**
Operating expenses	(447 049)	(177 136)	(79 454)	(703 674)
Profit / (loss) before taxation	**65 902**	**10 193**	**(55 621)**	**20 474**
Statement of financial position				
Investment securities	-	4 049 463	-	4 049 463
Loans and advances to customers	5 963 708	1 272 335	249 192	7 485 235
Other assets for reportable segments	41 493	5 025 229	2 353	5 069 075
Total assets for reportable segments	**6 005 201**	**10 347 027**	**251 545**	**16 603 773**
Deposits from non-bank customers	3 077 290	8 102 907	1 160 464	12 340 661
Other liabilities for reportable segments	(14 431)	3 207 629	(50 012)	3 143 186
Total liabilities for reportable segments	**3 062 859**	**11 310 536**	**1 110 452**	**15 483 847**
2017 Restated				
Profit or loss				
Net interest income	370 369	126 075	22 329	518 773
Non- interest income	237 188	72 271	25 692	335 151
Revenue – external sources	**607 557**	**198 346**	**48 021**	**853 924**
Impairment movement	(23 681)	(270 378)	(1 376)	(295 435)
Net income /(loss) after impairment	**583 876**	**(72 032)**	**46 645**	**558 489**
Operating expenses	(460 487)	(278 912)	(51 201)	(790 600)
Profit / (loss) before taxation	**123 389**	**(350 944)**	**(4 556)**	**(232 111)**
Statement of financial position				
Investment securities	-	3 364 689	-	3 364 689
Loans and advances to customers	6 040 040	1 259 646	290 177	7 589 863
Other assets for reportable segments	23 277	4 052 840	2 793	4 078 910
Total assets for reportable segments	**6 063 317**	**8 677 175**	**292 970**	**15 033 462**
Deposits from non-bank customers	2 894 457	7 189 990	2 154 482	12 238 929
Other liabilities for reportable segments	7 975	2 058 484	(43 130)	2 023 329
Total liabilities for reportable segments	**2 902 432**	**9 248 474**	**2 111 352**	**14 262 258**

Notes to the financial statements *(continued)*

For the year ended 31 December 2018

	Group		Company	
	2018	2017 Restated**	2018	2017 Restated**
	P'000	P'000	P'000	P'000
37. Classification of assets and liabilities				
Non-current assets				
Plant and equipment	58 531	64 430	58 531	64 430
Intangible assets and goodwill	29 366	34 253	29 366	34 253
Deferred taxation	72 428	71 476	72 428	71 476
Investment Securities	500 875	940 419	500 875	940 419
Loan and advances to customers	6 141 121	6 450 782	6 141 121	6 450 782
	6 802 321	**7 561 360**	**6 802 321**	**7 561 360**
Current assets				
Cash and balances with central bank	1 162 191	969 846	1 159 621	967 275
Loans and advances to banks	3 488 495	2 577 528	3 500 093	2 626 767
Investment securities	3 548 588	2 424 270	3 548 588	2 424 270
Loans and advances to customers	1 344 114	1 139 131	1 344 114	1 139 131
Other assets	244 138	359 969	137 624	269 724
Taxation refundable	13 926	1 408	13 150	-
	9 801 452	**7 47 152**	**9 713 190**	**7 427 167**
Non-current liabilities				
Senior and subordinated debt	686 260	686 260	686 260	686 260
Deposits from customers	242 530	154 621	242 530	154 621
	928 790	**840 881**	**928 790**	**840 881**
Current liabilities				
Deposits from other banks	754 429	1 108 372	711 170	1 068 406
Deposits from customers	12 098 131	12 084 308	12 098 131	12 084 308
Unsettled treasury bills	1 348 939	-	1 348 939	-
Other liabilities	322 884	203 823	237 011	191 924
Restructuring provision	30 674	7 370	30 674	7 370
Taxation payable	-	17 504	-	17 504
	14 555 057	**13 421 377**	**14 425 925**	**13 369 512**

Notice to Members

For the year ended at 31 December 2018

Notice is hereby given that the 44th Annual General Meeting of the members of Standard Chartered Bank Botswana Limited will be held on Thursday 27th June 2019 at 1530 hours at Avani Hotel for the following purposes:

1. To receive, consider and adopt the Chairman's report.
2. To receive, consider and adopt the Chief Executive Officer's report.
3. To receive, consider and approve the Annual Financial Statements for the year ended 31st December 2018, together with the Auditor's reports therein.
4. To approve the payment of dividends for the year ended 31st December 2018.
5. To re- elect as a Director John Yandell Stevens who retires by rotation and in accordance with Section 66 of the Constitution, and who being eligible, offers himself for re-election.
6. To confirm the appointment of Jerry Kweku Boi Bedu- Addo as a Non Executive Director effective 9th January 2018 in accordance with Section 90 of the Companies Constitution.
7. To confirm the appointment of Doreen Cilla Khama as an Independent Non Executive Director effective 26th September 2018 in accordance with Section 90 of the Companies Constitution.
8. To note and approve the resignation as a Director of Ish Kumar Handa effective 31st March 2019
9. To note and approve the resignation as a Director of Nathan Monametsi Kgabi effective 30th June 2019.
10. To approve the remuneration for directors for the ensuing year.
11. To approve the remuneration of the auditors, KPMG Botswana for the year ended 31st December 2018.
12. To confirm the appointment of the auditors for the ensuing year.
13. To receive and consider questions and or comments from the shareholders.

Notes:
Any member entitled to attend and vote, is entitled to a proxy to attend and speak and, on a poll, vote in his/her stand. The person so appointed needs not be a member. Proxy forms should be forwarded to reach the Secretary, at Standard Chartered Bank Botswana Limited, Head Office, 5th Floor, Standard House, The Mall, P O Box 496, Gaborone, not less than 48 hours before the meeting.

By order of the Board

Chazha Kgalemang
Secretary

Proxy Form

For the year ended at 31 December 2018

Please complete in block letters

I/WE _____

Being a member of Standard Chartered Bank Botswana Limited, hereby appoint:

_____ or failing him or her

_____ or failing him or her

_____ or failing him or her

The chairman of the meeting, as my proxy to vote on my behalf at the annual general meeting of the company to be held on the 29th June 2019.

Unless otherwise indicated, my proxy may vote as he/she thinks fit.

Signature: _____ Date _____ 2019

Notes _____

_____

_____

_____

_____

1. Any alteration of this form must be initialled by the signatory
2. This form of proxy should be completed and returned so as to reach the Secretary of the Company on the 5th floor, Standard House, The Mall, P O Box 496, Gaborone, no later than Tuesday 25th June 2019.

Headquarters

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Gaborone, Botswana

P O Box 496
Gaborone, Botswana

sc.com/bw

Southern Branch Network

The Square
Priority Banking Centre
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Tel: 3952911
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Tel: 3902221
Fax: 3902222

Sir Seretse Khama Int Airport
Sir Seretse Khama Int Airport
P.O. Box 00473, Gaborone
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Airport Junction
P.O. 629, ABG
Sebele, Plot 70665, Unit 62
Tel: 3910432
Fax: 3910114

Game City
P/ Bag 00473, Gaborone
Tel: 3907888
Fax: 3907990

Industrial
P.O. Box 264, Gaborone
Tel: 3615777
Fax: 3953074

Mowana Branch
P.O. Box 26230, Gaborone
Tel: 3184351

24 Hour Customer Contact Centre
Tel: 3615800

Gaborone Loan Centre
Tel: 3615700

Molepolole Agency
P.O. Box 21, Gaborone
Tel/Fax: 5920212

Northern Branch Network

Letlhakane Agency
P.O. Box 214, Orapa
Tel: 2978244
Fax: 2976123

Francistown Branch
P.O. Box 45, Francistown
Tel: 2413452 / 2450101
Fax: 2412924

Palapye
P.O. Box 217, Palapye
Tel: 4920217
Fax: 4920809

Mahalapye
P.O. Box 82, Mahalapye
Tel: 4710271
Fax: 4710084

Sir Seretse Khama Int Airport
Sir Seretse Khama Int Airport
P.O. Box 00473, Gaborone
Tel: 3162637

Maun
P.O. Box 112, Maun
Tel: 6860209
Fax: 6860331

Nzano Branch
P/Bag 146, Plot no. 904
Nzano Centre
Francistown
Tel: 2410179
Fax: 2410184

Selibe Phikwe
P.O. Box 18, Selibe Phikwe
Tel: 2610346
Fax: 2611289

Serowe
P.O. Box 2325, Serowe
Tel: 4630249
Fax: 4634870

Standard Chartered